PD-AAP-572

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: _____

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: HONDURAS

3. PROJECT NUMBER: 522-0207

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): Export Development and Services

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 89

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 84 B. Quarter 4 C. Final FY 89

8. COSTS ($000 OR EQUIVALENT $1 = L2.00)

A. FUNDING SOURCE	FIRST FY 84 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(225)	(25)	(250)	(5,400)	(600)	(6,000
(Loan)	(6,300)	(700)	(7,000)	(14,400)	(1,600)	(16,000
Other U.S. 1.						
Other U.S. 2.						
Host Country		1,500	1,500		8,100	8,100
Other Donor(s)						
TOTALS	6,525	2,225	8,750	19,800	10,300	30,100

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) SDA	734	819	840	---	---	3,600	8,800	3,600	8,800
(2) ARDN	254	031	010	---	---	2,400	7,200	2,400	7,200
(3)									
(4)									
TOTALS						6,000	16,000	6,000	1,600

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 70 | 140 | 830 | 240

11. SECONDARY PURPOSE COD: 240,210

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BP	BL	COOP	PVON
B. Amount	(9,600)	(22,000)	(9,600)	(6,500)

13. PROJECT PURPOSE (maximum 480 characters)

To increase non-traditional exports.

14. SCHEDULED EVALUATIONS
Interim MM 10 YY 86 | MM 10 YY 88 | Final MM 01 YY 90

15. SOURCE/ORIGIN OF GOODS AND SERVICES
Grant Loan Grant and Loan
[X] 000 [X] 941 [X] Local [ ] Other (Specify) _____

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY
Signature: Anthony J. Cauterucci
Title: Mission Director USAID/Honduras
Date Signed: MM 09 DD 06 YY 84

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

AID 1330-4 (8-79)

Honduras: Export Development and Services

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Project Paper
Honduras: Export Development and Services
(Project No. 522-0207)

I. Project Summary and Recommendations

A. Recommendations

USAID/Honduras recommends authorization of a $16,000,000 Development Loan and a $6,000,000 Development Grant for the Export Development and Services Project. The loan would be repaid to the United States Government in U.S. Dollars within forty years from the date of first Loan disbursement, including a grace period of not to exceed ten years, at a rate of interest of two per cent during the grace period and three per cent thereafter.

B. Borrower/Grantee

The Borrower/Grantee will be the Government of Honduras (GOH). A portion of the funds will be made available to the Entrepreneurial Research and Development Foundation (FIDE) and to the Federation of Agricultural Export Producers of Honduras (FEPROEXAH) to finance Project-related expenditures of these organizations.. The GOH will also utilize $10 million of Loan funds to establish a hard currency export financing facility. Grant funds will be utilized exclusively to finance the costs of international technical assistance.

C. Project Summary

Honduras' limited domestic market and poor near-term prospects for increasing exports to the CACM require that an improvement in living conditions be largely based on an acceleration of the trend toward diversification and increased non-traditional exports to outside the CACM area.

Honduras' exports increased more than 14 times from 1950 to 1982, rising from $58.3 million in 1950 to a peak of $822.1 million in 1980 (40% in real terms). They have declined slightly over the last three years. Traditional exports have accounted for up to 91% of total exports over this period. Exports of bananas, the leading export crop, have declined in recent years and while other traditional exports, such as coffee, and other non-traditional products have increased in importance.

The export potential for agricultural, wood and mineral products, and for labor-intensive manufactures is particularly promising, because they require relatively large inputs of Honduras' most abundant and lowest cost assets: natural resources and unskilled workers. Further, Honduras' competitiveness as a potential exporter has grown by the recently-approved, 12-year provisions of the Caribbean Basin Initiative (CBI).

Honduras' large apparent potential for increasing non-traditional exports is constrained at present by the complexity of the export development process,

which requires linkages of many components in a coherent system, beginning with knowledge of the market and ending with continued sales to the market. In addition, factors such as land tenure patterns, need for fixed investments in industry and on the farm, and poor regulation and use of natural and human resources reduce Honduras' comparative advantages in the areas of greatest export potential. The foreign exchange rate and the implementation of export and import regulations have negatively affected the efficiency of production of, and the profits from exporting.

The GOH and the Honduran private sector have recognized the need to address the problems confronting the export sector. The GOH has established a system of investment incentives which will require supplementary action to achieve the desired results.. The private sector has attained a moderate level of export growth without much outside assistance. However, the Honduran economy is open and vulnerable. In order to provide a reasonable standard of living for its poor population and to stabilize its stance in the international economic community, Honduras must begin to earn more foreign exchange by stimulating the export sector.

The goal of this Project is to promote economic growth and employment through development of non-traditional exports. The purpose is to increase the quantity and quality of non-traditional exports. The Project seeks to create a policy environment that favors export development and helps the private sector take advantage of that climate immediately and over the longer run. The private sector's institutional capability to increase exports will be developed, and the export of specific non-traditional products in areas which have good prospects for achieving commercial success will be stimulated. Foreign exchange and financing needed for investment in, and efficient operation of the enterprises created through the above activities will be provided. The target beneficiaries of the Project are exporters and workers. These include 65 agricultural production and/or exporting operations (supporting 3,000 families) and 30 industrial producers. It is expected that the Project will help 10,000 persons gain employment directly, while an additional 10,000 jobs will be created in support areas for exporting firms.

In order to achieve the purpose, the following Project activities will be undertaken:

1. Export Policy and Promotion ($14 million AID; $900,000 Counterpart): The Project will examine, and the GOH will legislate policies to lift the imposition of several disincentives and practical constraints to development of non-traditional exports. The Ministry of Economy's General Directorate of Foreign Trade (DGFT) will develop its capabilities to train the GOH's overseas representatives in trade functions, develop materials and exhibits, provide training to those representatives, and supply exhibits and information to trained personnel on a continuing basis to help in seeking sales opportunities in other countries and foreign investment in Honduras.

2. Export Development ($9.2 million AID; $4.7 million Counterpart): This activity will assist individuals and companies who want to invest and export to: gain access to a wide variety of information and

services to enable them to assess markets; design and manufacture industrial goods; grow and process agricultural products; and market their products. Private sector organizations will be assisted to provide these services, which will focus on the development of manufactured and agricultural exports. The specific products to be addressed are labor-intensive exports, furniture and wood products, cocoa, citrus, and vegetables.

3. Financial Services ($10.2 million AID; $2.5 million Counterpart): This component will establish a Trust Fund and other financial mechanisms to provide financing and access to imports required for specific export products to be developed under the manufactured and agricultural export activities. Exporters of other non-traditional products will also have increased access to financing and imports. Banks will be encouraged to adopt practices which lower costs for exporters and lessen effective collateral requirements.

4. Continuity of FIDE and FEPROEXAH Activities: An interest-bearing Trust Fund set up in the Honduran Central Bank will provide revenue for debt service on the AID Loan. It will also provide additional income for FIDE and FEPROEXAH. This source of income will assure that both organizations provide the level of services required during and after the life of the Project.

5. Project Management ($1.2 Million AID): Project funds will finance the services of a banking adviser for two years, a private sector adviser for five years, and project liaison officers in manufactured and agricultural exports for five years each to assist the Mission to implement and monitor the Project.

A.I.D. will provide $22,000,000 for the Project. Host country contributions from both public and private sector sources will total $8,100,000 or 27% of project costs. In summary, AID and Honduran funds will be used as follows:

SUMMARY PROJECT BUDGET
($000)

ACTIVITY DESCRIPTION	A.I.D.		GOH	PRIVATE SECTOR	TOTAL
	GRANT	LOAN	LC	LC	
Export Policy and Promotion	500	900	900		2,300
Export Development	4,100	5,100	1,600	3,100	13,900
Financial Services	200	10,000		2,500	2,700
AID Project Management	1,200				1,200
TOTAL	6,000	16,000	2,500	5,600	30,100
	22,000		8,100		

II. Background

A. Honduras' Exports

Honduras' traditional exports[1/] are bananas, coffee, lumber, meat, sugar, sea shrimp and lobster, and mineral ores. In 1982, they accounted for 80% of total exports and 19% of GDP, and earned $527 million in foreign exchange. Half of the remaining 20% of exports were non-traditional agricultural products, such as fresh fruits, plants, canned juices, and pastes, and the other half consisted mainly of wood, textile and paper manufactures, cigars, and certain non-metallic minerals and chemicals.

The overall trends in export earnings, and their relative share of GDP are shown in Table 1. The high concentration of exports in a small number of agricultural commodities and extractive industries leaves the Honduran economy highly vulnerable to world prices for a few commodities and to world economic conditions in general. When export demand and prices for traditional agricultural commodities are high, the country generally prospers. When they decline, so do foreign exchange earnings, income, employment, government revenues, and living standards.

Table 1: Importance of Exports to the Economy

	Year			
	1950	1970	1980	1982
Export Earnings ($ Millions)	58.3	179.1	822.1	655.5
Traditional Exports	53.1	143.5	633.5	527.4
Non-traditional Exports	5.2	35.6	188.6	128.1
% of GDP at current prices	N/A	25.0	33.0	23.4

B. Historical Perspective of Exports

Honduras' exports increased more than 14-fold from 1950 to 1982, rising from $58.3 million in 1950 to a peak of $822.1 million in 1980. They have declined slightly over the last three years. From 1952 to 1980, exports increased by an average rate of 4% in real terms. Over the same period, traditional exports accounted for between 77% and 91% of total exports. Bananas have been the traditional number one export. However, their importance to the economy has been decreasing, declining from 70% of total exports in 1950 to 42% in 1970, and to 33% in 1982. During the same time, exports of the other traditional products increased from 21% to 47% as a percentage of total

1/ Traditional exports are defined as those products accounting for more than 2% of total exports in 1982.

exports. The greatest percentage increase was in coffee. Table 2 clearly evidences significant diversification away from bananas, both toward other exports within the traditional products group and toward non-traditional products.

Table 2: Export Composition - 1950 to 1982

	% of Total Exports - Year Indicated				% Change
	1950	1970	1980	1982	1950/82
Traditional Exports:	91	81	77	80	- 12
Bananas	70	42	28	33	-53
Coffee	10	15	25	23	130
Lumber	4	9	4	7	75
Metallic Ores	5	8	6	5	0
Beef	2	5	7	5	150
Sea Shrimp and Lobster	0	1	3	4	N/C
Sugar	0	1	4	3	N/C
Non-Traditional:					
All Other	9	19	23	20	122

The trend towards diversification is due in part to the dramatic increase in world trade over the last 30-40 years, and reflects Honduras' increasing contact with the outside world. Honduran exporters, some of them trained by U.S. fruit companies that have operated here since the turn of the century, have initiated productive activities to take advantage of these expanded markets. The increase in non-traditional exports also has been due, in part, to the incentives provided under the Central American Common Market (CACM) accords, which entered into effect in the early 1960's.

C. Honduras' Potential for Increasing Exports

Honduras' limited domestic market and near-term poor prospects for increasing exports to the CACM require that an improvement in living conditions be based largely on an acceleration of the trend toward diversification and increased non-traditional exports to outside the CACM area. On the surface, Honduras appears to have excellent potential for further increasing exports. Natural resources are plentiful and the relatively unregulated economy is dominated by the private sector. Honduran laws provide equal treatment for foreign and domestic investors, and a well run Free Trade Zone adjoins the country's principal port. The investment climate has a number of positive aspects. Among others, infrastructure is adequate, accessibility to major markets is excellent, low-cost labor is plentiful and easily trained, there is little regulation of prices, and government policy statements encourage private sector initiative and investment. Honduras' advantages as a site for trade and investment, including export operations, were discussed more fully in the Mission's CBI Implementation Plan submitted in April, 1983.

The export potential for agricultural products, wood and mineral products, and labor-intensive manufactured goods is particularly promising, because they

require relatively large inputs of Honduras' most abundant and lowest-cost assets: natural resources and unskilled workers. Honduras has an ample availability of inexpensive, unutilized and underutilized agricultural lands; large and varied forest resources, made up mainly of high quality pine and hardwoods; large and virtually unexploited mineral resources; and a large supply of workers whose industrial productivity is generally high once they are trained.

Honduras' competitiveness as a potential exporter has been enhanced by the recently approved 12-year, duty free import provisions of the Caribbean Basin Initiative (CBI). Its attractiveness as an investment site has also been improved by a strong U.S. commitment to help maintain Honduras' democratic form of government. An Export Incentives Law passed in 1983 should further improve the competitiveness of non-traditional exports, once it is put into effect.

D. Constraints to Increasing Exports

Honduras' large apparent potential for increasing non-traditional exports is constrained at present by the complexity of the export development process, which requires linkages of many components in a coherent system, beginning with knowledge of the market and ending with continued sales to that market. Among the intermediate steps for successful industrial export development are design, production, quality control, packaging, transportation, and sales promotion. Agricultural exports introduce additional complexities such as varietal selection, the need to meet exacting market standards, the timing of production for seasonal "windows," organizing production of multiple small producers, and the need for facilities to cool, grade, package, process, and transport products. Coping with these complexities has clearly been beyond the capabilities or willingness of all but a few Honduran entrepreneurs. Some specific constraints are: the lack of market information and knowledge of market requirements and how to meet them; the limited capacity of individual producers to take advantage of potential market demand; short term and high cost of local financing and difficulty in gaining access to it; the high-cost production of established producers resulting from operating in highly protected domestic and Central American markets; the socio-cultural attitudes of entrepreneurs and workers; the conflict between stated public policies encouraging investment and bureaucratic practices that inhibit the realization of those policies; and the current economic problems in Honduras and political problems in Central America which discourage both domestic and foreign investment.

In addition to the above constraints, there are other factors which reduce Honduras' comparative advantage in the areas of greatest export potential discussed above. While productive lands are plentiful and inexpensive, land tenure patterns and legal prohibitions on land ownership and use limit potential exports to those which do not require extensive flat lands for production. Furthermore, marked rainy and dry seasons may require investment in irrigation and drainage systems or limit the return from fixed investments and the use of farm machinery. While wood is plentiful, its availability to wood products industries is sometimes curtailed by the effects of government policies in the highly regulated and partly nationalized lumber industry.

Although mineral resources are ample, the government is very cautious in granting concessions for exploitation, especially to foreign-owned or -controlled firms, and the overall tax bite is still high despite recent reductions in royalties. Finally, while labor is plentiful and trainable in all areas of the country, inconsistency in application of the labor code can create difficulties for export as well as domestically oriented industries.

In addition to the above, Honduras has experienced a shortage of foreign exchange over the last three years. In mid-1981, the Central Bank of Honduras (CBH) imposed controls over the movement of imports and exports, and movement of hard currencies into and out of Honduras. The regulations have been modified several times since then. At present, dollar accounts in local banks have a 100% reserve requirement (a de facto nationalization of hard currency), import and export permits are required for all products entering and leaving the country, all foreign exchange earned by exporters must be repatriated at the official rate of 2 Lempiras for $1, registration of private foreign debt is required, and prior authorization must be obtained for all transactions over $1,500 requiring purchase of foreign exchange from the banking system. Long delays are common for foreign exchange authorizations for imported goods and repatriation of profits.

Imports financed with foreign exchange from sources other than the domestic banking system do not require foreign exchange authorizations, and import permits are routinely granted for these imports within a short period--a de facto acknowledgement of a parallel market in hard currencies. However, exporters who finance some or all of their imports with parallel market dollars but repatriate their earnings at the official rate are at a competitive disadvantage. Thus, to the extent that export products use imported goods in the productive process, exporting from Honduras is now more difficult than in earlier years. The controls on movement of products and capital will continue to negatively affect the efficiency of production and the profits from exporting as long as they are required.

E. Attempts to Date to Promote Exports

1. GOH Efforts

The GOH established a system of investment incentives as part of the CACM accords, and some of the production from benefitting firms produced an increase in non-traditional exports, mainly to CACM countries. However, the GOH has not yet complemented these benefits with incentives specifically aimed at promoting exports to outside the CACM. The Ministry of Economy has been charged with promoting exports, but has yet to mount a sustained drive. As a result, GOH attempts to date to promote exports can be characterized as sporadic and relatively unsuccessful. The government has not tried particularly hard to push for increased exports or to attract investors for export operations. Long delays in obtaining government approvals, especially where exploitation of natural resources is involved, have discouraged all but the most determined exporters.

The GOH, with USAID assistance, established an export promotion office in the Ministry of Economy in the mid-seventies. It eventually became an office in the Directorate of External Commerce that disseminated information and participated in infrequent trade missions. However, the commitment to export promotion and the Directorate's budget were not sufficient to provide for a trained and capable staff and an active program. Perhaps more importantly, it was not recognized that promotion is only one of a series of actions required to stimulate exports, starting with market identification and production and ending with the successful marketing of the product.

Another effort was the National Port Authority's establishment of a Free Trade Zone in Puerto Cortes in 1976. This effort, which was partially financed by the World Bank, was aimed largely at development of assembly industries. Initially, six buildings were constructed and the World Trade Institute (WTI) was contracted to bring clients to the Zone. WTI identified the Zone's initial clients and the Zone administration built eight additional structures in 1978, expecting that more would be found. However, WTI subsequently cancelled its contract due to differences with the Free Zone administration, and the Port Authority did not make the effort needed to attract new clients. As of December 1983, only 9 of the 14 buildings were occupied by productive activities, four of which are highly profitable wearing apparel assembly operations. The occupants are satisfied with the administration and operation of the Zone. Since Honduras' designation as a CBI beneficiary country in January, 1984, the Port Authority administration has contracted four more clients and expects to fill the remaining buildings during 1984. Due to the limited labor pool in the Puerto Cortes area and the lack of additional investment funds, the Free Zone Administration is not aggressively pursuing further expansion of the Zone.

2. Private Sector Efforts

The bulk of the country's exports are the result of private sector initiatives. Two of the country's major exports--bananas and mineral ores--are largely the result of direct investment by private U.S. companies in Honduras. Honduran investors and nationals of other countries, including the U.S., are responsible for the remainder. There have been many failures along the way, particularly in the agricultural sector, due to the constraints discussed above and to inexperience of the entrepreneurs involved. However inadequate the country's present export earnings, it must be recognized that private initiative, with little direct government assistance, is responsible for the moderate level of exports achieved to date.

Until the last 18 months, AID had a very limited role in assisting private, export-oriented enterprises. One successful effort resulted from the Agro-Export Development Project (522-0120), through which AID financed a pilot vegetable export activity in the Comayagua valley. After several years of minimal production, cucumber exports in refrigerated trailers were initiated in 1981. AID-financed assistance from the Standard Fruit Company in Honduras was the key factor in getting the exports going. Commercial quantities of cucumbers have been exported the last three years, the growers have now formed

a cooperative, and additional jobbers are being contacted to ensure continuity and diversification of marketing arrangements. To date, the cost and time spent on this project have been great, and the effort is beginning to pay off.

Several efforts made over the last eighteen months have had very positive results. A USAID/H contractor, working with beneficiaries of the Rural Technologies Project (522-0157), has been successful in helping small farmers grow chile peppers which are being exported to make Tabasco sauce. Using low-cost technology, cocoa has been processed to meet export quality standards, and the Hershey Corporation has offered to buy beans fermented through that process at world market prices. Efforts are being made to develop honey, vegetables, sea shrimp, and essential oil extracts under the Rural Technologies and other projects. Also, AID played a key role in convincing a U.S. firm to make a recent, major investment in grapefruit exports and fruit juice concentrates. Thus, AID efforts to assist in export development can have positive results.

3. Policy Dialogue

The limited success of efforts to directly promote exports has recently caused both the GOH and AID to look at the GOH's basic policies as they affect exports. These policies are summarized in Annex G.1. As a result of the AID-GOH policy dialogue, the GOH has become more committed to altering its policies to favor exports. One direct result of this dialogue was the passage of the Export Incentives Law of 1983, which was drafted with assistance from AID-financed consultants. In addition, the GOH named interagency committees to assess the feasibility of developing a one-stop center for government approvals for investors, and to develop an improved incentives package for export industries, especially labor-intensive assembly operations. Finally, contracted studies prepared during PP development helped to focus attention on the most critical policy issues, and led to agreement on the policy changes that are incorporated into the Project design.

F. Need for the Project

The Honduran economy is relatively open and vulnerable. It is highly dependent on international prices for the country's traditional exports. A fall in prices and demand for these products in world markets creates a crisis in Honduras. In order to provide a reasonable standard of living for its overwhelmingly poor population, Honduras must begin to earn more foreign exchange. With limited demand for its traditional exports, it must diversify its economy. In order to do so, a strenuous effort to increase non-traditional exports is needed.

Honduras has a resource-based comparative advantage in agricultural, wood and mineral products, and a large, trainable labor pool for a wide range of labor-intensive industries. However, the potential for increasing non-traditional exports has existed for many years, with very little accomplished. Prior to the current crisis, Honduran entrepreneurs were oriented toward import substitution industries for the protected domestic and Central American markets. In the past three years, they have been concerned principally with

weathering the worldwide economic recession and the political crisis in Central America.

The establishment of a democratically elected government in 1982 and the U.S. commitment to support the democratization process have restored some degree of stability and confidence. The depletion of foreign exchange reserves has directed attention to the extreme need to increase export earnings. Honduran entrepreneurs, more than ever before, realize their opportunities lie in exporting outside of the regional market.

The government has an important role to play: creating a system of incentives and promoting investment and exports. The private sector needs help in strengthening its institutional capability to provide services in exporting to its members. Individual entrepreneurs need help in defining and formulating projects, identifying markets, collecting and evaluating market information, and developing marketing arrangements, joint ventures, licensing arrangements and mutually beneficial associations with other Honduran s and outside investors and buyers.

The present financial system based on short-term, high interest rates and high collateral requirements will not provide all of the financing required by export enterprises. Moreover, these enterprises cannot function if difficulties and delays in obtaining foreign exchange make it difficult for them to obtain necessary imported inputs when these are required. Even when financing and markets are in place, new enterprises need help in acquiring know-how in production processes, design, quality control, packaging, scheduling, and management at all levels of the production and marketing processes. Entrepreneurs, especially in the agricultural sector, need assistance in adopting appropriate technology and organizing production.

A significant involvement by U.S. businessmen in Honduras' export development effort is essential if the program is to be successful. Technology transfer, management, and marketing are the ingredients most needed. Gaining access to them has been difficult for Honduran entrepreneurs. The exigencies of world markets and competition from other exporting countries require that these needs be addressed. If they are not, the potential for non-traditional exports will remain unfulfilled as it has until now. That is the challenge to which this Project is directed.

III. Project Description

A. Goal and Purpose

The goal of the Project is to promote economic growth and employment through development of non-traditional exports. Goal achievement will be measured through the increase in value added to GDP from exports, and the additional employment generated. The increase in value added due to Project activities is expected to reach $30 million in the fifth and final year of implementation. As well, the equivalent of 10,000 full-time jobs are expected to be created through the Project.

The Project purpose is to increase non-traditional exports. The definition of non-traditional exports contained in the Export Incentives Law of 1983 will be used for purposes of the Project. That definition defines as non-traditional any export not on a negative list to be included in the implementing regulation of the Law. The negative list in the draft regulation, which is due to be made official shortly, is included in Annex G.2. The Project purpose will be accomplished by simultaneously developing: a policy environment that favors exports; the private sector's institutional capability to provide needed services to exporters; production and marketing of specific export products; and financial services needed by exporters. Sales of non-traditional products stimulated through Project activities are expected to reach $57 million by 1990.

B. Target Group

The Project will directly benefit primarily two target groups: exporters and workers. Some 65 agricultural production and/or agroexporting operations (comprising independent farmers, independent exporters and agricultural cooperatives representing a total of over 3,000 families) and 30 industrial producers will be assisted through the Project to initiate or increase exports. In addition to the 10,000 workers who gain employment through the Project, some 10,000 additional jobs are expected to be created indirectly.

C. Project Strategy

The Background section identified a large number of constraints to increasing exports. Some of them are general constraints faced by most exporters and which are inherent in the development and sale of export products, others relate largely to the export of specific products, and still others have to do with government policies and actions.

No project can hope to effectively address all these constraints simultaneously for all potential exports. Each operation faces a unique set of circumstances and constraints depending on the nature of the product, the knowledge and capability of the entrepreneur, and the government rules and regulations that apply at any given time. Attempting to make services (e.g., marketing intelligence, product development, production assistance, financing) available to all potential exporters could result in a dilution of efforts and minimize productive results. On the other hand, attempting to achieve immediate impact by making assistance available to a few producers or for a small number of exports could limit the long-term benefit to the country due to lack of institutionalization and spread effects from such efforts. Government policy changes must be made in such a way as to minimize case-by-case "determinations" and "resolutions" which effectively negate the potential benefits of policies aimed at promoting exports.

These considerations call for a Project strategy which creates a policy environment that favors export development and helps the private sector to take advantage of that climate immediately and over the longer run. Under the Project, the policy environment will be improved through an Export Policy and

Promotion Activity (Subsection D, below). The private sector's institutional capability to increase exports will be developed, and the export of specific non-traditional products in areas which have good prospects for achieving commercial success will be stimulated through an Export Development Activity (Subsection E). Foreign exchange and financing needed for investment in and efficient operation of the enterprises created through the above activities will be provided through a Financial Services Activity (Subsection F). One issue raised by this Project deserves special comment. The Financial Services Activity will provide for preferential access by non-traditional exporters to foreign exchange. The issue is this: Why should we be fostering preferential access to foreign exchange in favor of non-traditonal exporters when the need for such support is an outgrowth of current GOH exchange rate policy? Would not non-traditional exporters have sufficient access to foreign exchange if the exchange rate were competitively determined?

In response to these questions, the Mis ion has concluded that there are sound and compelling reasons for the proposed program of Financial Services. First, each of the Project subactivities makes economic sense. They all pay high economic rates of return. Hence, the foreign exchange will in fact be allocated to efficient users, i.e., to users who will in fact be able to pay the higher exchange rate once a more appropriate foreign exchange policy is put into place. Second, these efficient users are now largely excluded from access to foreign exchange because, at the current overvalued exchange rate, inefficient users are taking a larger share. Third and most important, by anticipating corrective changes in the macro policy environment, the Project will help to create a solid productive base able to respond rapidly to take advantage of the right policy environment once it is in place.

D. Export Policy and Promotion ($1.4 Million AID; $900,000 Counterpart)

1. Export Policy ($550,000 AID; $400,000 Counterpart)

As discussed in the Background section, GOH policies at present favor import substitution industries, and impose several important disincentives and practical constraints to development of non-traditional exports. The most important policy changes needed to improve the environment for exporting are:

a. reducing the costs imposed on export operations by lack of access to foreign exchange and the need to obtain import and export permits and foreign exchange authorizations for each individual transaction;

b. providing incentives to develop exports by putting into effect appropriate investment incentives, allowing exporters to retain some foreign exchange, and ensuring repatriation of profits for foreign investors;

c. expanding the use of industrial parks and free trade zones to encourage the development of labor-intensive industries, especially in areas of high unemployment;

d. increasing the profitability of drawback industries by eliminating the bonding requirements that impose an unacceptably high cost on those industries; and

e. speeding up the process of obtaining government permits for natural resources exploitation, and approval of investment incentives for new export industries.

All of the above policy constraints will be addressed through the Project. Needed legislation will be passed and additional constraints will be resolved before disbursements begin, and other constraints will be worked out during implementation.

Exporters of non-traditional products to areas outside of Central America will be assured immediate access to foreign exchange by creation of a dollar Export Trust Fund which will provide financing for imports. Foreign exchange authorizations will not be needed as transactions financed through the Fund will be considered self-financed. A once-a-year global import and export permit and an ex post facto reporting system will be substituted for the present system of ex ante permits for each transaction. The foreign exchange paid to the exporters will enable foreign firms to repatriate profits and local firms to purchase additional inputs without the need to wait for CBH authorizations or incur additional debt. The arrangements for implementing these measures are described in detail in Subsection F, below. They will be put into place before disbursement of funds begins, except for funds for technical assistance.

Legislation will be passed which will authorize the temporary importation, without payment of taxes or charges of any kind, of raw materials, machinery and equipment needed to produce products for export to areas outside of Central America. This legislation will eliminate the present bonding requirement for companies that produce solely for export, provide for a six-year income tax exemption for these companies, and simplify the procedures for incorporation under Honduran law. This legislation will be enacted prior to disbursement of Project funds. Regulations and implementation procedures for the Export Incentives Law passed in 1983 will be put into effect prior to initiating disbursements under the Project, except for agricultural export activities and technical assistance to manufacturing activities. The GOH will study, during the first six months of implementation, the best mechanism through which to extend free zone status to private industrial parks. It is expected that the legal basis for such extension will be established by early 1985.

Streamlining of internal procedures for review of all applications for approvals of investment incentives and for exploitation of natural resources will be carried out through the establishment of a one-stop center for all government approvals. The Center will be in place by the end of the first year of Project implementation.

To ensure that these measures are fully implemented and meet their intended objectives, the GOH will need technical assistance in several areas, staff training for Ministry of Economy and Ministry of Finance personnel, and start-up costs for the one-stop center. The services of an Export Policy Adviser for two years and short-term advisers for specific tasks, such as streamlining GOH procedures, developing appropriate legislation and/or regulations for extending free zone status to industrial parks, and assisting in start-up of the one-stop center, will be financed at a total cost of $400,000 (AID Grant). Observation trips for GOH officials to Mexico, the Dominican Republic and other countries in relation to the feasibility of free zone development will be financed at an estimated cost of $30,000 (AID Loan). Additional funds of $120,000 (AID Loan) will be provided for training and start-up costs for the one-stop center. Additional GOH counterpart costs, for operation of the one-stop center, are estimated at $400,000 over the planned five year implementation period. The AID-financed inputs are described in the detailed Financial Analysis (Annex F.2.).

2. Export Promotion ($850,000 AID; $500,000 Counterpart)

Except for sporadic attendance at conferences, the GOH does not have an export promotion program to speak of. The GOH maintains trade representation in eight foreign countries and the United Nations through ten economic and commercial attaches, who form part of Honduras' relatively stable foreign service. Honorary consuls represent Honduras in trade matters in 28 cities, including 15 in the U.S., in a total of 13 countries. These officials are not trained to be effective representatives in trade matters, have no prepared materials to distribute or exhibits to display at fairs and seminars, and receive no organized information about opportunities or business needs in Honduras. Consequently, they are not very effective in seeking investors or sales opportunities in other countries. Their presence in overseas posts offers Honduras a good opportunity to expand its economic relations with other countries with a very small investment. To do this, these representatives must be trained, and more importantly, become part of a team seeking to promote sales from and investment in Honduras.

Under the Project, the Ministry of Economy's General Directorate of Foreign Trade (GDFT) will develop its capability to train the GOH's overseas representatives in trade functions, develop materials and exhibits, provide training to those representatives, and supply exhibits and information to the trained personnel on a continuing basis. The GDFT will train at least 24 representatives who will be selected on the basis of the importance of the area in which they work to Honduras' economic development, and their competence and ability to absorb and utilize the training. Both career and honorary members of Honduras' Foreign Service will be eligible for training. The training, which will take place both in Honduras and overseas, will help the representatives to learn appropriate techniques of investment and trade promotion, learn about the programs of the GDFT and Honduran private sector trade promotion organizations, make contact with the staff members of the new private sector institutions that will be developed through the Project (see Section E), and plan attendance at investment and trade promotion events and

opportunities for the specific areas in which they work. An annual seminar will be held in Tegucigalpa with representatives of the GOH (Ministry of Economy, Ministry of Finance), and the new private sector organizations. The participation of the private sector will be key to establishing the personal contacts necessary for the representation to be effective. The GDFT will develop a system for evaluating the effectiveness of the GOH's overseas trade representatives, continue to improve the training program, provide information to those representatives on a continuing basis, and design and finance individual training programs for key representatives.

Two GDFT officials will be trained at the UNIDO Caribbean Investment Service Office (CISO) in New York during the first two years of implementation. They will form the core staff for an investment and export promotion office which the GOH will open in New York during the third year of project implementation. Project funds will finance part of this office's operations during the third to fifth years of implementation. The person assigned to head this office will be carefully selected for his/her interest, knowledge and aggressiveness. He/she will receive special training in countries with successful investment promotion programs. The head of the office will hold a rank (e.g., ambassador or special trade representative) which reflects his/her unique and important position.

AID funds will finance the non-recurring costs of carrying out the above activities. An Export Promotion Adviser will be brought in for one year to help the GDFT and the private sector institutions develop an appropriate training program and information system ($100,000 AID Grant). The cost of training overseas representatives is estimated at $300,000 (AID Loan). GOH participation in conferences, seminars and trade fairs is estimated to cost $200,000 (AID Loan). The AID portion of the training at CISO and the Investment Promotion Office to be opened in New York is estimated at $250,000 (AID Loan) for three years. Counterpart funds of $500,000 will cover GOH recurring costs of these activities. The AID-financed inputs are described in the detailed Financial Analysis (Annex F.2.).

E. Export Development ($9.2 Million AID; $4.7 Million Counterpart)

Products are developed and exported by individuals representing either themselves or others. Individuals who want to export need access to a wide variety of information and services to enable them to assess markets; design and manufacture, mine or grow and process products; and make arrangements to transport and receive payment for their products. In developed countries, most exporting is done by large companies which maintain staffs of people that are highly trained in specific aspects of the production and exporting process, with other, more specialized services being provided by other individuals or companies contracted especially for this purpose. In a developing country like Honduras, with numerous, relatively small businesses, a lack of experience in exporting, and deficient services, the export process becomes a monumental task for most entrepreneurs.

Under the Project, two private sector institutions will provide the services needed by present and potential exporters to increase their exports of non-traditional products. A recently created nonprofit Entrepreneurial Research and Development Foundation (Spanish acronym: FIDE) will assist exporters of manufactured products, and another institution - the Honduran Federation of Agricultural Producers and Exporters (Spanish acronym: FEPROEXAH) - will assist agricultural exporters. These institutions will be the Honduran export sector's major link to outside markets and production assistance. They will represent the export sector with the GOH on policy matters. They will provide assistance to producer organizations (producers' councils, producers' associations, and cooperatives) to develop a small number of selected export products. They will form and provide start-up assistance to additional producers' organizations. They will withdraw from an active role in the producers' organizations as the latter are able to provide the services needed by their members.

Under the Project, a producers' council for furniture and wood products, and producers' associations for cocoa, citrus products, and vegetables will be developed and/or strengthened. These products have been selected because they offer good long-term export prospects, because Honduras has already made an entry into these export markets, and because the experience of Honduran entrepreneurs in the rigors of exporting in these areas provides a good basis for additional efforts. The producers' organizations will offer a range of services based on trade requirements and the specific needs of the producers of each of these export products. These services will range from simple provision of technical assistance, assistance in obtaining productive inputs, or assistance in marketing, to acting as the export department of individual firms and cooperatives through specific product export companies.

In addition, two private Industrial Park Management Companies (IPMC's) will be developed to provide shelter and export services to labor-intensive assembly operations in private industrial parks to be located in Tegucigalpa and San Pedro Sula. The opportunities opened by the designation of Honduras as a CBI beneficiary country, Honduras' demonstrated competitiveness in assembly industries, and the recent interest shown by outside firms in establishing this type of industry here provide strong evidence that these facilities, properly promoted and operated, hold good promise of success. This attractiveness will increase even more once free zone status is extended to these zones as described under the Policy Activity.

1. Manufactured Exports ($4.9 Million AID; $3.75 Million Counterpart)

a. Honduras' Competitive Position

During PP development, a study was carried out by International Parks, Inc. to assess Honduras' competitive position in manufactured products. Due to the large body of relatively precise data available from the U.S. Customs Service for manufactures which enter the U.S. under Sections 806.3 and 807 of the U.S. Tariff Code, the study was based on these data. In addition to providing useful information regarding these categories of manufactures, the results are

also indicative of Honduras' competitive position in manufactures which do not enter the U.S. under those sections of the Tariff Code. The study identified 188 products in which Honduras is very strongly competitive vis-a-vis 21 leading developing countries. Of these products, 107 are in the electrical and electronics industries; 35 in apparel; 10 in toys, games, and dolls; 9 in transportation equipment; 9 in watches and clocks; and 8 in footwear and handbags. The study noted several deficiencies in laws and incentives which have been or will be eliminated by the policy changes discussed in Section D., above. The study found that present exporters are competent, but that non-exporters will need a great deal of guidance and assistance before they can expect to be successful. It also noted that U.S. companies know little about Honduras and, except for the largest manufacturers, do not have a bias pro or con regarding the prospects of establishing business ties with Honduras.

b. Development of Manufactured Exports ($4.1 Million AID; $650,000 Counterpart)

FIDE will act as catalyst for the development of manufactured products, by helping Honduras' exporters to take advantage of competitive opportunities such as those identified in the Industrial Parks study, and interesting U.S. companies in developing business ties with Honduran producers. FIDE received its legal charter on May 29, 1984, and has already initiated its activities with its own resources and local currency funds provided through USAID/H. Its founding members are three trade associations - the Honduran Exporters' Association, the National Industrialists' Association, and the Honduran American Chamber of Commerce - and the Honduran Managers and Entrepreneurs Association (GEMAH). Additional organizations and individual entrepreneurs are expected to join in the near future. FIDE has contracted its executive director and one professional staff member, selected additional professional staff, and rented office space. It formally opened its doors for business on July 30, 1984.

Based on recommendations in the Industrial Parks, Inc. study and an analysis of the service needs of Honduran exporters which was prepared by Price Waterhouse, FIDE's principal functions under the Project will be to:

- organize and provide start-up assistance to Industrial Park Management Companies (IPMC's) in Tegucigalpa and San Pedro Sula;

- organize and provide start-up assistance to a producers' council for the furniture and wood products group to facilitate efficient delivery of services to the organization's members;

- over time, assist producers of other products to develop producers' organizations, including specific export management companies;

- provide business services (e.g. bookkeeping/accounting, data processing, and central purchasing and contracting) for producer's organizations on a continuing basis;

- provide to individual entrepreneurs - both established and entry-level exporters - services such as training in export development; information on export markets; assistance in product design; matching producers, buyers and production-sharing partners; and help in gaining access to financing, transportation and export services, and training for managers and workers;

- assist exporters to obtain lower freight rates through combining shipments and petitioning the Caribbean Conference with regard to rates on behalf of Honduran producer's organizations;

- provide information on trading companies seeking to do business with Honduras;

- serve as the technical arm of its founding and additional supporting organizations, by preparing and widely disseminating policy analyses and position papers on export-related matters, and representing the export sector to the GOH;

- provide information services to individual exporters through the Caribbean Basin Information Network (CBIN), other information services, and a publications program;

- assist individual exporters in obtaining global import-export permits with the Central Bank, and in dealings with the GOH in general; and

- represent the Honduran private sector in training of and contact with GOH overseas representatives.

A more detailed description of the services FIDE will provide under the Project is included in the detailed Institutional Analysis (Annex F.1.).

At the outset, FIDE will need significant assistance to carry out its functions effectively. This assistance will come from three sources. First, a U.S. company, consortium, or joint venture of several companies engaged in international trade and development, investment banking, and technical advisory services (U.S. Institution) will provide assistance in developing information on export possibilities in Honduras, and making contact with U.S. companies that may invest in or buy products from Honduras. The U.S. Institution will have extensive knowledge of exporting and markets and be willing to station a highly qualified Field Director at FIDE's Tegucigalpa office during a minimum three-year period. It will provide the services of specialists in specific manufacturing plant operations, and in transportation, financial and other services as needed. After familiarizing themselves with the country, these specialists will concentrate on identifying trade and investment opportunities and promoting these in the United States. The U.S. Institution will also organize seminars on doing business with Honduras in U.S. cities four to six times a year. At the same time, FIDE will station one of its key staff members in the home office of the U.S. Institution. This arrangement will permit Honduras to develop a window on the U.S. market and the U.S. business community to gain a real appreciation for the potential in Honduras. The U.S. Institution will train FIDE's staff to take on increasing responsibility to make contacts and follow through on deals by itself.

Secondly, specific individuals in such areas of special interest to Honduras as Miami, Atlanta, and New Orleans will be contracted to make and follow up on specific contacts for Honduran firms with U.S. firms in those areas. Through the CBI-related conferences and events of the last two years, FIDE has identified individuals in those cities that have already demonstrated their effectiveness in lining up and following through on business deals.

Finally, FIDE will contract individual consultants (Short-term Advisers) for special tasks such as packing and packaging, U.S. Customs Regulations, payment mechanisms, developing a production sharing program, obtaining better transportation rates from the Caribbean Conference, and assisting individual firms with specific problems such as marketing and product design. It will also contract with a long-term adviser for development of an additional product group, either apparel or electronics, during the second or third year of the Project.

The cost of FIDE's activities over the five-year implementation period is estimated at $4.75 million, including dollar costs of $4.1 million. The dollar costs will be financed by AID. They are: advisory services of the U.S. Institution ($2 million AID Grant); FIDE's U.S. representation costs ($450,000); the services of three area specialists ($750,000 AID Loan); a new product group adviser ($300,000 AID Loan); short-term advisers ($200,000); business conferences in the U.S. ($100,000 AID Loan); equipment for FIDE ($50,000 AID Loan); and usage of the CBIN over the five-year implementation period ($250,000 AID Loan). FIDE's local currency operating costs will be almost covered from membership fees, service charges, contributions, and a portion of the interest earned on credit funds provided under the Project (see Section F), and on local currency generations that will support Project activities (see Financial Analysis). In addition, the GOH will provide $650,000 to cover FIDE's expected small deficit in the first three years of implementation. A description of the AID-financed inputs and a projection of FIDE's income and expenses is included in the detailed Financial Analysis (Annex F.2.).

By the end of the Project, FIDE's institutional capability to carry out its role as catalyst of manufactured exports will be fully developed. It will have the capability to study markets and direct Honduran entrepreneurs to the best sources of assistance in exploiting them, and be experienced in developing producers' associations that can enter and hold markets for specific export products. By the end of the fifth year, it will have made arrangements to continue its mutually beneficial relationship with the U.S. Institution and the contacts developed in the U.S. without additional need for AID financing.

c. Labor Intensive Exports ($300,000 AID; $3.1 Million Counterpart)

The Temporary Import Law that will be passed prior to signature will facilitate the development and efficient operation of labor-intensive industries. It will permit export industries to operate in a market with

minimal contraints to inhibit the free flow of capital and products, and hopefully provide a demonstration effect which will encourage the GOH to further liberalize its economic policies and the regulatory environment over time. With competitive labor costs and a suitable business environment, Honduras should have reasonable success in attracting labor-intensive industries. Based on a pre-feasibility study carried out by dustrial Parks, Inc., it is expected that some 40 companies with a total of 8,000 employees can be attracted to the country over the next five years, if an adequate effort is made to promote Honduras as a good site for these industries. This effort will be made by Industrial Parks Management Companies (IPMC's) created to provide services and shelter to labor-intensive industries. A Labor-Intensive Industries Adviser will be contracted for a three-year period to assist FIDE in organizing the IMPC's and to attract clients to the industrial parks. A more detailed description of the facilities needed and the income and expenses of the industrial parks is included in the Financial Analysis (Annex F.2.).

During the first year of Project implementation, FIDE, with the assistance of its Labor-Intensive Industries Adviser, will carry out the following:

- organize two IPMC's - one in Tegucigalpa and one in San Pedro Sula;

- carry out a final feasibility study for industrial parks in Tegucigalpa and San Pedro Sula;

- assist the IPMC's to obtain sites and financing for infrastructure and shelter;

- identify and negotiate contracts with potential clients for the parks;

- develop and train management teams for construction and operation of the parks.

FIDE will turn implementation over to the IPMC's when they have been legally organized and are ready to take on the responsibility of effectively developing, promoting and operating the parks. It is expected that this will occur during the second year of implementation. FIDE's Labor-Intensive Industry Adviser will provide continued advice to the IPMC's in park operations, and attempt to bring additional firms to Honduras. Of the target of 40 firms, 28 are expected to locate in the industrial parks. The Adviser will be a consultant experienced in industrial park design and development in Central America with a proven track record of bringing clients to parks in the area. The cost of his/her initial three-year contract is estimated at $300,000 (AID Loan). The IPMC's will pick up the cost of continuing the services of the Adviser after his/her contract with FIDE ends.

Honduran investors will make an initial investment of at least $600,000 in the IPMC's. These funds will go for organization and development costs and working capital. Approximately $2.5 million will be needed for equity investment in the construction of infrastructure and shelter for labor-intensive industries. The remaining funds needed for shelter and infrastructure during implementation will be financed from local currency

generations for sites approved by FIDE's Labor-Intensive Industries Adviser. After the implementation period, the IPMC's will have to obtain commercial loans to expand the parks for an estimated 30 additional firms over the following five years. The Honduran banking system is expected to provide such loans if the IPMC's are, as the Financial Analysis shows, profitable by that time. The Mission has discussed the possibility of investing in IPMC's with several groups of private investors and anticipates no difficulty in organizing the IPMC's, raising the required investor capital, and finding suitable sites.

By the end of the Project, it is expected that the IPMC's will have established their capability to effectively operate the industrial parks, and will have the contacts for attracting labor-intensive industries to Honduras. The value of the goods produced in Honduras by labor-intensive industries will be approximately $40 million annually. Some 7,000 additional workers will be employed by labor-intensive industries that result from Project activities by 1990. Of these, 5,800 will be employed in plants located in industrial parks operated by the IPMC's.

d. Furniture and Wood Products Exports ($500,000 AID)

Honduran furniture and wood products firms are already exporting to the U.S. and other countries. Five firms are exporting furniture. In addition, Honduras supplies 97% of the broom handles imported by the U.S. and is beginning to supply toothpicks. The producers who have experience in exporting to the U.S. form a good nucleus around which to organize an export industry. However, they need help in sales, improving the management of their enterprises, and ensuring an adequate supply of well dried wood for an expanded level of quality exports. They could also significantly lower costs by combining orders for imported goods and shipments to the exterior. The wood products manufacturers can increase exports by moving to products with higher value added (e.g. cutting boards, frames and windows, and moldings).

Under the Project, FIDE, with the assistance of a Furniture and Wood Products Adviser, will:

- organize the furniture and wood products exporters into a producers' council, under FIDE's aegis;

- hire and train a FIDE Furniture Specialist;

- identify products in which Honduran furniture and wood products industries can be competitive;

- analyze the productive capacity and weaknesses of each of the present exporters, help them improve management, and locate suitable sources of assistance for them;

- analyze the shipping and payment arrangements used by the furniture producers;

- establish contact with buyers;

- develop suitable wood drying services;

- provide product design, production, packaging, and sales assistance to member firms;

- develop quality control standards and the methods of ensuring compliance by the furniture producers; and

- interest additional entrepreneurs in the furniture manufacture for export business, and find them suitable assistance in planning operations, obtaining financing, and implementing their projects.

Eventually, the producers' association may find it advantageous to form a Specific Product Export Company (SPECO) to act as the producers' selling operation. A description of how the SPECO would be organized and operated is included in Annex G.3.

FIDE's adviser will be an experienced executive from a U.S. furniture company. He/she will be selected with the advice of the U.S. companies who are presently buying furniture from Honduran exporters. Due to the difficult situation of the furniture industry at present and the long time period anticipated for the producers to begin to cover his/her costs, the adviser's services will be provided by FIDE for a five-year period, at an estimated cost of $500,000. The producer' council will pick up the costs of any continuation of the adviser's services needed after that time.

By the end of the Project, it is expected that FIDE will have established its capability to provide effective assistance to furniture and wood products exporters. The additional sales, value added, and employment expected from furniture and wood products as a result of the Project activities are included in the estimates for labor-intensive industries in the Economic Analysis (Annex F.3.).

2. Agricultural Exports ($4.3 Million AID; $950,000 Counterpart)

a. Honduras' Competitive Position

Honduras' agricultural sector provides a living for over 60% of the country's economically active population, and generates approximately 70% of its export earnings. Honduras' competitiveness in exporting its traditional agricultural products has already been demonstrated. The recently passed CBI legislation and Honduras' Export Incentives Law have further increased the potential profitability of new agricultural exports, especially those intended for the U.S. market. Studies carried out for selected commodities during PP preparation, and greatly increased buyer interest in Honduran products, provide strong additional evidence of Honduras' competitiveness in non-traditional agricultural export products.

To take advantage of the opportunity, Honduras must compete with quality products at competitive prices on a timely basis. Non-traditional export agriculture (NTEA) is limited at present but there have been periodic, isolated successes. The country's resource endowment for NTEA is good. Policies, with the improved access to foreign exchange and reduction of red tape described in the Policy section, do not pose a major constraint. Research in non-traditional export crops is weak, but will be strengthened under the Agricultural Research Foundation Project (522-0246), through which

research will be carried out on agricultural products to be developed for export markets under this Project. Credit is not readily available for investment in agriculture, but more liberal banks will enter if projects are well planned and producers have the right kind of assistance. The trick is to get all of the necessary components properly coordinated and managed.

This activity is aimed at changing the behavior of participants in Honduran export agriculture to make the country's competitive opportunity real in the difficult but potentially rewarding U.S. market. The activity addresses the systems, methods, markets, organizations, technology, information, and skills needed for modern export agriculture. Access to foreign exchange and inputs, Access to markets, and the limited capability of present and potential agricultural exporters are the key factors that need to be addressed in order to capitalize on this potential productivity. The former will be resolved through the mechanism described in Section F. The latter two will be addressed through this activity.

b. Development of Agricultural Exports ($2.45 Million AID; $950,000 Counterpart)

FEPROEXAH will act as catalyst for the development of agricultural exports, by helping Honduras' exporters to take advantage of competitive opportunities analyzed in a study carried out during PP development by the Post Harvest Institute for Perishables (PIP), and exploiting additional opportunities that will be analyzed during Project implementation. FEPROEXAH was created on January 26, 1984 by four producer associations. It now has twelve members, and additional organizations are expected to join in the near future. FEPROEXAH has already initiated its activities with its own resources and local currency funds provided through USAID/H. It has contracted its executive director, and selected additional professional staff members. It formally opened its offices for business on July 30, 1984.

FEPROEXAH's present member associations and their Spanish acronyms are:

- Honduran National Citrus Growers' Association (ANACIHO)
- Honduran Coffee Producers' Association (APROHCAFE)
- Cocoa Producers' Association (APROCACAO)
- Sula Cattlemen and Farmers' Association (AGAS)
- Honduran National Poultry Producers' Association (ANAVI)
- National Swine Producers' Association (ANAPOH)
- National Beekeepers' Association (ANAPIH)
- Honduran Association of Independent Sugar Producers (AHCI)
- National Vegetable and Flower Growers' Association (AHFAH)
- National Independent Banana Producers' Assocation (ANBI)
- National Independent Tobacco Growers' Assocation (APROTAVIDI)

Under the Project, FEPROEXAH's principal functions will be to:

- assist individual agribusinesses and the members of the above organizations to increase their exports to the U.S. and other hard currency countries;

- organize new producers' associations along commodity and/or regional lines;

- serve as an intermediary for channeling outside assistance to individual producers and producer organizations;

- serve as the Honduran private sector's contact point for U.S. importers and investors in the agricultural sector;

- help producers' associations to provide and monitor training and technical assistance for their members;

- assist producers' associations to negotiate freight rates and scheduled service with the Caribbean Conference and airlines;

- establish standards of quality, packing, cleanliness, etc., that meet the requirements of external markets and ensure compliance by Honduran producers;

- provide management assistance and business services (e.g., bookkeeping/accounting, data processing, and central purchasing and contracting) for producers' associations on a continuing basis;

- serve as spokesman for private agribusiness sector-GOH policy negotiation on issues such as improving the climate for agribusiness development, transportation, and financing;

- coordinate closely with FIDE on policy matters, using FIDE's services, and promote their use by producer organizations and individual producers in areas where FEPROEXAH does not provide services (e.g., access to CBIN, publications, contacts with non-agricultural outside institutions); and

- assist exporters in obtaining global import-export permits from the Central Bank, and in dealings with the GOH in general.

FEPROEXAH will increase agricultural and agroindustrial exports by providing promotion and support for agroexports in general, and by developing a small number of selected export commodity systems. The commodity systems that will be expanded and developed under the Project are cocoa, citrus fruits, and winter vegetables. In the case of cocoa and citrus fruits, the primary task will be to improve the existing system. In the case of vegetables, new commodity systems will be initiated, building on the success of the AID-sponsored cucumber export project. FEPROEXAH will continue to evaluate the marketing and production aspects of other non-traditional agricultural exports. Additional commodity systems may be incorporated into the Project activities at a later date, resources and other factors permitting.

The criteria which were used in selecting the commodity systems to be strengthened and which will be used in selecting additional commodity systems are: potential to penetrate and maintain export markets; attractiveness to U.S. and Honduran investors; labor absorption; use of in-country know-how; linkages and multiplier effects; and profitability. The latter is, of course, the overriding criterion. The additional commodity systems that will be evaluated during implementation are annual fruits, such as papayas and pineapples; tree crops (mangoes, avocados, and macadamia nuts), on-land shrimp production; spices and aromatics (cardamom, allspice); and specialty crops (cassava, plantain).

The commodity systems assisted through the Project will be developed through: support for indigenous producers associations, joint ventures, and other export-oriented agricultural ventures; international networking; technical assistance; and training. The commodity systems approach for the development of non-traditional export agriculture (NTEA) is discussed in Annex G. A description of the services that FEPROEXAH will provide in each of these areas is included in the Institutional Analysis (Annex F.1.).

As a new organization, FEPROEXAH will need significant assistance to help it perform these functions in an effective way. Under the Project, assistance will be provided to help FEPROEXAH develop its institutional capability and provide effective services to existing and nascent private producer organizations and specific agribusiness firms in the selected commodity systems. The assistance will consist of the services of three advisers. A principal adviser will be contracted for a five-year period to help FEPROEXAH organize itself, train its staff, and provide assistance in management to its member organizations and individual agricultural enterprises. A marketing adviser, to be contracted for a three-year period, will help FEPROEXAH's Marketing and Investment Services Office develop its market analysis methodology and appropriate marketing contacts in the U.S. and Europe. One or more new commodity systems development advisers will be needed to help FEPROEXAH carry out analyses of additional commodity systems to be developed in the future.

The cost of FEPROEXAH's activities over the five-year implementation period is estimated at $3.4 million. AID will finance dollar costs of $2.45 million. This includes the advisory services described above at an estimated cost of $1 million (AID Grant), and equipment, overseas training, international travel, and business trips at an estimated cost of $1.45 million (AID Loan). FEPROEXAH's operational costs will be financed by membership fees, service charges, contributions, and a portion of the interest earned on credit funds provided under the Project (see Section F), and on local currency generations that will support Project activities (see Financial Analysis). In addition, the GOH will provide $950,000 to cover FEPROEXAH's expected deficit in the first two years of implementation. A description and cost breakdown of the AID-financed inputs and FEPROEXAH's income and expense budget during implementation are included in the detailed Financial Analysis (Annex F.2.).

By the end of the Project, FEPROEXAH will have expanded its capacity to provide marketing and investment services, information and networking services, and technical assistance and training required for successful technology transfer in an increasing number of commodity systems.

c. Cocoa Exports ($550,000 AID)

There is a stable world market for cocoa beans of 1,500,000 metric tons annually. At the current price of US$2,600 per metric ton, the crop has a total value of $4 billion per year. Commercial trade in beans is dominated by the six largest producers: Ghana, Ivory Coast, Nigeria, and Cameroon in West Africa, and Brazil and Ecuador in South America. For decades, these nations have produced over 90% of the world's supply. Half of the remainder is now

supplied by the Americas. Despite occasional price volatility, cocoa offers a good long-term market from which Honduras can profit by supplying good quality beans to the world market.

Honduras has exported small quantities of cocoa for many years. In the last 13 years, production increased from 83 tons (1970) to 800 tons (1983) on 2,135 hectares. Large areas have been established with superior cocoa trees from the Tropical Agronomic Research and Education Center (CATIE), in Costa Rica. Honduras has been relatively free of the diseases that have negatively affected production in other countries. Despite Honduras' increase in production, its cocoa earnings still fall well below their potential due to the limited quantity of production and the low quality of the cocoa produced. Currently, most beans are processed on farm after harvest. As practices vary widely, there is a great variation in the quality of the aggregate product. This variation leads to lower prices for all growers whether or not they process their beans well, because a critical mass of high quality Honduran cocoa beans is not available in the market.

For Honduras to become a recognized, dependable, consistent source for processors, it needs to improve both the quantity and quality of its cocoa exports. Once Honduras becomes a consistent source of a sufficient quantity of good quality cocoa, it can be incorporated into processors' blends on a regular basis. This would earn premium prices which are not paid for even high quality Honduran beans at present.

The cocoa producers recognize that they need to improve the quantity and quality of their produce. They formed the Cocoa Producers Association (APROCACAO) in April 1984, to assist cocoa growers to improve their production and obtain better prices for their products. APROCACAO presently has 30 active independent grower and cooperative members, for a total of 167 families, who cultivate 1,500 hectares of cocoa. At present, it has no staff, and is run by volunteers.

Under the Project, an effort will be made to increase Honduras' importance as a cocoa supplier for the world market. Production will be increased from 800 tons to 1,840 tons in five years through a renovation program for present cocoa plantings. Almost half of the current 2,135 hectares will be renovated over the next five years, at a rate of about 200 hectares per year. The technical knowledge and experience gained will help both present and new growers in establishing new plantings during and after Project implementation with non-Project resources.

At the outset of Project implementation, FEPROEXAH will hire a cocoa productivity adviser and 2 cocoa extensionists, and provide them with logistical support. AID will provide the services of a Cocoa Development Specialist. During the first two years of implementation, FEPROEXAH will provide assistance to the cocoa growers. Through their activities and APROCACAO sponsorship of training courses and extensionists, APROCACAO will develop a positive image among the cocoa growers, and amplify its membership base and income sources. In the third year of implementation, APROCACAO will hire a director, employ the extensionists, and take over full responsibility

for providing production assistance to the cocoa growers. Throughout Project implementation, FEPROEXAH will provide: assistance in improving APROCACAO's internal management and organization, and marketing operations through FEPROEXAH's principal advisers; the services of the Cocoa Development Specialist and short-term consultants; information on potential buyers; assistance in selling Honduran cocoa in the U.S. and Europe; and assistance in negotiating freight rates and schedules. Between APROCACAO and FEPROEXAH, the following services will be provided to the cocoa sector:

- training in quality improvement and profitability of Honduran cocoa - specifically, in-country training courses for growers, technicians, bankers and public sector extension agents; and participant training for 20 growers a year for on-the-job training in model cocoa plantations in Colombia, Ecuador and Belize;

- technical assistance to cocoa growers in all aspects of the commodity system through the Cocoa Development Specialist, short-term consultants, and the two cocoa extentionists;

- when production levels make it feasible, development and operation of fermentation and drying facilities to assure sound processing management and quality control;

- sales assistance through a major campaign to sell Honduran cocoa to leading buyers in world markets through communications with small and large marketing organizations and tours to Honduras for potential industrial clients;

- production of plant material by taking over the INA clonal garden in the La Masica area, managing it, and delivering high quality seed to the cocoa growers;

- assistance to growers to plan for renovation and expansion of new plantings, prepare loan applications, obtain financing, and implement the production plans;

- developing, together with the GOH, quarantine and other control mechanisms to avoid introduction of the fungal monilia into Honduras;

- establishing a documentation center on cocoa production and marketing; and

- in conjunction with the Agricultural Research Foundation, assist growers in proper soil and foliage testing of lots, design of proper fertilizers, formulae and testing, and the selection of healthy and productive genetic material.

Initially, short-term consultants from the Hershey Corporation office in Belize will provide technical assistance to the cocoa growers. Hershey's will buy small quantities of acceptable product at the world market price (see Annex G.4.). Over time, as cocoa production and quality improve, APROCACAO will open additional markets. As production increases, two processing centers will be built at strategic locations in the Atlantic coast provinces where production is concentrated. The optimal size and location of the centers will be determined during implementation. APROCACAO will attempt to find private investors to build the processing centers. If necessary, it will build and operate the centers itself. It will develop facilities for growers in more isolated areas using technology developed through the Rural Technologies Project (522-0157). Production credit needed to rehabilitate 1,000 hectares of cocoa producing lands and to develop processing facilities will be financed from local currency generations.

The services of the Cocoa Development Specialist are estimated to cost $300,000 (AID Loan) for a three-year contract. The Specialist will supervise production, harvesting, and processing operations, and train APROCACAO extensionists in all aspects of cocoa production, processing, and quality control. He/she will be selected with the advice of the Hershey Corporation. In addition, the services of several short-term advisers (including those provided by Hershey's) will be needed to assist in improving the clonal garden, establishing service charges and collection mechanisms, and developing the fermentation facilities. The cost of these services is estimated at $250,000 (AID Loan) for 20 person-months. APROCACAO's operational costs of $227,000 during the Project will be financed from membership dues, profits on sales of seed from the clonal garden, service charges for processing and shipping operations, and a small amount to be transferred from FEPROEXAH. A budget is included in Financial Analysis. During the first two years of implementation, the Association will work out with its members methods which will ensure it is paid for the services it provides. This will probably be done through control of remittances received from buyers. APROCACAO is expected to be a self-supporting organization by the end of its fifth year of operation.

By the end of the Project, APROCACAO will have developed its capability to provide a full range of services to its members. In addition to production assistance, these services will include: operating central fermenting and drying stations, selling in the best market, and accounting for sales proceeds. By the end of the Project, it is expected that cocoa exports will have increased by $1.8 million annually. This will generate additional value added of $900,000 annually. By 1990, the equivalent of approximately 300 full-time jobs will be created in the cocoa commodity system as a result of Project activities.

d. Citrus Exports ($550,000 AID)

Citrus has been grown commercially in Honduras since the early 1940s, and its importance to the economy has increased rapidly in the last two decades. At present, there are 4,275 hectares planted in oranges, 1,540 in grapefruit, and 250 in limes. Fresh fruit, mostly oranges, is sold in the national market and in El Salvador. Oranges and grapefruit are exported to Europe, and Persian limes to the United States.

Honduras' prospects in the citrus market are considered to be excellent in the immediate future and good over the medium term. The severe freeze in the U.S. in December, 1983 reduced crops in Florida and Texas drastically -- as much as 75% in Texas. Tree population in Texas is expected to be reduced by as much as 20%, and it is not known how many of these trees will be replaced. Limes are now being shipped to the U.S. without quarantine. The CBI has provided an excellent opportunity for Honduran citrus concentrates to displace Brazilian exports to the U.S. Present citrus production and export operations are profitable, and the U.S. market for juice concentrates is ample. The closeness to the U.S. market and the incentives offered through one-way free trade provisions of the Caribbean Basin Initiative are factors which further ensure Honduras' long-term competitiveness in the citrus area. However, strict import requirements will continue to make it difficult for Honduras to export fresh oranges and grapefruit to the U.S. as long as such requirements remain in effect.

The citrus producers recognize that they need to improve the quantity and quality of their produce, and attack external marketing in a more organized way. They formed the National Citrus Producers Association (ANACIHO), in 1977, to assist citrus growers to improve their production and obtain better prices for their products. ANACIHO presently has 20 active members, including both independent growers and cooperatives, for a total of 1,937 families. They produce mainly oranges, grapefruits, and limes. ANACIHO is staffed by volunteers, including the President, and has a full-time paid secretary.

Under the Project, a major effort will be made to build on Honduras' successful experience and good medium-term market prospects - orange juice concentrate and limes for the U.S. market and fresh oranges, grapefruits, and juice concentrate for the European market. An immediate market for oranges will be available shortly when a Honduran juice concentrate plant recently bought by a U.S. company--Griffin and Brand--starts producing frozen orange juice concentrate in October 1984. This market will be exploited through the Project by renovation of 1,200 hectares of orange plantings. Of these, 95% are intended for juice production. The balance is expected to be sold in fresh markets, both overseas and in Honduras and El Salvador. Most of the hectares planned for renovation are owned by campesino cooperative groups in the Aguan Valley, who were settled under the Agrarian Reform Law. Through renovation, yields are expected to increase from 37.5 to 51 metric tons per hectare. The experience gained in improving yields and quality will permit subsequent expansion of renovation and new plantings for agrarian reform groups and independent growers (with non-Project resources) to more fully

exploit the medium-term market prospects. Griffin and Brand is considering investing in a second juice concentrate plant in the Aguan Valley during the implementation period. This should further improve medium-term marketing prospects and serve as an incentive for investment in additional renovation and new plantings.

At the outset of Project implementation, FEPROEXAH will hire a citrus productivity adviser and two citrus extensionists, and provide them with logistical support. AID will provide the services of a Citrus Development Specialist. The Specialist will be selected with the advice of Griffin and Brand. During the first two years of implementation, FEPROEXAH will provide assistance to the citrus growers. Through their activities and ANACIHO sponsorship of training courses and extensionists, ANACIHO will develop a positive image among the citrus growers and amplify its membership base and income sources. In the third year of implementation, ANACIHO will hire an executive director, employ the extensionists, and take over full responsibility for providing production assistance to the citrus growers. Throughout Project implementation, FEPROEXAH will provide: assistance in improving ANACIHO's management and organization, and marketing operations through FEPROEXAH's principal advisers; the services of the Citrus Develpment Specialist, training services, and short-term consultants; information on potential buyers; assistance to industry executives in selling citrus products in U.S. and European markets through its networking system; and assistance in negotiating freight rates and schedules. The Development Specialist will supervise production, harvesting, and packing operations, and train Association extensionists in all aspects of citrus production.

Between ANACIHO and FEPROEXAH, the following services will be provided to the citrus sector:

- technical assistance and training to improve cultural practices through appropriate fertilization, pruning and cost-effective pest controls; and harvest and packing operation through use of filed boxes, packing houses, shipping boxes, and proper use of packing chemicals;

- development of new markets through aggressive promotion of Honduran citrus through business missions to Europe, the U.S. and Japan, and workshops and business conferences in Honduras;

- assistance to growers to plan for renovation and expansion of new plantings, identify drainage problems and solutions, prepare loan applications, obtain financing, and implement the production plans;

- together with the GOH, expansion of the ongoing program to control the Mediterranean fruit fly;

- in conjunction with the Agricultural Research Foundation, assistance to growers in proper soil and foliage testing of lots, design of proper fertilizers, formulae and testing, and the selection of healthy and productive genetic material;

- sale of appropriate inputs at competitive prices;

- establishment and monitoring of packing standards to protect the reputation of Honduran fruit;

- location of suitable areas for expansion of citrus plantings, identification of potential new growers and provision of start-up support; and

- marketing information for growers.

These services will be complemented by technical assistance provided without cost by Griffin and Brand. Credit for citrus grove renovation will be financed from local currency generations to those growers who agree to comply with the standards and inspection requirements established by FEPROEXAH to ensure the delivery of quality fruit and concentrates to international markets.

The services of the Citrus Development Specialist are estimated to cost $300,000 (AID Loan) for a three-year contract. The Specialist will supervise production, harvesting, and processing operations, and train ANACIHO extensionists in all aspects of citrus production, packing, and shipment. In addition, the services of several short-term advisers (in addition to those provided by Griffin and Brand) will be needed to assist in specific areas such as new and cheaper spraying techniques, environmentally safe pesticide and fungicide applications, and planning and developing new fresh and processed citrus products. The cost of these services is estimated at $250,000 (AID Loan) for 20 person-months. ANACIHO's operational costs of $579,000 during the Project will be financed from dues from members, profits on sales of inputs, service charges for processing and shipment operations, and a small amount transferred from FEPROEXAH. A budget is included in Financial Analysis. During the first two years of implementation, the Association will work out with its members methods to ensure it is paid for the services it provides. This will probably be done through control of remittances received from buyers. ANACIHO is expected to be a self-supporting organization by the end of its fifth year of operation.

By the end of the Project, ANACIHO will have developed its capability to provide a full range of services to its members. In addition to production assistance, these services will include: input supply, packing and shipping services; and accounting for sales proceeds. By the end of the Project, it is expected that citrus exports to countries outside Central America will have increased by $4.6 million annually. This will generate additional value added at the farmgate level of $1.2 million annually. By 1990, the equivalent of some 700 full-time jobs will have been created in the citrus commodity systems as a result of Project activities.

e. Vegetable Exports ($750,000 AID)

Vegetables have been traditionally grown in Honduras for domestic consumption. Repeated but unsustained efforts have been made to grow vegetables for export in response to specific perceived spot market

opportunities. At present, there is sustained export of cucumbers. This is offset by imports of fresh vegetables from the U.S. and Guatemala which increased from 110 MT in 1975 to 1,400 MT in 1980. In 1980-82, imports of onions alone from Guatemala averaged 892 MT.

Honduras has sufficient land and infrastructure to meet its own domestic requirements for vegetables and to develop vegetable exports as a major industry. In contrast to production of fruits from tree crops which usually require several years to become productive, vegetable crops can be produced within a few months. However, the highly perishable nature of the products requires rapid and careful handling to maintain marketable quality. Adequate packing facilities, cold rooms, and specialized port facilities do not exist at present. Technical personnel trained for adequate post-harvest management of vegetables, and personnel knowledgeable and skilled in aggressive production and marketing of export-quality vegetables to external markets are also lacking.

The U.S. market offers good opportunities for fresh vegetable exports from Honduras during the winter months (November to March). This market will be the immediate goal. With efficient operations and skilled marketing, eventual market penetration can be developed for certain vegetables throughout the year. The development of preserved vegetables either as traditional or creatively developed products also could provide profitable opportunities, especially for crops and products that require substantial hand labor.

The vegetable producers recognize that they need to develop better marketing information, and begin to ship quality vegetables for export. They formed the National Vegetable and Flower Growers' Association (AHFAH) in early 1984, to assist vegetable and flower growers to improve their production and obtain better prices for their products. AHFAH now has 25 active members, including both independent growers and cooperatives, which represent a total of 833 families.

At the outset of Project implementation, FEPROEXAH will hire two vegetable productivity advisers and four extensionists, and provide them with logistical support. AID will provide the services of a Vegetable Development Specialist, who will be selected with the advice of brokers currently importing Honduran vegetables into the U.S. During the first two years of implementation, FEPROEXAH will provide assistance to selected vegetable growers. Through their activities and AHFAH sponsorship of training courses, AHFAH will develop a positive image among the vegetable growers, and amplify its membership base and income sources. In the third year of implementation, AHFAH will hire an executive director, employ the extensionists, and take over full responsibility for providing production assistance to the growers. Throughout Project implementation, FEPROEXAH will provide: assistance to AHFAH in improving its internal management and organization, and marketing operations through FEPROEXAH's principal advisers; the services of the Vegetable Development Specialist, training services, and short term consultants; information on potential buyers; assistance in contracting with U.S. buyers; and assistance in negotiating freight rates and schedules.

During PP development, three vegetables were selected to be produced in three specific areas: 300 hectares of fresh cucumbers, 200 hectares of fresh okra and 100 hectares of dry onions in the Comayagua Valley; 75 hectares of fresh cucumbers and 100 hectares of dry onions in the Siguatepeque region; and 125 hectares of cucumbers for fresh shipment and pickles, and 175 hectares of okra for fresh shipment and pickling in the Quimistan Valley. The growers include independent farmers and campesino cooperatives. Two existing cooperatives - the Fruta del Sol cucumber export cooperative in Comayagua, and the COHORSIL consolidated vegetable cooperative in Siguatepeque - will be the growers in those areas. A new U.S./Honduran joint venture agribusiness is expected to be the grower in Quimistan. The experience gained under these projects should enable additional growers to enter the commodity system as AHFAH develops its capability to provide them with production assistance and linkages to marketing information and services.

Under the Project, between AHFAH and FEPROEXAH the following services will be provided to the vegetable growers:

- together with the Agricultural Research Foundation, test cultivars of the vegetables selected for production in the three sites and develop recommendations for soil preparation, fertilization, irrigation, plant populations, disease control, and related practices;

- train farmers and technicians in all aspects of vegetable commodity systems from pre-production to marketing, with special emphasis on proper vegetable maturity and quality characteristics and techniques of harvesting and handling to preserve quality;

- assist growers to plan and schedule production, prepare loan applications, obtain financing, and implement production plans;

- provide sales of appropriate inputs at competitive prices;

- establish and monitor packing standards to protect the reputation of Honduran vegetables;

- provide marketing information for growers; and

- carry out market analyses of additional, potentially profitable vegetable export commodities and planning for future production of new non-traditional agricultural exports;

Credit will be financed from local currency generations for growers who agree to comply with the standards and inspection requirements established by FEPROEXAH to ensure the delivery of quality vegetables to international markets.

The services of the Vegetable Development Specialist are estimated to cost $500,000 (AID Loan) for a five-year contract. The Specialist will supervise production, harvesting, and processing operations, and train AHFAH extensionists in all aspects of vegetable production, packing, and shipment.

In addition, the services of several short-term advisers will be needed to assist in production, harvesting, packing, and shipping of specific vegetables, and in planning one or more freezing plants to offer an alternative to growers when prices for fresh produce are low. The cost of these services is estimated at $250,000 (AID Loan) for 20 person-months. AHFAH's operational costs in carrying out its activities under the project are estimated at $350,000. AHFAH will finance these costs from membership dues, profits on sales of inputs, service charges for processing and shipment operations, and small transfers from FEPROEXAH. A budget is included in Financial Analysis. During the first two years of implementation, the Association will work out with its members methods to ensure it is paid for the services it provides. This will probably be done through control of remittances received from buyers. AHFAH is expected to be a self-supporting organization by the end of its fifth year of operation.

By the end of the Project, AHFAH will have developed its capability to provide a full range of services to its members. In addition to production assistance, these services will include: input supply, packing and shipping services; and accounting for sales proceeds. By the end of the Project, it is expected that vegetable exports financed through the Project will have increased by $10.5 million annually. This will generate additional value added of $6.5 million annually. By 1990, the equivalent of 2,400 full-time jobs will be created.

F. Financial Services ($10.2 Million AID; $2.5 Million Counterpart)

The increase in non-traditional exports to be developed through Project activities will require significant financial services. A study carried out during PP development[1/] found, among other conclusions, that: bank financing for investment in plant and equipment, working capital and export financing is generally available only to major established clients; collateral requirements and interest rates are high; export financing tends to be based on the collateral of the firm, and not on the export shipment itself; access to foreign exchange to finance imports is insufficient; and there are major delays in receiving payment for shipments.

All of these problems will be addressed through the Project. Adequate financing and access to imports will be provided to achieve the sales targets for the specific export products to be developed through the manufactured and agricultural export activities. Exporters of other non-traditional products will have increased access to financing and imports. Banks will be encouraged to adopt practices which lower costs for exporters and lessen effective collateral requirements.

1. Dollar Financing and Access to Imported Inputs ($10 Million AID)

The policies the GOH will initiate to make foreign exchange accessible to

1/ Price Waterhouse, Assessment of Export Services and Financing Needs in Honduras, 1984. A copy is in the LAC/DR bulk files.

exporters of non-traditional products and eliminate the need for foreign exchange authorizations and ex ante import-export permits were described in summary form in the Export Policy and Promotion Activity. The mechanism through which these policies will be put into effect and used for Project purposes is described in the following paragraphs.

A Trust Fund Agreement will be signed between AID and the Government of Honduras. The principal amount of the Trust Fund will be $10 million, which will be wholly financed by AID with Project funds. The principal will consist of $5 million from the ARDN account and $5 million from the SDA account. The Trust Fund will be administered by the Central Bank of Honduras (CBH). The CBH will make the Trust Fund principal available to those private banks which offer the best financial services for exporters of the non-traditional exports to be developed through the Project. The criteria for determining the best services will be:

- lowest overall cost to the exporter;

- lowest collateral requirements;

- fastest payment after shipment;

- existence of a specialized export finance department;

- greatest willingness to provide dollar loans and complementary local currency loans for investment and working capital to producers of the non-traditional exports that will be developed under the manufactured and agricultural export activities.

Those banks wishing to utilize Trust Fund resources will present proposals to AID, which will review them with FIDE and FEPROEXAH and approve them based on their responsiveness to the above criteria. Among other innovations, the Mission expects the interested banks to offer lower interest rates for exporters, make greater use of self-liquidating transactions, arrange for factoring services in the U.S. for exporters, encourage importing firms to extend letters of credit through their correspondent U.S. banks, and facilitate certification of exporter compliance with the terms of importer letters of credit. No participating lender will receive more than $2 million of the initial Trust Fund principal.

The Central Bank will hold Trust Fund resources in U.S. banks and credit them to the accounts of the participating lenders, as the latter approve dollar-denominated loans and finance purchases of imports needed by exporters of Honduran non-traditional exports. The exporters will assign all dollars generated by the export sales to the dollar account of the bank which provided the financing or supplied dollars for input purchases. The banks will return 80% of the dollar sales to the Trust Fund and credit the remaining 20% to the exporter's dollar account in a local bank of his/her choice. The latter amount may be reduced by the private bank if needed to repay dollars obtained for input purchases or to service dollar debt of the exporter.

The initial Trust Fund principal will be used only for dollar-denominated working capital loans. The U.S. banks in which the Trust Fund is held will be determined on the basis of the amount of additional financing they are willing to provide for similar purposes from their own resources. The Trust Fund will satisfy the GOH's self-imposed obligation to create a Non-traditional Products Export Fund ("Export Fund") in accordance with the Export Incentives Law passed in November 1983. To expand dollar resources available to "non-bankable" clients, the Industrial and Agricultural Finance Company (FIA) created through the Small Business Development Project (522-0205), will also be a participating lender with access to the Trust Fund as long as all its transactions are handled by participating private banks. During Project implementation, the Central Bank may authorize FIA to become a legal foreign exchange agent. At that time, it will gain direct access to Trust Fund resources.

The increase in the Trust Fund due to export sales will be used for additional dollar-denominated working capital loans, input purchases and dollar-denominated investment loans. This increase will be a dollar asset of the participating lenders. They will mobilize local currency resources against their Trust Fund holdings to pay the exporters for the sale. The amount to be paid will be determined as follows: the current portion of dollar debt to the bank and the amount credited to the account of the exporter in dollars will be deducted from the dollar sale. This will yield the amount owed to the exporter in dollars. The banks will convert this amount into lempiras, deduct the current portion of any local currency debt owed by the exporter, and pay him/her the difference in local currency.

The Ministry of Economy, with the advice of FIDE and FEPROEXAH, will approve the non-traditional exporters who may be financed with Trust Fund resources. This will ensure that exporters of the products stimulated through the Project gain access to the financing facility. However, the use of the Trust fund will not be restricted to these exporters. As demonstrated in the Financial Analysis (Annex F.2.), the fund will grow quickly enough to ensure access to Project-assisted exporters without a more formal control system. The cash flow projection shows that the Trust Fund will grow to $100 million by the end of the Project, even if 50% of the dollar increase in the principal amount over $20 million is applied to medium-term loans. Should Project-assisted exporters find difficulty in obtaining access to Trust Fund resources, more restrictive procedures will be worked out during implementation.

The participating banks will pay the CBH the discount rate for industrial loans for use of the initial Trust Fund resources. That rate is currently 11% per year. Rates to the final borrowers will be negotiated. All foreign exchange conversions will be made at the rate applicable under Central Bank policies as of the date of the transaction. The participating lenders may voluntarily increase the Trust Fund with their own dollars at any time, unless AID and the CBH determines otherwise. Termination of the Trust Fund arrangement will be agreed to by AID and the GOH at such time as both agree that the sufficiency of foreign exchange makes their continued observance

unnecessary. Should the Trust Fund Agreement be terminated, USAID/H and the Ministry of Finance and Public Credit will agree on an alternative use for these resources in pursuance of Project goals. It is anticipated that even if the exchange facility becomes unnecessary, resources will be required for import financing due to the shortage of external credit lines for Honduras. The interest earned by the CBH will be used as described in Section G. below.

The Central Bank's Department of Foreign Exchange Regulation will treat all transactions financed through the Trust Fund as self-financed by the exporter. This Department will issue yearly global import-export permits to exporters of non-traditional products who are classified as non-traditional exporters by the Ministry of Economy and who are net generators of dollars. FIDE and FEPROEXAH will prepare global import-export permit requests for groups of exporters (i.e., producers' associations and the Furniture Producers Council), and and report monthly to the Central Bank on the imports and exports made on an ex post fact basis. Customs documentation for imports and exports will bear a legend to the effect that import or export of the products covered by these documents is authorized under a global permit. The Central Bank will issue the necessary circulars to the Customs Office and Port Agents to ensure that these regulations are observed. FIDE and FEPROEXAH will help to maintain the Trust Fund's financial integrity by requiring the entrepreneurs they assist through the Project to be jointly responsible for exporting their products and assigning all sales proceeds to the bank from which they receive dollars for inputs. Any dollars lost due to failure of an individual exporter to make sufficient exports and/or assign all sales proceeds to the bank which financed his/her imports will be replaced by having the other exporters in the group draw less than the 20% of sales proceeds to which they are entitled until the loss is made up. Exporters who obtain financing or foreign exchange from the Trust Fund, but who are not in producers' organizations, will receive authorizations for individual transactions under the CBH's regulation for self-financing. This regulation obligates the CBH to approve import requests within five days of a request, and the permits are usually granted with a short period of time.

FIDE and FEPROEXAH will monitor the compliance of participating banks with their proposals, and the private banks will be required to return their share of the original Trust Fund principal to the Central Bank if they fail to perform as promised. In this case, the Central Bank will then make those funds available to other private banks through the procedures described above.

2. Local Currency Investment and Working Capital ($2.5 Million Counterpart

The most commonly used source of investment and working capital in Honduras is the country's 15 commercial banks. Banks make investment loans only to a small number of very well collateralized borrowers, and terms are usually limited to three years unless the loan is financed through one of the World Bank-funded investment loan programs - the Industrial Development Fund (FONDEI) and the Agriculture and Livestock Development Program. Most commercial banks and borrowers find that access to these investment capital sources is limited by requirements for feasibility studies, long approval times, high supervision costs, and rigid requirements on the use of funds.

These inconveniences are offset by long terms (up to 15 years), fixed interest rates, and dollar disbursement/lempira repayment provisions. Working capital loans are easier to obtain, and require somewhat less collateral. These loans are usually financed with the banks' own funds, but some can be discounted under a variety of Central Bank discount lines.

Accessible sources of investment and working capital for would-be exporters without sufficient collateral are very limited. To expand the availability of credit to these borrowers, the Mission helped five commercial banks to organize a private finance company called the Industrial and Agricultural Finance Company (FIA), through the Small Business Development Project (522-0205). FIA is starting to provide medium term and working capital loans to clients that the banks consider too risky given their lending policies and Central Bank requirements. The GOH has made the local currency equivalent of $4 million available to FIA for lending resources, and the shareholder banks have pledged $2 million in loans from their banks in addition to the $500,000 in capital they have already contributed. FIA is expected to be an answer for some of the exporters who are unable to obtain bank credit.

Most of the exporters who will be assisted through the manufactured and agricultural export activities will need access to local currency financing for both investment and working capital. It is estimated that $24 million will be needed to finance the Project's agricultural target group and the two IPMC's to reach the production targets for the specific exports to be developed through those activities. The uses of these funds were described in Section E. To ensure that this credit is available to enterprises that receive assistance under the Project, local currency generations in this amount, which are now being used by the CBH for discounting working capital loans, will be slowly converted into a medium- and long-term Agriculture and Industry Fund (AIF).

All private banks, BANADESA, and FIA (through FONDEI) will be eligible to discount loans for Project-supported activities. The maximum terms will be five years for cocoa, citrus producers, and vegetable growers, and 20 years for the IMPC's. Interest rates will be negotiated, and grace periods will be allowed to cover the time until revenue generation begins. In the case of cocoa and citrus renovation loans, up to two years may be needed; for the IPMC's, as much as four years may be required.

It is expected that assembly industries and furniture and wood products manufacturers will be able to obtain medium-term financing through FONDEI or FIA. If sufficient medium-term financing is not available for those activities, AID and the GOH will agree to make available additional local currency funds through the procedures described above. The funds will be made available to the banks at the Central Bank discount rate. Grace periods will be identical to those extended by the lenders. Capital reflows to the AIF will be used for additional investment loans for producers of non-traditional exports. The interest earned on the AIF will be used as described in Section G.

Honduran banks are generally conservative with respect to lending to the agricultural sector, especially for longer-term loans. However, the Mission has discussed the implementation arrangements for the Project with four local

banks, and three have formally expressed interest in providing financing investment and working capital loans for the agricultural activity (see Annex G.5.). These banks (BANADESA, BANHCAFE, Occidente, and SOGERIN) are all making loans under the Small Farmer Coffee Improvement Program (522-0176). The Mission's experience with them shows that they will indeed make loans for medium- to long-term agricultural investments and take the risk on those loans, as long as they receive an 8% spread and the lending capital is made available to them on the same terms as the loans they provide. These conditions are met by the above arrangements. Should these banks fail to perform as expected in agricultural lending, alternative credit channels will be developed during implementation.

The banks and FIA that make investment capital loans are expected to provide any working capital needed by medium-term borrowers from their own resources. It will be in their interest to do so, as otherwise they will wind up with unpaid loans. Exporters of products other than those that will be developed under the Project will have to be obtain financing for investment and working capital needs from existing non-Project sources, i.e., the resources of commercial banks, FIA, and the exporters themselves. FIDE and FEPROEXAH will assist exporters of all non-traditional products to gain access to bank and non-bank sources of investment and working capital.

3. Payment Insurance ($200,000 AID)

All exporters - both those who do and do not benefit from Project-financed credit - will be further assisted to lower costs by development of a payment insurance program that will insure Honduran banks of payment by importers in other countries. A study carried out during PP development[1/] proposed this scheme, which will allow banks to release assets pledged against bank loans from the time of shipment through the time when payment for the products is received. Adoption of payment insurance will increase exporter profits, increase the ability of exporters to borrow additional working capital, and increase their financial leverage by encouraging local banks to adopt self-liquidating, transaction-based lending instead of the present practice of lending to exporters against assets. The insurance could be provided by a local insurance company, and eventually the policies could be reinsured through normal trade channels. Both traditional and non-traditional exporters would benefit from this system. Project funds of $200,000 have been reserved to carry out a feasibility study of, and implement, the payment insurance recommendation. The Payment Insurance Program is described and an estimate of costs and benefits is included in the Financial Analysis (Annex F.2.).

1/ Price Waterhouse, op. cit.

G. Continuity of FIDE and FEPROEXAH Activities

Neither FIDE nor FEPROEXAH is expected to cover their costs from memberships, contributions, and service charges either during Project implementation or afterwards. Also, under the Project, some of the funds that the GOH will borrow from AID will be made available for use of the Honduran private sector on a grant basis. Given the GOH's perception of the proper role of the public sector and its present financial difficulties, the GOH desires that the Project be self-financing from the point of view of government indebtedness.

Interest earned by the BCH on the Trust Fund financed by AID loan funds and on the local currency generations which are used for credit for the industrial parks and medium-term agricultural credit funds will be used for debt service on the AID loan funds utilized under the Project. The remainder will provide additional income for FIDE and FEPROEXAH. Both Funds will be lent out at the Central Bank discount rate, which is currently 11%. When they are fully disbursed, $3,740,000 per year will be generated. These funds will be applied as follows:

- Debt service on AID loan and local currency funds will be paid first;

- Any amounts left will go (in order of priority) to support FIDE's overseas staff, and to cover part of the local costs of FIDE's and FEPROEXAH's operations and programs.

A cash flow which shows the income from and application of interest generated through the Project is included in the Financial Analysis (Annex F.2.). The cash flow shows that FIDE and FEPROEXAH income from the interest differential peaks in the first two years after implementation is scheduled to end and then declines. During the first two years of implementation, income from the interest rate differential will be insufficient to cover FIDE's and FEPROEXAH's deficits. Consequently, additional counterpart funds of $1.6 million - $650,000 for FIDE and $950,000 for FEPROEXAH - have been programmed during this period. These arrangements provide reasonable assurance that FIDE and FEPROEXAH will be able to provide the level of services called for in the Project design during and after implementation. Starting with the seventh year after implementation begins, maintenance of service levels will depend on increased support from the private sector. Should the Trust Fund (see Section F.1.) be terminated at any time, arrangements will be made to ensure continued income for FIDE and FEPROEXAH from the initial Trust Fund principal.

H. A.I.D. Project Management ($1.2 Million AID)

The Project will require extensive monitoring by the Mission. Project funds will finance the services of a Banking Adviser for two years, a Private Sector Adviser for five years, and Project Liaison Officers in manufactures and agricultural exports for a period of five years each. In addition, the services of an executive search organization will be needed to identify and contract some of the key advisers. The estimated cost of these services is $1.2 million (AID Grant $900,000 SDA Grant; $300,000 ARDN Grant). The roles of these contractors and their costs are described in the Financial Analysis (Annex F.2.).

I. Financial Plan Summary

The total cost of the Project is estimated at $30.1 million, of which $22 million will be provided by AID and $8.1 million by the Honduran government and private sector. The Borrower/Grantee will be the GOH, and the Ministry of Finance, Ministry of Economy, and the Central Bank of Honduras will all sign the Project Agreement. A summary financial plan for the Project is set forth in Table 3, and a breakdown of AID financing by functional account is in Table 4. A detailed budget is included in the Financial Analysis (Annex F.2.).

IV. Program Factors

The Mission's recently submitted CDSS defines private sector productive activities as one of the five sectors of concentration for the 1986-1990 period. Major emphasis is put on stimulation of employment opportunities as the best way to ensure a rise in living standards for the country's poor, especially for the approximately 250,000 presently unemployed and the 150,000 new labor force entrants expected during the CDSS period. The need to increase employment is also discussed in the Mission's CBI Implementation Plan which was submitted to AID/W in April, 1983, and subsequently approved.

Table 3: Summary Financial Plan

Act. No.	Activity Description and Planned Costs	($000) AID Grant	AID Loan	GOH	Private Sector	Total
1.	Export Policy and Promotion	500	900	900		2,300
	A. Policy	400	150	400		950
	B. Promotion	100	750	500		1,350
2.	Export Development	4,100	5,100	1,600	3,100	13,900
	A. Manufactured Exports	2,000	2,900	650	3,100	8,650
	B. Agricultural Exports	2,100	2,200	950		5,250
3.	Financial Services	200	10,000		2,500	12,700
	A. Dollar Financing		10,000			10,000
	B. Payment Ins. Feas. Study	200				200
	C. Local Curr. Investment				2,500	2,500
4.	AID Project Management	1,200				1,200
	Total	6,000	16,000	2,500	5,600	30,100
		22,000		8,100		

Table 4: Functional Account Breakdown

	SDA Grant	SDA Loan	ARDN Grant	ARDN Loan
Sub-Total	3,600	8,800	2,400	7,200
Total	12,400		9,600	

With an unemployment rate of 20% or more, an underemployment rate of about 30%, a stagnant economy and falling exports, emphasis on generating employment is well placed. Given the limited domestic market, an export-oriented development strategy is vital to achieving an increase in employment, both directly and indirectly. The proposed Project addresses the critical need to generate more employment, and builds on ongoing AID-funded programs. The Mission's large investments in the cucumber project described in the Background section, in infrastructure through the Agricultural Sector II Program and the Rural Roads and Trails Project, in improving Honduras' human resource base through numerous projects, and planned projects such as the Agricultural Research Foundation Project (522-0249), need to be complemented by development of mechanisms to increase exports, in order for their full benefit to Honduras to be realized.

In summary, then, the proposed Project is consistent with the Mission's CDSS, is a logical complement to ongoing and planned efforts, and is a common-sense solution for the enormous economic difficulties in which Honduras finds itself.

V. Project Analysis Summaries

A. Institutional Analysis

The Project design calls for providing assistance to Honduras' present and potential exporters through two new institutions - FIDE and FEPROEXAH - which have recently been organized, two as yet uncreated industrial park management companies, four producers' organizations which are not yet providing any significant services to their members, a fledgling private finance company, and the country's banking system. The institutional analysis carried out for the Project (Annex F.1.) provides a description of the goals, objectives, and purposes of each institution, with the exception of the banking system members. It further describes the services each of them will provide, and analyzes their individual institutional capability. The banking system was not analyzed, as it is clearly capable of playing its role in implementing the Project. This section analyzes the major institutional issues posed by the proposed implementation arrangements, and sums up the conclusion of the Project Development Committee with regard to the capability of the institutions that will have a role in Project implementation.

1. Rationale for Developing New Private Sector Institutions

Ideally, it would be possible to work with one or a few well-managed, well-financed Honduran organizations with years of experience in providing assistance to exporters, and avoid going through a lengthy institutional development task. Unfortunately, at present there are no public or private institutions capable of providing the kind and variety of highly specialized services needed by the exporters who will be assisted under the Project. Previous efforts at working through the government have not proven adequate due to lack of continuity of, and incentives for, personnel, and presently inadequate budgets for export promotion activities. It makes little sense to expect the public sector to do more than provide the services described in the Policy and Promotion Activity. The existing private sector organizations are

largely small trade associations whose main functions appear to be criticizing the government and attending to the immediate needs of their members. Except for the coffee sector institutions, none of them is strong enough financially, nor has a large enough membership base, nor the kind of leadership and export mentality needed, nor the incentive to successfully take on this kind of challenge. Thus, even though it is not an ideal solution, new private sector institutions are the best vehicles through which to reach the Project's objectives.

2. Rationale for Emphasis on Producers' Organizations

The design team considered different approaches through which to link a potentially large number of relatively small producers with the specific services they require. The alternatives were: having FIDE and FEPROEXAH be direct service providers; working with a small number of specific producers' organizations; and working through both in such a way as to maximize their strengths. The design reflects the Mission's conclusion that the final service providers should be producers' organizations. At the same time, it was recognized that a catalyst is needed to form and provide start-up assistance to those organizations where they are non-existent or just getting started for those products with good long-term marketing prospects. Consequently, the third alternative was selected.

The Mission's conclusion that the final service providers should be producers' organizations is based on several factors. First, the example of the coffee sector institutions and the Mission's highly positive experience with the Small Coffee Improvement Project (522-0176) provide strong evidence that this model can work in Honduras. Second, this conclusion was supported by the recommendations of a study carried out by Price Waterhouse during Project development. (A copy is in the LAC/DR bulk files). The conclusions of that study were partially based on Mexico's successful experience with product-specific organizations. Third, it has been Mission experience that both public and private organizations in Honduras with broad mandates usually wind up being ineffective. They become quickly overwhelmed with the enormity of the task before them and fail to concentrate on doing any one thing well. Fourth, the very highly specialized services needed by exporters of specific products argues for a product-specific approach. Fifth, specialized institutions are likely to both attract the individual producers most interested in improving their productive capabilities and retain their support if their needs are met. This self-selection process should save both time and money in the delivery of services. Finally, specialized institutions are more likely to survive in the long run because there is an incentive for the institution to provide the services needed and an impetus for producers to support the institution if it provides a vehicle through which they can improve their living standards.

3. FIDE and FEPROEXAH Capability to Support Producers' Organizations

FIDE and FEPROEXAH will face the tasks of simultaneously developing their own institutional capability, starting up new producers' organizations, and providing some measure of direct services to them and to individual exporters. These tasks will be especially demanding in the first several years of the project. This could pose an insurmountable challenge for FIDE,

FEPROEXAH, or both, or delay Project implementation. There are several reasons why the Mission believes that these tasks are managable. First, even though they are just now formally opening their doors, both institutions have been working for several months on planning their programs and building their staffs. USAID/H has provided local currency funds to both of them to help them get started. Second, they have both had some success in their activities, which has helped to create private sector support. FEPROEXAH was instrumental in getting Griffin and Brand to invest in Honduras. FIDE organized an investors' meeting in connection with the Atlanta Gift Fair which should yield productive results for several Honduran companies. Third, the executive directors of both institutions have been working at USAID/H on this Project design for several months and know the Project inside and out. They have selected very well prepared staff who are also knowledgable about the Project. Finally, the large amount of technical assistance included in the implementation plan should help to overcome the normal start-up problems.

4. Emphasis on Technical Assistance

A large part of the AID-financed inputs are for technical assistance, and a large part of the success expected rests on the effectiveness of the advisers. In effect, the Project proposes a massive technology transfer, by having the accumulated experience of highly experienced trade executives brought to bear on the development of specific export products. These executives will be experienced businessmen from the U.S. private sector. They will be the Project's real leaders, movers and shakers. They will be sought directly from trade sources through the mechanism described in the Project Description and the Implementation Plan. Their services will be complemented by training in specific production technologies provided through Honduran and outside institutions (see Social Analysis).

The Mission believes that these arrangements represent the best way of bringing the needed skills to bear on the development of the specific exports that will be stimulated through the Project. The process will be long and difficult, but there is no substitute we know of for having it led by people who have successfully worked in the trade for a long time.

5. Competition for Scarce Honduran Human Resources

Top-notch Honduran executives are hard to find. It is possible that the number of new institutions that would be created through the Project would wind up competing for scarce executive resources. This may well be a problem. However, the large dose of outside technical assistance built into the Project should minimize the effect of this problem, at least during the earlier years of implementation. During this time, efforts will be made by FIDE and FEPROEXAH, with the advice of the technical advisers, to ensure that the capability of producers' organizations' executives is improved through training and personal contact.

Finding good, professional-level personnel is not expected to be difficult. Honduras now has a reasonably good supply of qualified agronomists, agricultural economists, business adminstrators, engineers etc. Good field personnel are also available, and they will be trained for specific tasks.

Production foremen are in short supply and will have to be developed and trained from among the ranks of the workers and farmers. Provisions have been made for this training in each product-specific activity where this is expected to be a problem.

6. Conclusion

Implementation of the Project through several new private sector institutions has been judged to be the solution that best meets the Project's needs. Export development is necessarily a long-term task, and can be sustained only by an adequate array of institutional services. The capability of each participating institution has been analyzed (Annex F.1.), and plans have been made for developing the institutional capability that each will need in order to carry out its role in the project. The human resources needed by those institutions are now available in Honduras or will be developed during implementation of the Project. Accordingly, the Project is considered to be institutionally sound.

B. Financial Analysis

The financial analysis carried out for the Project (Annex F.2.) includes a detailed budget and an analysis of the cost basis for each Project input. The income and expenses of each of the participating institutions and how their financial viability will be ensured is analyzed. Cash flow analyses were carried out for the Trust Fund and its adequacy in terms of Project needs was analyzed. This section analyzes the financial viability issues that resulted from the analysis, and sums up the Mission's conclusion with regard to the financial viability of the Project.

1. Long Term Viability of FIDE and FEPROEXAH

The services that FIDE and FEPROEXAH provide will not be covered by income from memberships and service charges either during or after Project implementation. A long-term financing source, which has been built into the project design, will make up this shortfall until at least the seventh year following the implementation period. However, this projection is based on the current Central Bank discount rate of 11%. It is possible that this rate will be lowered during or after Project implementation and result in insufficient additional revenue for FIDE and FEPROEXAH. Several options are open to FIDE and FEPROEXAH for dealing with unplanned revenue shortfalls. First, they can redouble their efforts to increase membership, raise membership fees and increase charges for services. This could result in loss of revenue or a lower number of members, or both, if done too early. Second, they can reduce services or start charging for services that they currently plan to provide for free. Third, they can seek direct financial assistance from outside organizations or even the GOH (as a last resort). Although each of the options has drawbacks, all are viable. If, in the end analysis, either FIDE or FEPROEXAH fails, the producers' organizations will be left to provide assistance in the specific exports developed through the Project, but the expected spread effects will not have been realized.

2. Financial Viability of the Producers' Organizations

A 10-year budget has been prepared for each of the producers' associations. In each case, the organization is shown to be financially viable by the end of the Project. The detailed cash flows are contained in the Financial Analysis (Annex F.2.).

3. Financial Viability of the Project's Financial Services

Cash flows were also prepared for the Trust Fund and the IPMCs. Each of them continues to grow after the implementation period, and is sized appropriately in terms of Project needs.

4. Financial Viability of Agricultural Exports

Cash flows have been prepared for the agricultural exports to be stimulated through the Project. They all should make money for the investors. The financial soundness of individual operations will be reviewed by professional bankers and finance company credit officers. These institutions will reject loan applications for projects which are financially unsound.

5. Conclusion

Each activity to be undertaken by the private sector has been reviewed for financial viability. All except two are financially viable. Additional revenue sources have been built into the Project design for those two organizations which will enable them to cover their costs. Accordingly, the Project is considered to be financially viable.

C. Economic Analysis

The economic analysis prepared for the Project (Annex F.3.) analyzed the economic and employment effects of the Project. The analysis shows that:

- non-traditional export earnings will increase by $57 million per year by 1990 as a result of Project activities;

- value added to GDP will increase by $30 million per year by 1990 as a result of Project activities;

- new investment of $34 million will result from implementation of the Project;

- approximately 10,000 full-time annual equivalent jobs will be created through Project activities, and approximately the same number will indirectly result from Project activities;

-the economic internal rate of return for the Project as a whole is 41.7%. Decreasing the benefits by 50% without altering the costs lowers the IRR to 16.7%.

The calculations and an explanation of the methodology used are included in Annex F.3. The Project shows an acceptably high level of economic benefits for the Honduran economy, and is considered economically sound.

D. Technical Analysis

The technical analysis prepared during PP development concluded that:

- Honduras has adequate labor, land resources, climatic and rainfall conditions, internal transportation, and port facilities, for production, assembly, and shipment of the export products that will be developed through the Project;

- the productive technologies that will be introduced are within the capabilities of the entrepreneurs who form the Project's principal target group to learn and effectively utilize in their productive activities;

- certain processing facilities will be needed at some time during implementation to enable producers to realize maximum profits from their investments, and arrangements have been made to ensure that they are developed; and

- arrangements have been made for providing appropriate technical assistance and training to ensure that the Project's productive activities are carried out in a technically sound manner.

There is no construction planned for financing with AID funds. The full technical analysis is included in Annex F.4. Based on the above conclusions, the project is considered technically sound.

E. Social Soundness

1. Target Group Characteristics

a. Manufacturing

Beneficiaries of the manufacturing activities are investors that will have access to the financial system to be set up through the Project and the workers that will be employed in the industries that will operate in the free zones. As indicated by the Economic Analysis, Project activities will generate approximately 5,800 industrial jobs. Most of these will be jobs for equipment operators but some will be jobs for skilled workers in trades such as carpintry, welding and mechanics.

b. Agriculture

The Project intends to support current producers of cocoa and citrus fruits and to motivate farmers to cultivate export vegetables. Available data on either actual or potential producers to benefitby the Project indicate that for the most part they cultivate either small- or medium-size holdings.

Larger holdings dedicated to the cultivation of crops to be supported by the Project are generally in the hands of land reform beneficiaries who work the land collectively.

2. Social Soundness

a. Labor Constraints for Manufacturing Firms

Manufacturers in general, independently of the size of the firm, must confront the fact that in Honduras there is a lack of skilled workers. The capability of already employed skilled and semi-skilled workers needs to be upgraded, and the pool of highly trained workers in specific trades must be increased.

A recent study conducted among 61 industries indicated that the need to train personnel and to upgrade their skills is a priority at all levels of the manufacturing sector. The lack of adequately trained personnel was reported as the most generalized problem confronted by industries visited during that study, and one of the important factors having a negative impact on firm productivity. In addition, as a result of the appearance of large manufacturing firms in Honduras, where the production process tends to be more mechanized, the need for personnel that can install and maintain equipment and machinery has increased. Training institutions are not training enough workers in these areas to satisfy the demand. Firms in general organize their own training programs and in many cases have the capacity to train the semi-skilled personnel that they require. However, skilled workers need not only practical training but also theoretical training. Both surveys and statistical analyses have indicated that larger firms have difficulties in filling their skilled worker and foreman positions in industrial mechanics and welding. Difficulties have also been detected in the areas of carpentry and electricity, although on a minor scale.

The Mission is cognizant of these labor constraints as well as of the difficulties that industries of all sizes confront in attempting to obtain efficient training services from specialized training centers. As part of the strategy to solve these problems, a Skills Training Development Project (522-0257) was recently approved. The purpose of this project is to upgrade worker training programs in Honduras. Through the project, the private sector will assist training centers in defining their curricula, skill certification standards will be introduced, new training materials will be adapted for use in Honduras, and the practice of long training courses will be replaced by that of short training modules. Training activities under this project will be initiated on a pilot basis in two of the trades where the pool of skilled workers needs to be increased or where complementary skills training needs to be implemented: industrial mechanics and carpentry. Expansion of these training activities to other trades is anticipated. This future expansion will be responsive to the training needs of export industries. It is anticipated that export industries that may start operations in Honduras will be able to tap the improved training services developed through Project 522-0257.

b. Skills Deficiencies in the Agricultural Sector

Inefficient agricultural practices have been detected among cocoa and citrus producers. Inefficient agriculture, particularly among smaller producers, is generally a result of the lack of know-how, lack of needed financial resources to buy inputs and equipment, and lack of adequate marketing incentives. Technical, financial and marketing constraints will have to be eliminated if current growers of these two crops are to become efficient producers and, eventually, efficient exporters. Similar constraints would have to be eliminated among farmers that could be motivated through Project activities to cultivate export vegetables.

Experience to date in Honduras in helping producers technify their farms indicates that technical and financial constraints can be overcome if adequate extension and credit programs are organized. The Mission is currently supporting small coffee producers interested in protecting themselves from coffee rust and in technifying their farms. This support is made available through the Small Farmer Coffee Improvement Project (522-0176). A recent evaluation of this project has indicated that the technification of farms is becoming a success story. Accomplishments to date are a result of two factors: the implementation of a farmer education program to replace a system of on-farm supervisory visits, and access to a formal credit system where interest on loans may be up to 5 points lower than that charged through informal credit channels previously used.

The lessons learned from this experience are that an extension program can be successful if it based on in-service training for extensionists, adequate service coverage responsibilities through optimal farmer/extensionist ratios, and extension methodologies that can reach a larger number of producers and that can progressively allow farmers to reduce their reliance on external help. The success of credit programs for similar kinds of farmers will depend on the terms under which loans are authorized, and the commitment on the part of banks to provide enough field staff to allow efficient credit assistance and efficient credit recovery.

It is anticipated that the foreign technical assistance to be provided to FEPROEXAH in the area of agricultural extension will allow this federation to organize an efficient and effective extension program. It is also anticipated that experience accumulated through this program will be transferred eventually to the associations of producers when the latter organize their own extension activities.

Banks that are likely to participate in this Project are also participating in the Small Farmer Coffee Improvement Project. They have already gained experience in working with small producers. It is anticipated that this experience will be transferred to future agricultural credit programs and that in so doing, the factors that have previously determined success will be incorporated into activities sponsored through this Project.

Agricultural activities sponsored under this Project are designed for production, processing and marketing to be elements of a vertically integrated

process which will allow producers to retain a higher share of profits. The fact that cocoa producers will be able to have access to drying facilities will permit them to add value to production, sell a processed product, and thus retain a higher share of the export value of the beans. Coffee producers, especially the smaller ones, do not have access to processing facilities and are obligated to sell their production to either middlemen or exporters who themselves do all the processing. In the case of coffee producers, the share of the export value of production that is retained by the producer is minimal and, as a consequence, the living conditions of this export crop are often similar to those of small farmers producing basic grains for the local market. The construction of either small collective processing facilities or a centralized processing plant for cocoa producers will provide alternatives to present marketing arrangements and will enable the producers to increase their income through the retention of some of the value added by processing/exporting. The same is true for eventual vegetable producers. Through the export commodity system approach adopted by this Project, farmers will benefit from open market opportunities. Previous producers of export vegetables have confronted marketing arrangements with local intermediaries which have been prejudicial to their interests. Through Project activities, however, they will have direct access to international brokers and will be able to sell production to intermediaries that charge less for their services and offer better prices.

Specific training needs anticipated in carrying out the Project will also be addressed through Project-funded training activities. These needs will be met by providing training through the Pan American Agricultural School (EAP) at Zamorano. The EAP is a widely recognized international university level school which trains agronomists. It is clearly capable of meeting the Project's domestic training needs.

c. Management Limitations in Medium and Large Firms in Honduras

A study conducted by the American Management Association in 1984 indicated that medium and large firms are in need of assistance in four basic areas: organization, planning, communication and human resources. These problems are less common in medium and large firms that are now producing export products. However, they are present in those firms where there is a manifest interest in producing for the international market. In these latter firms, the need to improve financial skills has also been detected, in addition to the limitations listed.

These needs will be met through the recently approved Management Skills Development Project (522-0256). Under that project, the American Management Association (AMA) will begin to offer its excellent curriculum of management courses through the Honduran Association of Managers and Entrepreneurs (GEMAH). In addition, it is expected that local entrepreneurs participating in manufacturing activities implemented through this Project will be partners with experienced foreign entrepreneurs. This will serve as a partial guarantee that corrections will take place and that technology transfer in adequate management and production assistance will occur, particularly when

local entrepreneurs are beginners in the production of export commodities. Additional needs in management training will be satisfied through FIDE, which will also function as an intermediary in identifying and establishing needed contacts with management training centers and institutions.

3. Conclusion

There are no major social considerations related to Project implementation. The desire of Hondurans at all strata and in all occupations for better jobs and income-earning opportunities has been demonstrated by the numerous applicants for all available jobs and by the eagerness of Hondurans to take advantage of training opportunities and assistance aimed at improving income. The adaptability of Honduran entrepreneurs to the rigors of exporting and the skills needed by the agricultural entrepreneurs and manufacturing industry workers will be developed through a combination of Project-financed technical assistance and training activities, and access to the services being provided under other AID-financed projects. These arrangements provide assurance that the Project is socially sound.

F. Environmental Impact

A negative determination was approved by the LAC/DR Environmental Officer. In the I.E.E., the Mission agreed that Project funds would not finance logging, procurement or use of pesticides, activities that would threaten endangered species or biologically unique habitats, or large-scale mining operations. This restriction will be included in the Amplified Project Description.

G. Compliance with Policy Determination 71

Policy Determination 71 provides that AID/W review proposed projects involving production, processing, or marketing of citrus for export for possible injury to U.S. producers. The Mission forwarded the data required by PD71 to AID/W via 84 TEGUCIGALPA 09355. That data shows that the volume of production that would result from this Project is so small in comparison to U.S. production that injury to U.S. producers is highly unlikely. Furthermore, any imports from Honduras would be likely to substitute for imports from other foreign producers, such as Brazil. The Mission hereby requests AID/W approval to proceed with the financing of the citrus production and marketing activity of the Project.

VI. Implementation Arrangements

A. Implementation Plan

The Project has been designed so that AID will fund all of the dollar costs needed during implementation, as well as a few local currency expenses. A five-and-one-half-year implementation period is planned. During the first six months, conditions precedent will be met and the key advisers will be contracted as indicated in B. below. The implementation of the planned Project activities is expected to take a full five years.

Project funds will be earmarked and disbursed as follows:

1. Technical Services ($8.8 million). The USAID/H Project management staff will prepare PIO/T's, the USAID/H Contracts Officer will carry out all procurement, and the Mission Controller's Office will make direct payment for all technical services contracts. GOH clearance will be obtained on Loan-funded procurements.

2. GOH Costs ($900,000). AID will issue PIL's earmarking funds for GOH expenditures. Dollar advances will be made for costs to be incurred in dollars. No advances are planned for local currency costs. The GOH will make the necessary expenditures and submit documentation to AID as agreed to in the earmarking PIL.

3. FIDE/FEPROEXAH Costs Other than Advisers ($2.3 million). These are all dollar costs which FIDE and FEPROEXAH expect to incur during implementation. The Project Agreement will authorize AID to approve expenditures on the basis of periodic budget requests from FIDE and FEPROEXAH. Should this prove difficult or impossible to negotiate with the GOH, a trust fund will be set up for disbursements to FIDE and FEPROEXAH. This is clearly less preferable as it will reduce flexibility during implementation, especially if Grant funds are incrementally obligated, as has been planned. Regardless of how expenditures are approved, FIDE and FEPROEXAH will do their own procurement. AID will make payments directly to suppliers or dollar advances directly to FIDE and FEPROEXAH, depending on the nature of the expense and on supplier requirements, to enable them to pay for the goods and services needed. FIDE and FEPROEXAH will provide expenditure documentation directly to AID, and AID will advise the GOH of expenditures made under the Project by means of a document similar to an advice-of-charge memo.

4. Trust Fund ($10 million). Disbursement of AID Loan funds to the Trust Fund will be made through periodic dollar advances to the U.S. Bank holding the Trust Fund resources. The Central Bank will request issuance of these advances based on the estimated drawdowns included in the proposals from the participating lenders. The participating lenders will provide required AID documentation to the Central Bank for subsequent transmission to AID. Eligible imports will include, but not be limited to, raw materials, spare parts, and agricultural inputs. The Ministry of Finance will forward the required AID documentation to the USAID/H Controller, and AID will disburse dollars directly to the Trust Fund.

B. Procurement Plan

The AID role in procurement is to obtain the $8.8 million in technical assistance services called for in the Project design. These services and the plan for obtaining them is as follows:

Act. No.	Services Required	Duration	Start Date	Cost ($000)	Procurement Mode
1.	Export Policy Adviser	2 Years	Immediately	200	PSC - Competitive
2.	Short-Term GOH Advisers	Variable	Year 2	200	To be determined
3.	Export Promotion Adviser	1 Year	Immediately	100	PSC - Competitive
4.	FIDE - U.S. Institution	5 Years	Immediately	2,000	RFP - Competitive
5.	FIDE Area Specialists	Variable	Immediately	750	PSC - Sole Source
6.	New Prod. Devel. Adv.	3 Years	Year 3	300	PSC - Competitive
7.	Short-Term Consultant	Variable	Variable	200	To be determined
8.	Lab. Int. Ind. Adviser	3 Years	Immediately	300	PSC - Competitive
9.	Furn./Wood Prod. Adv.	5 Years	Immediately	500	PSC - Competitive
10.	FEPROEXAH Adviser	5 Years	Immediately	500	PSC - Competitive
11.	Marketing Adviser	3 Years	Immediately	300	PSC - Competitive
12.	New Agric. CS Devel. Adv.	Variable	Year 3	300	To be determined
13.	Cocoa Dev. Specialist	3 Years	Immediately	300	PSC - Competitive
14.	Short-Term Cocoa Adv.	Variable	Variable	250	To be determined
15.	Citrus Dev. Spec.	3 Years	Immediately	300	PSC - Competitive
16	Short-Term Citrus Adv.	Variable	Variable	250	To be determined
17.	Vegetable Dev. Spec.	5 Years	Immediately	500	PSC - Competitive
18.	Short-Term Veg. Spec.	Variable	Variable	250	To be determined
19.	Payment Ins. Feas. Study	6 Months	Immediately	200	RFP - Competitive
20.	Banking Adviser	2 Years	Immediately	200	PSC - Competitive
21.	Private Sector Adviser	5 Years	Immediately	400	PSC - Sole Source
22.	Project Liaison Officer	5 Years	Immediately	250	PSC - Sole Source
23.	Agric. Proj. Liaison Off.	5 Years	Immediately	250	PSC - Sole Source

Of the 23 actions listed above, 16 need to be carried out at the beginning of the Project. The Mission Contracting Officer will contract the individuals needed to assist in USAID/H Project management (actions 20 to 23 inclusive). Their services are needed to prepare full job descriptions and solicitation documents for the remaining contract actions, and candidates for three of these positions have already been selected. The Mission intends to approve sole source waivers for these individuals, as they were contracted by the Mission on a competitive basis to assist in Project development and their services are needed to ensure that the Project is carried out as planned.

For the 10 actions marked Immediate and PSC - Competitive, advertisements will be place in trade journals, or candidates will be sought through the International Executive Service Corps, and/or a commercial U.S. executive search firm willing to work on a fixed-fee basis. The organizations identified in the Project Description will also recommend candidates. Candidates identified through this process will be reviewed and approved by AID, which will contract the candidates selected. The area specialists (Action No. 5) have already been selected on the basis of their excellent past performance in carrying out a very specific task for which unique knowledge and abilities are required. The Mission intends to approve sole source waivers for these individuals. The remaining two immediate actions will be carried out through normal procedures for solicitation of services and will be contracted by the Mission. An ad hoc delegation of authority is hereby requested for the Mission Contracting Officer to carry out the contracting of

the U.S. Institution (Action 2), which is expected to cost $2 million. The advisers needed later in the Project will be contracted by the Mission Contracting Officer as required.

C. Monitoring Plan

The Mission's Private Sector Office is headed by a Project Development Officer, who will be responsible for overall monitoring of the non-agricultural and agribusiness activities of the Project and preparation of quarterly reports for regular Mission Project Implementation reviews and reporting to AID/W for his/her activities. The Project-funded Senior Private Sector Adviser and Project Liaison Officer will be responsible for monitoring day to day implementation of the Project. The Rural Development Office has a USDH employee specifically charged with export-oriented agribusiness development. He/she will be the Project Officer of the agricultural and agribusiness activities, including quarterly report preparation and reporting to AID/W, and will be assisted by the Project-funded Agricultural Projects Liaison Officer for purposes of day-to-day monitoring. This personnel should be sufficient to adequately monitor the Project.

D. Evaluation Plan

Baseline data on agricultural producers will be provided by the producers associations. FIDE will be responsible for developing baseline data on manufacturers participating in the Project. The Mission Social Science Analyst will assist these organizations by designing appropriate formats and collection procedures. The Project will be evaluated near the second year of implementation through a mid-Project evaluation to be carried out by an independent consultant. The evaluation will focus on implementation progress and recommend any design changes needed to ensure needed improvements. A final evaluation will be carried out near the end of the Project to assess the effectiveness of the services provided through the Project, and the degree to which the Project is meeting its output targets, purpose, EOPS, and contribution to achievement of the goal. This evaluation will also be carried out by an independent consultant. Both evaluations will be financed from PD&S funds.

E. Conditions and Covenants

1. Condition Precedent to Initial Disbursement

Prior to any disbursement or to the issuance of commitment documentation pursuant to which disbursement will be made, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, enact the Temporary Import Law which provides incentives for the establishment or expansion of non-traditional export activities.

2. Condition Precedent to Initial Disbursement, except for Technical Cooperation

Prior to the initial disbursement of the assistance, or to the issuance of documentation pursuant to which disbursement will be made, except for Technical Cooperation, the Cooperating Country and A.I.D. shall sign a Trust Fund agreement which governs the use of A.I.D.-financed credit resources for financing of imported goods needed in the production of non-traditional exports, and the Central Bank shall issue regulations governing the use of Trust Fund resources.

3. Condition Precedent to First Disbursement for the Policy and Promotion and Labor-Intensive Industries Activities, except for Technical Cooperation

Prior to the first disbursement of the assistance, or to the issuance of documentation pursuant to which disbursement will be made for the Policy and Promotion and Labor Intensive Industries Activities, except for Technical Cooperation, the Borrower/Grantee shall approve the implementing regulations for the legislation referred to in 1. above and for the Export Incentives Law of 1983.

4. Condition Precedent to Disbursement for Assistance to FIDE and FEPROEXAH

Prior to the first disbursement of the assistance, or to the issuance of documentation pursuant to which disbursement will be made, for FIDE and FEPROEXAH, the Borrower/Grantee shall cause FIDE and FEPROEXAH to submit to A.I.D. policy decisions with regard to the membership fees and services charges which have been approved by the Boards of Directors of FIDE and FEPROEXAH.

5. Special Covenants

The Cooperating Country shall covenant that, unless A.I.D. otherwise agrees in writing, it will carry out a study to examine the legal basis required to provide free zone status for existing and new industrial parks whose primary function is to accommodate assembly industries. The study will examine the feasibility of extending current free zone status to new parks, including the overall effect on the economy. The conclusions of the study will be presented to the appropriate governmental institutions for their consideration.

ANNEXES:

A. PID Approval Message
B. Log Frame Matrix
C. Statutory Checklist
D. Borrower/Grantee Request for Assistance
E. FAA Section 611(e) Certification

F. Project Analyses
   1. Institutional Analysis
   2. Financial Analysis
   3. Economic Analysis
   4. Technical Analysis

G. Project Details
   1. GOH Policies Relating to Export Development
   2. Draft Regulation of Export Incentives Law
   3. Description of a Specific Product Export Company
   4. Hershey Corporation Interest in Cocoa Production in Honduras
   5. Letters of Intent from Banks and Commodity Company
   6. Relationship of the Agricultural Research Foundation to the Export Development and Services Project
   7. Non-Traditional Agricultural Export Development (Approach and Concepts)

UNATTACHED ANNEXES

List of Materials sent to LAC/DR Bulk File

A) An Assessment of Export Services and Financing Needs in Honduras, Price Waterhouse, June 15, 1984.

B) Promoting Investment in Non-Traditional Honduran Export Industries, Manchester Associates, Ltd., July 25, 1984.

C) Promoting New Exports of Manufactures from Honduras, International Parks, Inc., May 24, 1984.

D) The Policy Framework for Export Development in Honduras, Arthur D. Little International, Inc. May 1984.

E) Ley de Fomento a las Exportaciones (Export Promotion Law, Honduras), November 25, 1983.

F) Project Feasibility Analysis for Commodity Systems Approach to Non-Traditional Agricutlural Exports, Postharvest Institute for Perishables, University of Idaho, June 1984 (several reports).

G) Inventario de Asociaciones de Productores Agropecuarios de Honduras/Creación de FEPROEXAH/Evaluación de sus Potencialidades/Formulación de un Modelo para su Desarrollo, Anibal Boccardi, Marzo 1984.

H) Foreign Economic Trends: Honduras, July 1984, U.S. Embassy, Tegucigalpa.

I) 1982 Investment Climate Statement, U.S. Embassy, Tegucigalpa.

J) Agricultural Technology Transfer and the Federation of Agricultural Producers and Exporters of Honduras, USDA Graduate School, July 1984.

K) Worksheets for Economic Analysis.

L) Financial Analysis of the Project to Create Private Industrial Parks with Free Zone Status

ACTION: AID INFO: AMB DCM ECON CHRON/5

VZCZCTG0513
PP RUEHTG
DE RUEHC #4239/01 0450559
ZNR UUUUU ZZH
P 140313Z FEB 84
FM SECSTATE WASHDC
TO AMEMBASSY TEGUCIGALPA PRIORITY 8495
BT
UNCLAS SECTION 01 OF 02 STATE 044239

LOC: 301 387
14 FEB 84 1442
CN: 09167
CHRG: AID
DIST: AID

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: EXPORT DEVELOPMENT AND SERVICES PID (522-0207)

1. THE DAEC REVIEWED THE SUBJECT PID ON JANUARY 16, 1984. THE PID WAS APPROVED AND THE MISSION IS AUTHORIZ TO PROCEED WITH DEVELOPMENT OF THE PP, ALTHOUGH A SHARP FOCUS WILL BE NECESSARY TO PROJECT DESIGN. THE FOLLOWIN COMMENTS AND GUIDANCE ARE PROVIDED TO ASSIST THE MISSION IN PROJECT DEVELOPMENT AND PREPARATION OF THE PROJECT PAPER.

2. POLICY CONSIDERATIONS

-- A. THE KEY POLICY ISSUE THAT WILL INFLUENCE THE OUTCOME OF THE SUBJECT PROJECT CONCERNS ACCESS TO FOREIGN EXCHANGE. IT WAS DECIDED THAT THE BEST FORUM FOR DISCUSSION AND RESOLUTION OF THE ISSUE AND THE MANY QUESTIONS ARISING FROM IT WOULD BE THE UPCOMING GOH-IMF AND GOH-USG ESF NEGOTIATIONS. WAS AGREED THAT IF THESE NEGOTIATIONS DO NOT GO WELL (AND PARTICULARLY IF NEW 1984 IMF STANDBY ARRANGEMENT IS NOT AGRE"D UPON) MISSION WILL NEED TO CONSULT WITH AID/W ON ALTERNATIV FOREIGN EXCHANGE STRATEGIES THAT MIGHT BE EMPLOYED IN CONTEXT OF THE SUBJECT PROJECT.

3. EXPORT/INVESTMENT STRATEGIES

-- A. THE PP SHOULD EXAMINE A VARIETY OF ALTERNATIVES FOR INVESTMENT STRATEGIES, PARTICULARLY THOSE THAT TO UPON PRODUCTION SHARING AND INVESTMENT PROMOTION. AL THESE LINES, THE PP SHOULD ADDRESS (1) PROMOTIONAL ACTIVITIES WHICH WOULD MAKE FULL USE OF EXISTING PLANT CAPACITY WITHIN THE FREE ZONE, PARTICULARLY IN VIEW OF THE IMPORTANT EMPLOYMENT IMPACT OF PRODUCTION SHARING AND (2) THE POSSIBILITY FOR MORE AGGRESSIVE EXPANSION THE EXISTING FREE TRADE ZONE, OR THE DEVELOPMENT OF ON OR MORE NEW ONES.

4. ORGANIZATIONAL/FINANCIAL CONSIDERATIONS

-- A. INVESTMENT CORPORATION (IC)/FINSA: IT WAS DECIDED THAT THE CONCEPT OF THE IC AND ITS RELATIONSHI

ACTION PCR
No.
INFO

TO FINSA SHOULD BE THE SUBJECT OF A SEPARATE PAPER TO SUBMITTED FORAID/W REVIEW ONC" THE PP FOR THE SMALL BUSINESS DEVELOPMENT PROJECT (522-0225) UHICH WILL ESTABLISH FINSA, HAS BEE; COMPLETED, AND PRIOR TO THE SUBMISSION OF THE PP FOR THIS PROJECT. THE CONCEPTS PAPER SHOULD ADDRESS THE OLLOWING POINTS:

1) EXISTING FINANCIAL CONDITIONS IN HONDURAS. TH PAPER SHOULD GIVE A CLEAR PICTURE OF THE CREDIT SUPPLY AND DEMAND SITUATION AND EVALUATE THE INVESTMENT POTENTIAL/CLIMATE IN THE COUNTRY.

2) THE LOCATION OF THE IC. THE PAPER SHOULD GIVE REALISTIC RATIONALE FOR LEAVING THE IC AS A SEPARATE ENTITY SHOULD IT BE DECIDED NOT TO MERGE IT WITH FINSA SHOULD IT BE DECIDED BY THE MISSION THAT MERGER WITH FINSA IS THE WAY TO GO, THE PAPER SHOULD DISCUSS HOW A VENTURE CAPITAL ENTITY SUC; AS THE IC FITS IN WITH A SMALL BUSINESS LENDER SUCH AS FINSA, WHAT PROBLEMS MIG ARISE FROM A MERGER OF THIS KIND, AND HOW THEY MIGHT ADDRESSED.

3) EXPANDED FINSA FUNCTIONS. THE PAPER ALSO SHOUL EXAMINE THE FEASIBILITY OF EXPANDING FINSA'S FUNCTIONS

INCLUDE THAT OF EXPORT PROMOTION. QUESTIONS TO BE CONSIDERED HERE WOULD INCLUDE WHETHER FINSA CAN TAKE O THESE ADDITIONAL RESPONSIBILITIES EFFICIENTLY, WHAT PROBLEMS MIGHT ARISE IN DOING SO, AND HOW THEY MIGHT B SOLVED.

IT WAS TENTATIVELY AGREED THAT THE PAPER COULD BE COMPLETED AND SENT TO AID/W BY LATE FEBRUARY.

-- B. FIDE

IT WAS DECIDED THAT THE PP SHOULD ADDRESS THE NEED FOR FIDE TO BECOME SELF-SUFFICIENT OR EVEN A PROFIT-MAKING ENTITY. WITHIN THIS CONTEXT, THE MISSION SHOULD EXAMI VARIOUS FINANCING MECHANISMS INCLUDING A COMBINATION O INTEREST RATE SPREADS TO SUPPORT FIDE'S OPERATING EXPENSES, THE USE OF LOCAL CURRENCIES TO UNDERWRITE A PORTION OF THE OVERHEAD, AND CONTRIBUTIONS FROM MEMBER TO PAY FOR SERVICES PROVIDED BY FIDE.

LASTLY, THE MISSION SHOULD CONSIDER STRUCTURING FIDE I SUCH A WAY AS TO ALLOW THE CREATION OF A TRADING COMPAN AS A SEPARATE ENTITYAT SOMETIME IN THE FUTURE.

-- C. ARTISAN PRODUCT MARKETING PROJECT

THE PP SHOULD ADDRESS, AS WITH FIDE, THE NEED FOR THE

ARTISAN PRODUCT MARKETING PROJECT TO BECOME SELF-SUFFICIENT OR EVEN A PROFIT-MAKING ENTITY.

-- D. BANADESA

IN VIEW OF ITS PAST PERFORMANCE RECORD, THE MISSION HA AGREED TO LOOK FOR AN ALTERNATIVE AGRICULTURAL LENDING FACILITY. IF AN ALTERNATIVE IS NOT AVAILABLE, A SOLID INSTITUTIONAL ANALYSIS SHOULD BE PRESENTED IN THE PP WHICH IDENTIFIES WEAKNESSES IN THE BANK WHICH WOULD EFFECT THE SUBJECT PROJECT AND SETS OUT PROPOSED REMED ACTIONS.

5. SCOPE OF THE PROJECT

-- A. IT WAS DECIDED THAT THE PP DESIGN SHOULD GIVE MUCH ATTENTION AS POSSIBLE TO SHARPENING THE FOCUS OF PROJECT ELEMENTS SO AS TO MINIMIZE IMPLEMENTATION ACTIVITES (AND RESULTANT CHANCES OF PROBLEMS). THE KE

ELEMENT IS TO SELECT A FEW, GOOD, EXPORT POSSIBILITI ON WHICH THE PROJECT CAN CONCENTRATE ITS ENERGIES. TH SHOULD LAY OUT A CLEAR SET OF CRITERIA FOR CHOOSING A FUNDING EXPORT PROJECTS. THE PP SHOULD INCLUDE A FEW EXAMPLES OF PROJECTS WHICH FOLLOW THAT CRITERIA AND W THE PROJECT MAY EVENTUALLY FUND.

CONTRACTOR CHOICE

-- A. IT WAS DECIDED THAT A BUSINESS ENTERPRISE WHI HAS HANDS ON EXPERIENCE IN MANUFACTURING/EXPORTING FR THE CENTRAL AMERICAN REGION, WOULD BE A MORE APPROPRI CHOICE TOIMPLEMENT THE PROJECT THAN A GENERAL CONSULT FIRM. THE PP SHOULD SPECIFY THE SCOPE OF WORK FOR TH LARGE CONTRACT AS WELL AS THE CRITERIA TO BE USED TO EVALUATE RESPONSES TO AN RFP.

-- B. THE PP DESIGN SHOULD ALSO CONSIDER WHERE AND A WHAT STAGE IN THE PROJECT IT WOULD BE APPROPRIATE TO D ON THE SKILLS OF THE DEPARTMENT OF COMMERCE'S EXPORT TRADING COMPANY AND /OR THEIR FOREIGN COMMERCIAL SERV OFFICES.

7. OTHER

-- A. IT WAS DECIDED THAT OWING TO THE EDUCATIONAL VALUE OF THIS PROJECT TO THE LAC BUREAU, THE PP IS TO PRESENTED IN WASHINGTON, D. C.

-- B. AS A RESULT OF DISCUSSIONS PRIOR TO THE DAEC MEETING, BETWEEN LAC/DR ECONOMIST AND MISSION REPRESENTATIVE ERIC ZALLMAN, IT WAS AGREED THAT LAC/DR WILL PREPARE A SEPTEL FOR THE MISSION DETAILING THE AGREEMENTS REACHED VERBALLY ON THE ECONOMIC ANALYSIS TO BE CONDUCTED FOR THE PP.

-- C. MISSION REPRESENTATIVES HAVE AGREED TO AMEND TH IEE IN SUCH A WAY AS TO MAKE PROJECT FINANCED

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SUB-PROJECTS INVOLVING ACTIVITIES THAT ARE POTENTIALLY DAMAGING TO THE ENVIRONMENT CONTINGENT UPON COMPLETION ENVIRONMENTAL ASSESSMENT TO BE REVIEWED AND APPROVED B AID/W. SUCH PROJECTS WOULD INCLUDE: LOGGING, PROCUREMENT AND USE OF PESTICIDES, ACTIVITIES THAT WOU THREATEN ENDANGERED SPECIES OR BIOLOGICALLY UNIQUE HABITATS, AND MINING OPERATIONS. SHULTZ

-60

Logical Framework - Export Development and Services

Narrative	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
Goal: Promote economic growth and employment	$30 million increase in GDP 10,000 jobs created through project by 1990	Central Bank statistics CONSUPLANE estimates Mission calculations	Improved political climate in the region
Purpose: Increase nontraditional exports	Policy environment favors exports Export instit. capability estab. $53 million in value added from Project-aided exports by 1990 Adequate financial services available to exporters	Implementing agency records Evaluation which obtains data needed from beneficiaries	New Tariff System does not eliminate incentives for exports developed through project
Outputs:			
1. Exports from labor int. indus. and furn. wood products	$43 million in sales in 1990	Implementing Agency records	Commodity prices do not decrease below production costs on a sustained basis
2. Agricultural Exports	$16 million in sales in 1990	Project files	
3. Trust Fund for exports	$73 in dollar resources	Project evaluations	
4. Investment Capital Fund	$5.1 million in equity investments		

Inputs ($ millions)/Source:	AID Grant	AID Loan	GOH	Private Sector		
1. Export Policy and Promotion	0.5	0.9	0.9		USAID Controllers Office records	Private Sector contributes as expected to its associations
2. Export Development	4.2	5.1	1.6	3.1		
3. Financial Services	0.2	10.0		2.5	FIDE, FEPROEXAH	
4. AID Project Management	1.1	0.	0.	0.		
Total	6.0	16.0	2.5	5.6		

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1984 Continuing Resolution. Has it been determined or certified to the Congress by the President that the government has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country, to Unites States government personnel or their dependents or from entering the United States unlawfully?

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

5C(1) - COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1984 Continuing Resolution.

No such determination has been made.

2. FAA Sec. 620(c).

The GOH is not liable as a debtor under these conditions.

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

3. FAA Sec. 620(e)(1).

There is no evidence of such an action.

4. FAA Sec. 532(c), 520(a) 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provide to Afghanistan or Mozambique without a waiver?

4. FAA Sec. 532(c), 520(a) 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513.

Honduras is not a Communist country nor will any assistance be provided to any of the listed countries.

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.

5. ISDCA of 1981 Secs. 724, 727 and 730.

N/A

6. FAA Sec. 620 (j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

6. FAA Sec. 620 (j).

In the past there have been incidents where the GOH has been unsuccessful in constraining demonstrations against the U.S. Embassy; but this has not been the case for over fourteen years.

7. FAA Sec. 620(1). Has the country failed to enter into an agreement with OPIC?

7. FAA Sec. 620(1).
The OPIC Investment Guaranty Program is in effect in Honduras.

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?

(b) If so, has any deduction required by the Fishermen's Protective Act been made?

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5.

(a) No

(b) N/A

9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any A.I.D. loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?

9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517.

(a) No

(b) No

10. FAA Sec 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

10. FAA Sec 620(s).

Yes, taken into account by the Administration at the time of approval of the Agency OYB.

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

11. FAA Sec. 620(t).

No

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

12. FAA Sec. 620(u).

Honduras is not in arrears to the extent described in Article 19 of the U.N. Charter. This was taken into consideration by the Administration in determining the current AID OYB.

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520.

No

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

14. FAA Sec. 666.

No

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing, equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

15. FAA Sec. 669, 670.

No

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

16. ISDCA of 1981 Sec. 720.

This has been taken into consideration by the Administration at the time of approval of the Agency OYB.

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti.

17. ISDCA of 1981 Sec. 721.

This assistance is not to Haiti.

18. FY 1984 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

18. FY 1984 Continuing Resolution.

No such determination has been made.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvement in its human rights record that furnishing such assistance is in the national interest?

b. ISDCA of 1981, Ec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116

No such determination has been made.

2. Economic Support Fund Country Criteria

a. FAA Sec 502B.

N/A

b. ISDCA of 1981, EC. 725(b).

N/A

c. ISDCA of 1981, Sec. 726(b).

N/A

significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes Criteria applicable to all projects. Part B applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? Yes

HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Yes

A. GENERAL CRITERIA FOR PROJECT

CR Sec. 133. Notwithstanding any other provision of this joint resolution, none of the funds appropriate under section 101 (b) of this joint resolution may be available for any country during any 3-month period beginning on or after October 1, 1982, immediately following the certification of the President to the Congress that such country is not taking adequate steps to cooperate with the United States to prevent narcotic drugs and other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971 (21 U.S.C. 812)) which are produced, processed, or transported in such country from entering the Unites States unlawfully."

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriate Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million oer that amount)?

1. FY 1982 Appropriate Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Both houses of Congress were notified of the project and projected level of spending through Congressional notifications issued in June 1984.

(b) Yes

2. FAA Sec. 611 (a) (1). Prior to obligation in excess of $100,00, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimated of the cost to the U.S. of the assistance?

2. FAA Sec. 611 (a) (1).

(a) Yes

(b) Yes

3. FAA Sec. 611 (a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

3. FAA Sec. 611 (a) (2).

The Honduran Congress will authorize the Ministry of Finance to sign the loan and will ratify it afterwards. This will be completed in a timely manner since both authorization and ratification tend to be proforma rather than substantive.

4. FAA Sec. 611 (b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See A.I.D. Handbook 3 for new guidelines.)

4. FAA Sec. 611 (b); FY 1982 Appropriation Act Sec. 501.

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

5. FAA Sec. 611(e).

611(e) certification is attached.

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

6. FAA Sec. 209.

No

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

7. FAA Sec. 601(a).
The purpose of this Project seeks to directly increase exports, while providing resources for the purchases of necessary imports. It is specifically aimed at augmenting private sector initiative through the formation and utilization of cooperatives and producers associations. It supports the private sectors ability to find markets through the institutionalization of FIDE and FEPRO-EXAH. This Project improves technical efficiency in industry, agriculture and commerce to small, medium, and larger producers in Honduras.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise.)

8. FAA Sec. 601(b).
The U.S. private sector has a strong role in the Honduran industrial agricultural sectors. This project seeks to stimulate their participation and investment through strengthening communication channels and through policy channels, business tours, and joint projects with the Honduran private sector. A major portion of technical assistance will be procured from U.S. sources.

9. FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

9. FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507.

Honduras has agreed to provide counterpart financing of local costs to the extent possible.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

10. FAA Sec. 612(d).

No

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

11. FAA Sec. 601(e).

Yes

12. FY 1982 Appropriation Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

12. FY 1982 Appropriation Act Sec. 521.

It is anticipated that the commodities will not be in surplus on world markets. The commodities produced will not cause substantial injury to U.S. producers.

13. Faa 118(c) and (d). Does the project comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests?

13. FAA 118(c) and (d).

A.I.D. Environmental Regulations have been followed. The Project received a Negative Determination for The Threshold decision.

IV

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditures of project funds (dollars or local currency generated therefrom)?

14. FAA 121(d).

N/A

B. FUNDING CRITERIA FOR PROJECT

Development Assistance Project Criteria.

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria.

a. FAA Sec. 102(b), 111, 113, 281(a).

The Project's main focus is on small and medium producers in the rural areas. The Project will greatly increase small farmer production and rural employment opportunities. The intermediaries for this project will be cooperatives and producer associations. The greatest self-help for this country will be the stimulation of the private sector. The activities will increase women's participation in the national economy.

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

b. FAA Sec. 103, 103A, 104, 105, 106.

Yes, 103, 103A, 106

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

c. FAA Sec. 107.

Yes

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

d. FAA Sec. 110(a).

Yes. At least 25% of the project costs.

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by A.I.D. dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character."

e. FAA Sec. 110(b).

No

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

f. FAA Sec. 122(b).

Yes. The Project will increase the productive capacities in the manufacturing and agricultural sectors.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

g. FAA Sec. 281(b).

The Honduran manufacturing and agricultural sectors have expressed their desires to increase production, exports, and thereby increase their incomes. The Project utilizes the country's intellectual and human resources to encourage private sector development.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

c. ISDCA of 1981, Sec. 724(c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b).

The Mission has determined that the loan is within the capacity of the GOH to repay.

b. FAA Sec. 620(d).

The Honduran productive enterprises will be competing with other foreign importers, and not with U.S. enterprises.

c. ISDCA of 1981, Sec. 724(c) and (d).

N/A

extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)?

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a).

N/A

b. FAA Sec. 531(c).

N/A

c. FAA Sec. 534.

N/A

d. FAA Sec. 609.

N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

A. PROCUREMENT

1. FAA Sec. 602.

Yes, normal A.I.D. procedures will be followed.

2. FAA Sec. 604(a).

Yes

3. FAA Sec. 604(d).

Honduras does not practice such discrimination.

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a).

No offshore procurement of agricultural commodities or products are contemplated.

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or more of these areas?

5. FAA Sec. 604(g).

No major construction or engineering activities are contemplated.

6. FAA Sec. 603. Is the shipping excluded from compliance with requirements in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates?

6. FAA Sec. 603.

Shipping is not excluded from these requirements.

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

7. FAA Sec. 621.

(a) Yes

(b) The Project will not utilize the facilities of other Federal Agencies.

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

8. International Air Transport. Fair Competitive Practices Act, 1974.

Yes

9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

9. FY 1982 Appropriation Act Sec. 504.

Yes

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)?

B. Construction

1. FAA Sec. 601(d).

N/A

2. FAA Sec. 611(c).

N/A

3. FAA Sec. 620(k).

N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

C. Other Restrictions

1. FAA Sec. 122(b).

Yes

2. FAA Sec. 301(d).

N/A

3. FAA Sec. 620(h). Do arrangements exists to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

3. FAA Sec. 620(h).

Yes

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilization as a means of family planning; (4) to lobby for abortion?

4.

a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525:

Arrangements preclude use of funds for this purpose.

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

b. FAA Sec. 620(g).

Arrangements preclude use of funds for this purpose.

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

c. FAA Sec. 660.

Arrangements preclude use of funds for this purpose.

d. FAA Sec. 662. For CIA activities?

d. FAA Sec. 662.

Arrangements preclude use of funds for this purpose.

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside the U.S., unless a waiver is obtained?

e. FAA Sec. 636(i).

Arrangements preclude use of funds for this purpose.

f. FY 1982 Appropriation Act. Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?

f. FY 1982 Appropriation Act. Sec. 503.

Arrangements preclude use of funds for this purpose.

g. FY 1982 Appropriation Act, Sec. 505. To pay U.N. assessments arrearage or dues?

g. FY 1982 Appropriation Act, Sec. 505.

Arrangements preclude use of funds for this purpose.

h. FY 1982 Appropriation Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?

h. FY 1982 Appropriation Act, Sec. 506.

Arrangement preclude use of funds for this purpose.

i. FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?

i. FY 1982 Appropriation Act, Sec. 510.

Arrangements preclude use of funds for this purpose.

j. FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

j. FY 1982 Appropriation Act, Sec. 511.

Arrangements preclude use of funds for this purpose.

k. FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

k. FY 1982 Appropriation Act, Sec. 515.

Arrangements preclude use of funds for this purpose.

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CERTIFICATION PURSUANT TO 611(e) OF THE

FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Anthony J. Cauterucci, the principal officer of the Agency for International Development in Honduras, having taken into account, among other factors, the maintenance and utilization of projects in Honduras previously financed or assisted by the United States, do hereby certify that, in my judgement, Honduras has both the financial capability and human resources capability to effectively maintain and utilize the Project: EXPORT DEVELOPMENT AND SERVICES.

Anthony J. Cauterucci
Mission Director, USAID/Honduras

Date: August 6, 1984

DRAFT
PROJECT AUTHORIZATION

Name of Country: Honduras

Name of Project: Export Development and Services

Number of Project: 522-0207

Number of Loan: 522-

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Export Development and Services project for Honduras (the "Cooperating Country"), involving planned obligations of not to exceed Sixteen Million United States Dollars ($16,000,000) in loan funds ("Loan") and Six Million United States Dollars ($6,000,000) in grant funds ("Grant") over a five-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 five years from the date of initial obligation.

2. The project ("Project") will increase non-traditional exports from Honduras by developing simultaneously a policy environment that favors exports; the institutional capacity of the private sector to provide needed services to exporters; production and marketing of specific export products; and financial services needed by exporters.

3. The Project Agreement 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, covenants, and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Interest Rate and Terms of Repayment (Loan)

The Government of Honduras (GOH) shall repay the Loan to A.I.D. in U.S. Dollars within forty (40) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

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b. Source and Origin of Commodities, Nationality of Services (Loan)

Commodities financed by A.I.D. under the Loan shall have their source and origin in countries which are members of the Central American Common Market or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries which are members of the Central American Common Market or countries included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall be financed only on flag vessels of countries which are members of the Central American Common Market or countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

c. Source and Origin of Commodities, Nationality of Services (Grant)

Commodities financed by A.I.D. under the Grant shall have their source and origin in countries which are members of the Central American Common Market or in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries which are members of the Central American Common Market or the United States 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 be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

d. Condition Precedent to Disbursement

Prior to any disbursement or to the issuance of commitment documentation pursuant to which disbursement will be made, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, enact the Temporary Import Law which provides incentives for the establishment or expansion of non-traditional export activities.

e. Condition Precedent to Disbursement, except for Technical Assistance

Prior to any disbursement of the assistance, or to the issuance of documentation pursuant to which disbursement will be made, except for Technical Assistance, the Cooperating Country and A.I.D. shall sign a Trust Fund agreement which governs the use of A.I.D.-financed credit resources for financing of imported goods needed in the production of non-traditional exports, and the Central Bank shall issue regulations governing the use of Trust Fund resources.

f. Condition Precedent to Disbursement for the Policy and Promotion and Labor-Intensive Industries Activities, except for Technical Assistance

Prior to the first disbursement of the assistance, or to the issuance of documentation pursuant to which disbursement will be made for the Policy and Promotion and Labor-Intensive Industries Activities, except for

Technical Assistance, the GOH shall approve the implementing regulations for the legislation referred to in d. above and for the Export Incentives Law of 1983.

g. Condition Precedent to Disbursement for Assistance to FIDE and FEPROEXAH

Prior to the first disbursement of the assistance, or to the issuance of documentation pursuant to which disbursement will be made, for FIDE and FEPROEXAH, the GOH shall cause FIDE and FEPROEXAH to submit to A.I.D. policy decisions with regard to the membership fees and services charges which have been approved by the Boards of Directors of FIDE and FEPROEXAH.

h. Special Covenant

The GOH shall covenant that, unless A.I.D. otherwise agrees in writing, it will carry out a study to examine the legal basis required to provide free zone status for existing and new industrial parks whose primary function is to accommodate assembly industries. The study will examine the feasibility of extending current free zone status to new parks, including the overall effect on the economy. The conclusions of the study will be presented to the appropriate governmental institutions for their consideration.

Detailed Institutional Analysis

This Annex describes the goals, objectives, organization, and services provided by each of the participating institutions, and analyzes the institutional capability of each of them.

I. Entrepreneurial Research and Development Foundation (FIDE)

A. FIDE's Objectives

FIDE is a private sector institution whose founding members are the following organizations: National Industrialist Association (ANDI), National Association of Honduran Exporters (ANEXHON), Honduran-American Chamber of Commerce (HamCham), and Association of Managers and Entrepreneurs of Honduras (GEMAH). FIDE was conceived to serve as the technical support arm of the founding members. FIDE's objectives include:

--to contribute to the creation and strengthening of a policy and economic environment conducive to the expansion and diversification of the country's productive base;

--to offer direct technical services to business firms geared to improving their productive efficiency, increasing their volumes of production, and raising the competitive levels of their products; and

--to assist the firms in the marketing of their products, particularly in the international markets.

Prior to the establishment of FIDE, Honduras did not have a single institution in the public or private sector that was capable of performing the functions that FIDE has set out to do. In June 1984, A.I.D. provided initial bridge financing to FIDE in the amount of L950,000 to cover start-up costs of installation, organization, and operations during its first year. FIDE has been working to develop solid institutional and operating foundations on which to base the expansion and coverage of its services on behalf of Honduran business firms, and to pursue and contribute to national development goals in subsequent years. FIDE is expected to be one of the key implementing organizations for the Export Development and Services Project.

FIDE's strategy in its first year of operations, with bridge financing from A.I.D., has been to select a relatively small group of enterprises in woodworking, agroindustry, and assembly, whose products are market ready but who lack the marketing know-how to sell successfully, or whose products are capable of being adapted to meet market specifications relatively easily. At the outset, FIDE is concentrating its efforts on a

small group of enterprises, offering them market information, technical assistance, and guidance to take advantage of the business opportunities identified for them. FIDE is working with selected entepreneurs as part of its pilot effort to gain experience in selecting potential exporters and providing them with the necessary assistance to get their products into the export market. During this initial phase, FIDE is determining in more detail what specific services are needed and how to provide them. Once FIDE has established its track record, it will expand the universe of exporting firms by identifying export and investment opportunities and giving wide distribution to that information among the local and foreign business community, through its information network, seminars, and publications program.

B. FIDE's Activities

In order to achieve its objectives, FIDE will undertake several activities within the following four major areas of work: First, in the area of research and studies, FIDE will identify and assess the economic, technical and legal factors that hinder the development of private sector productive units and will propose the changes and/or measures to overcome them. Second, in the area of information and publications, FIDE will collect, produce, and distribute information about export and investment opportunities to individuals, firms, investors, and private and public sector organizations, both locally and abroad. A third area of work for FIDE will be in the provision of technical assistance in production, finance, and management to business firms and private sector organizations in order to improve or increase production, productivity and profitability. The fourth and last area in which FIDE will concentrate its efforts will be in the area of communications, business facilitation and promotion; it will establish a network of links between local and foreign individuals, business firms and private sector organizations, and with government agencies, in order to encourage exports and investments. FIDE's activities in these four areas will be directed mainly to industrial, agroindustrial, and service-providing firms that are capable or have the potential to export on a competitive basis.

These activities are described in more detail below.

1. Research and Studies

Objective: Identify and assess the economic, technical, and legal factors that hinder the development of private sector productive units and to propose the changes and/or measures to overcome them.

a. Position Papers

FIDE staff will undertake the preparation of position papers of immediate and practical use for the business firms and private sector associations of Honduras. The position papers will cover subjects such as: legal and

bureaucratic impediments to exports; ways to improve the effective use of the drawback system; use of tariff structures as an economic policy instrument; effective use of fiscal and financial production incentives; restrictions to imports. Final selection of the specific subjects will be made by FIDE's Board and Executive Secretary in view of most pressing needs of the Honduran private sector. These position papers will define the current situation in Honduras, identify factors which hinder the development of the private sector productive units, and recommend specific measures, actions and strategies to tackle those problems. The recommendations will be submitted by FIDE to its founding member organizations. They, in turn, will lobby and negotiate with the Government of Honduras for implementation of the recommendations. It is anticipated that such action will help create an economic and business policy environment conducive to increasing exports and productive investments.

b. Opportunity Studies

The second major activity in this category will be to conduct opportunity studies for business investment and exports. At present, FIDE staff are drawing upon the private sector survey work that was conducted during the development phase of A.I.D.'s Export Development and Services Project. These studies identified specific product development opportunities in product areas such as wood manufactures, ladies apparel, agroindustry, and mineral products. FIDE will elaborate on the findings of these studies and prepare materials for publication and distribution among potential investors and buyers of Honduran products identified in these studies.

c. Out-of-Country Study

A third vehicle for research and study is the examination of other countries that have stimulated economic growth through increased exports and investments. Possible countries of study are Korea, Taiwan, and Singapore in Asia; Colombia, Costa Rica, and Jamaica in Latin America and the Caribbean; and Ireland, which has a successful institutional operation similar to FIDE. This activity is viewed as an important mechanism for staff training.

2. Information and Publications

Objective: Collect, produce, and distribute information about export and investment opportunities to individuals, firms, investors, private and public sector organizations.

a. Computerized Information System

FIDE will establish a data bank offering information of a general and specific nature on the economic, social and legal conditions in the country, including production and trade figures, labor statistics, GOH laws and regulations, etc., as well as information on the major current economic, investment and

trade trends in the international market. The bank will also maintain an updated list of investment opportunity projects, potential investors, export products and commercial demands from the international market. This is considered a high priority activity, giving FIDE an opportunity to provide quick and immediate services to the private sector.

With A.I.D. bridge financing, FIDE will have procured and installed a computer terminal and will have gained access to information networks, such as the C/CAA network, OPIC, CARINET, the Agribusiness Council, and/or the U.S. Chambers of Commerce. FIDE will charge a users' fee to members and outsiders alike.

b. Reference Library

FIDE will establish a library of reference materials to complement the data bank. The reference library will include items such as the Thomas Register and Dunn and Bradstreet; general business periodicals; specialized publications in the field of technology transfer, transportation, packaging, and quality control; and select books on the subject of trade and investment.

c. FIDE Newsletter

During its first year, FIDE will publish and distribute a monthly newsletter to its membership and other subscribers for a nominal fee. It will cover information on major international and local events in exporting and investment; reproduce information of practical use gathered through its data bank; and report on the activities and services performed by FIDE.

To assist its membership campaign, the first newsletters will be of a more general nature, promoting the objectives and activities of FIDE. Bridge financing will cover the costs of design, printing, and distribution.

d. Promotional Packets

The last major activity under this category is the design and production of information packets promoting investments in Honduras. They will contain general economic and social information regarding Honduras with different inserts describing particular product groups and/or investment projects. These packets will be used to attract foreign investors, and primary distribution points will be trade fairs, conferences, and business trips.

Product group inserts will be prepared and printed as the different opportunity studies (described under the research and studies category) are completed.

3. Business Assistance

Objective: Provide technical assistance on production, finance, and management to business firms and private sector organizations in order to improve and/or increase productivity and profitability.

a. Business Assessments

At the core of the business assistance program is the in-depth analysis of individual firms, assessing the major constraints they face in improving production and successfully exporting. These assessments will build on the initial surveys of the private sector done by AID in preparation of the Export Development and Services Project. The information gathered on each firm will become basic data for overall design of a technical assistance program for local entrepreneurs. FIDE's technical staff will perform some of these analyses, but in other cases they will contract short-term consultants to augment their efforts.

b. Technical Assistance

Based on those assessments, FIDE staff will design technical assistance packages tailored to the needs of individual firms. FIDE also will maintain a list of potential technical assistance sources primarily in the areas of production, finance, and marketing, which firms can tap. It is expected that firms will eventually cover the full cost of this technical assistance; however, a small amount of funds has been earmarked to help defray the initial costs of technical assistance primarily to small businesses. FIDE will develop a technical assistance contracting system that will be offered to firms in need of special technical services from foreign consulting firms. This will be an additional source of revenue for FIDE as the contracting service will be offered on a fee basis.

c. Seminar Series

Another direct service to businesses and entrepreneurs will be the provision of seminars related to the substantive concerns of the private sector and FIDE's objectives.

Two different types of seminars will be offered. The first type will be a series of one and two-day sessions about the Caribbean Basin Initiative (CBI). The purpose will be to raise the level of awareness in the Honduran private sector about the potential benefits of the CBI. Initially, FIDE will cover general CBI legislation and regulations, incentives and policy conditions. Subsequently, it will organize the seminars by product line group (e.g. textiles, wood, etc.) so that more specialized information on marketing requirements can be discussed. A secondary benefit of this series will be to facilitate networking, discussion and the assessment of needs among entrepreneurs of common endeavors.

The second type of seminars to be sponsored by FIDE are longer-term and skills oriented. FIDE will co-sponsor one 12-day seminar in export management. Plans for this activity are already being made by INCAE.

4. Business Promotion

Objective: Establish a network of links and contacts between local and foreign individuals, business firms and private sector organizations, with the purpose of encouraging exports and investments.

a. Business Information Networks

The computerized Information System described earlier will be central to establishing networks between Honduran and foreign entrepreneurs and firms. The wealth of information to be derived through this system will be offered to interested members or other potential users on an individual fee basis. Individuals will use the FIDE facility for the purpose of obtaining or responding quickly to market opportunities, or to establish contacts with potential investors seeking opportunities in Honduras. Information gathered through this system which is of general interest to the business community will be used and sold in FIDE's publications.

b. Trade Fairs and Conferences

FIDE will implement a concrete strategy for promoting Honduran enterprises at trade fairs and conferences abroad. In addition to the promotional packets, described under the information and publications category, FIDE will also act as a liaison for different groups of the private sector to see how to best represent them to their counterpart groups in the cities/regions hosting the conferences. Examples of what might be contained in such a strategy would be a list of Honduran banking needs, invitations to U.S. bankers to visit Honduras, and steps toward production agreements along product lines between industries in the U.S. and Honduras.

c. Other Promotional Activities

From time to time, FIDE sponsors the visits of an exceptional resource persons to Honduras. An example is Mr. Steve Sugarman, a U.S. businessman, who occasionally offers his assistance in export development on a travel and per diem basis. Plans are being made to bring Mr. Sugarman to Honduras for a two-day brainstorming session with representatives of the public and private sectors. Opportunities like this are frequently picked up by FIDE.

C. FIDE Institutional Capability

FIDE is a new organization and its capability to play the role described here will be developed during Project implementation. FIDE has strong executive

leadership, a lean organizational structure, and carefully selected personnel. It will receive a strong dose of outside assistance that will help it to develop its capability. The financing provided through the Project should enable it to effectively carrying out its role. Its effectiveness will be assessed in an evaluation during the second year of Project implementation, and any needed adjustments to its operating structure, personnel, or financing will be identified and acted on at that time.

The task of FIDE is an ambitious one and the institution will need to develop its capability over a period of several years. It is anticipated that membership and services will expand steadily during the next five years.

1. Governing Structure

The governing structure will be composed of an Assembly of Governors, and a Board of Directors. In order to assure continuity, the Assembly of Governors will be formed by two representatives of each of the four founding associations; it will be later expanded to include other Special or General members of FIDE. The Assembly will be responsible for determining the overall direction of the Foundation, approving the work plans and annual budget, and naming representatives to the Board of Directors.

The Board of Directors will be composed of six representatives from the Assembly of Governors, four Special members, and two General members. Major responsibilities of the Board will be to approve the work program and budget of the Foundation and supervise their implementation, to make final decisions on hiring foreign personnel, and to nominate individuals or firms for special and honorary memberships.

As the Chief Executive Officer, the Executive Secretary will be the formal link between the staff and governing structure. The Executive Secretary will receive strategy guidance from the Board of Directors, submit work plans for their approval, and report essential findings from FIDE's technical studies.

At the outset, FIDE will be governed by a Provisional Board of Directors. Once half of the first year membership is acquired, the Provisional Board will begin the transition into the permanent governing structure defined in the By-Laws.

In devising a course of action for the first year of FIDE's operations, the Provisional Board considered such factors as: phased staffing to assure a balanced approach and integration of activities and focus; identification of the central elements of its technical infrastructure; and activities which would address a multiplicity of objectives simultaneously. This latter point was further defined into a set of criteria for determining priorities.

Initial activities will:

- contribute to institutional development efforts, i.e. focus on visibility, networking, and acquiring memberships.

- contribute to formation of a technical base for providing range of services in future years.

- provide professional training opportunities to the new staff.

- be feasible in terms of staff, time, and available technical expertise.

- be attractive to new and potential supporters.

2. Staffing

The strategy for FIDE's institutional development has been to design an organizational structure and modus operandi which could respond to a variety and growing number of needs in the private sector without substantial increases in staff. FIDE will serve as the technical arm in the promotion and development of the private sector. The founding members envision FIDE as a conduit of information and services for business entrepreneurs and associations, and a channel of communications and networking between businesses, and between business and government. The use of computer technology, particularly in information collection and market analysis, is viewed as one of the keys. FIDE will operate with a small staff composed of the following:

- Executive Secretary
- Technical Director
- Industrial Engineer
- Business Administration Expert
- Information and Communication Specialist
- Librarian
- Office Manager
- Accountant/Bookkeeper
- 2 Bilingual Secretaries
- Driver/Messenger

It will also contract the part-time services of a legal counsel and auditor, and other technical expertise on a case-by-case basis as short-term assistance for specialized and specific technical work.

3. Membership

Acquiring members is a main institutional development activity during the first few years of FIDE's existence. The provisional board has undertaken a membership campaign, which is described below. It will be the Executive Secretary's direct responsibility to implement the campaign with assistance from the founding members. The two main thrusts in the initial membership campaign will be personal contacts and activities of high visibility.

Several aspects of the membership campaign and a schedule of actions will be defined by the Provisional Board and Executive Secretary during the early months of operations. Further definition is needed of the membership categories outlined in the By-laws: founding members, special members (i.e. those making a significant contribution to FIDE), general members, and honorary members. Also, a tentative list of potential members needs to be prepared, selection criteria needs to be determined, and an Executive Committee formed for applicant review and approval.

By 1989, it is projected that FIDE can reasonably target 225 members. For the first year a target of 45 paying members has been set. Projections for the first five years follow.

FIDE Membership Projections

Year / Type Member	1	2	3	4	5
1. Founders	4	4	4	4	4
2. General					
a. Firms	15	35	50	70	90
b. Person	15	35	60	84	109
3. Special					
a. Large Firms	4	5	7	7	7
b. Banks	4	6	8	8	8
c. Savings & Loan	1	2	2	2	2
d. Other Institutions	2	3	4	5	5
TOTAL	45	90	135	180	225

Additionally, several non-paying memberships identified as honorary will be awarded to individuals from the Honduran private sector or from abroad, whose inclusion in FIDE's membership list could facilitate its work.

4. Executive Committee Formation

FIDE's technical assistance programs will be planned and implemented through the work of specific task-oriented Executive Committees, formed with the participation of knowledgeable member firms or individuals, selected and appointed to the Committees by the Board on the basis of their potential contributions to the work assigned to the Committee. FIDE's staff will provide all the administrative and technical support to the work of the Executive Committees. The Board of Directors will be responsible for the creation of appropriate Executive Committees. Certain committees will be long-standing and formed around key administrative functions such as finance and membership. Also, a long-standing agribusiness development committee is envisioned to coordinate efforts with FEPROEXAH. Others will be of varying duration, formed to support specific substantive activities such as trade fairs or conferences, position papers, and the identification of clients in specific product line groups.

The committee system will enable the staff to benefit from the varied expertise contained in the membership. Additionally, it will provide a mechanism for volunteer time and contributions to the work of the Foundation.

5. Technical Assistance to FIDE Staff

A.I.D.'s Export Development and Services Project provides extensive financing for technical assistance and training to FIDE and Honduran businesses in export development to complement the activities undertaken in the first year under bridge financing. During the first year, the emphasis of technical assistance and training to FIDE staff will be on organizational development needs. In addition, the A.I.D. contracted services provided for the development of the Export Development and Services Project will be of direct benefit to FIDE's initial year of operations. It is expected that a major source of assistance during the first year will be the USAID/H project management efforts. Two private sector advisors in the Private Sector Programs (PSP) Office of USAID/H have worked intimately with the FIDE founding members since its inception. At least part of one private sector advisor's worktime should be devoted to FIDE in the first year. He/She will work closely with the Executive Secretary in finalizing job descriptions and hiring staff, finalizing plans and strategies, coordinating with Export Development and Services Project development efforts and other relevant private sector initiatives.

Additionally, more specific and occasional short-term assistance is envisioned in the areas of management development, financial planning, and marketing. A possible source of expertise in these areas is the International Executive Service Corps (IESC), which only requires travel and per diem costs, paid in local currency. Further plans for this technical assistance and training will be elaborated by the Executive Secretary, USAID project officers, and the IESC representative in Honduras.

6. Interinstitutional Arrangements

Another important aspect of FIDE's institutional development will be to create and maintain cooperative working relationships with relevant public and private sector organizations, domestically and abroad.

a. GOH Agencies

Several key agencies in the public sector have been identified as important to the accomplishment of work objectives. They are the Ministry of Economy and the Central Bank of Honduras. Both government institutions are sources and recipients of business and economic-related information which will have a bearing on FIDE's work. Together with the Ministry of Finance, they are the key government entities in the process of establishing and/or running business firms in Honduras. Thus, FIDE will need to maintain constant contact with them in order to facilitate business development in the country. The Foundation will maintain a working relationship with those and other government institutions at the technical level but will refrain from assuming political representation on behalf of its members, as that is a function that can be more properly carried out by FIDE's founding members.

b. FEPROEXAH

The highly specialized nature of production and marketing in the agricultural area require a separate set of services to be provided by the Federación de Productores y Exportadores Agropecuarios (FEPROEXAH). The Federation will concentrate on developing agricultural production for export and jointly with FIDE will develop agroindustrial production for export. The specific roles of FEPROEXAH and FIDE with respect to the development of agroindustrial projects will be agreed on a case-by-case basis. In general, FIDE will provide overall coordination of networking activities and provision of services for all industrial development. FEPROEXAH will be responsible for providing the vertical linkages integrating agricultural production with agroindustrial processing. More specifically, FIDE will refer entrepreneurs interested in agricultural investments and exports to FEPROEXAH, will share communication channels, reference materials, and technical assistance and information with FEPROEXAH and its member associations.

To formalize their working relationship, an inter-institutional agreement will be formulated between FIDE and FEPROEXAH. This agreement will outline the areas and mechanisms of cooperation. Mechanisms already identified include the formation of an agribusiness executive committee in FIDE; a FEPROEXAH column in FIDE's monthly newsletter; and jointly sponsored seminars and workshops of mutual interest, such as the CBI and export management.

c. International Institutions

FIDE will establish linkages with key institutions and networks abroad for the accessing of information, production partners, and technical assistance. Such institutions include the World Trade Institute, IESC, the Caribbean/Central America Action group (C/CAA), the Chambers of Commerce from different localities, the American Management Associations (AMA), and a whole array of other public and private sector institutions in the U.S. and in other countries of Europe and Latin America. Special efforts will be devoted to establishing relationships with the international financial community members, particularly the larger banks and their trading and financial arms, as well as with specialized trade and investment offices of the United Nations such as UNIDO and ITC/GATT, and of the Organization of American States (OAS). From the outset, FIDE will open lines of communications with these institutions and organizations trying to develop the basis for an exchange of information, obtain references and design joint technical assistance programs.

7. Physical facilities

FIDE opened its offices on July 30, 1984. The By-laws have made provision for the establishment of branch offices, agents, or representatives in other parts of Honduras or abroad, if the development of FIDE's work so requires.

D. Target Group

1. Client Identification in Honduras

FIDE's clients in the domestic market will be identified from a target group consisting of the following: industrial and agroindustrial enterprises, of which there are in the country more than 1,000 on the scale of medium to large size, and nearly 8,000 small firms; the business firms that provide financial, insurance, transportation, and other services to the productive units; and the individuals who are willing and capable of entering into new business ventures.

Most of the enterprises in the productive and service sector of the country's economy focus mainly on producing and selling for the domestic market and, to a lesser extent, for the Central American regional market. FIDE will provide services to those firms trying to identify and open new opportunities to expand and improve production through investment and export to foreign markets, mainly the U.S. market.

At the outset, FIDE will concentrate its efforts on product groups and producers with the clearest potential for improving their productive efficiency and successfully export in the shortest possible time. The studies which the A.I.D. Mission commissioned in preparation of the Export Development and Services Project has identified a group of firms with good export potential. FIDE's technical staff will pursue and follow up the recommendations formulated in those studies directly with the identified firms. Initially, FIDE will work with a relatively small cluster of 10-15 firms, providing them with direct business assistance and working with them

until they are clearly established in the export markets and competitive with other imports. Later on, as FIDE's staff develops its capabilities and gains more experience, the initial list of firms will be expanded to include other potential exporters.

FIDE's staff, in close collaboration with its founding business associations, will identify additional new firms with export potential during the first year. FIDE will take the market and investment information it generates through its own information network and transform it into business opportunity information that will be passed on to interested firms. Those firms will be selected from a general list of business firms that will be prepared by FIDE from the public business records held by the Chambers of Commerce and also from the membership list of FIDE's founding members.

FIDE will reach the larger business community through its publications program. It will mail export and investment opportunity information to the enterprises on the general list of business firms. FIDE will also develop a strategy of direct contacts with business firms, by telephone and through visits to prospective FIDE clients or users of its services. The Executive Secretary and founding members will play key roles in personally contacting and inviting individuals, firms, and institutions to become members and users of FIDE's services. The founding members will be responsible for promoting FIDE in their respective organizations, with follow-up made by the Executive Secretary. Visits will be made to the major Chambers of Commerce in Tegucigalpa, San Pedro Sula, and La Ceiba, the 15 private banks, and savings and loan institutions. The purpose of these visits will be both to solicit members and to establish direct and reciprocal working relationships between these groups and FIDE. Thus, FIDE will become a channel of communication between the banking communities in Honduras and the U.S. during its trips to trade fairs and conferences. FIDE will also organize visits to its offices, thereby giving individuals an opportunity to review the library materials and data bank operations.

From the outset, FIDE will let it be known that is interested in compiling lists of new investment/export projects and in assisting its proponents to gather additional required information, locating prospective partners and, in general, to provide business guidance, through FIDE's network of information and contacts in the local business community as well as abroad. FIDE will work to establish its reputation as an institution which could be of concrete and effective use to advance new project ideas. By identifying firms and individuals with new projects, FIDE will encourage such firms to seek its assistance. During the first year of operations, FIDE will develop a detailed strategy to pursue the identification of new business projects and to determine which are most likely to succeed.

2. Client Identification in the US

FIDE will conduct a search in the US market for potential buyers of Honduran products and potential investors in new business ventures in the country, through a two-pronged strategy. First, FIDE will promote the export products and investment oppotunities of Honduras, through the participation in selected trade fairs and conferences in the US, where special publications, formal presentations, and promotional materials advertising what Honduras has to offer will be distributed and made available to attending American businessman. Second, specially directed efforts for the promotion of previously identified trading and investment opportunities will be conducted through an individual or consulting firm contracted by FIDE on a retainer basis, to scout interested buyers or potential investors in localized regions of the US. This individual/firm will identify the potential US trading or investment partner, and make the initial contact on behalf of Honduran businessman.

E. Financial Capacity

An important task in FIDE's institutional development will be to develop a plan to ensure its financial viability. This objective will be examined closely during the first operating year. In addition to A.I.D. assistance, FIDE's sources of income are contributions and membership fees, service charges, and a portion of the interest rate spread on A.I.D.-financed credit to export development. FIDE plans to contract with IESC for a professional with background in business foundation work, to assist FIDE in identifying other potential sources of income.

1. Contributions and Membership Fees

The four founding associations are contributing L10,000 each as FIDE's initial capitalization. Contributions of L5,000 each will be sought from large firms and commercial banks. It is hoped that savings and loan and other private sector institutions will contribute L3,000 each. At the outset, annual membership fees charged to companies will be L600 and to individuals L240. The annual income from these sources is estimated to be near L250,000 by the fifth year, as shown below:

FIDE REVENUE - Contributions + Membership
(Lps)

Year		1	2		3	4	5
Type Member	Fee			Fee			
1. Founding Members	10,000/ 5,000	40,000	20,000	5,000	20,000	20,000	20,000
2. Membership							
a. Firms	600	9,000	21,000	800	40,000	56,000	72,000
b. Persons	240	3,600	8,400	350	21,000	29,400	38,150
3. Contributions							
a. Large Firms	5,000	20,000	25,000	6,000	42,000	42,000	42,000
b. Banks	5,000	20,000	30,000	6,000	48,000	48,000	48,000
c. Savings & Loan	3,000	3,000	6,000	4,000	8,000	8,000	8,000
d. Other Institutions	3,000	6,000	9,000	4,000	16,000	20,000	20,000
T O T A L		101,600	119,400		195,000	223,400	248,150

2. Service Charges

FIDE will establish a fee structure for the different services it provides. At the outset, services will be offered at a nominal fee, but they will be progressively raised over a five-year period to a price level that covers their full cost and provides sufficient margin to build and expand FIDE's services to its clientele. Revenue generating services will include the following: specialized publications which will be sold as subscriptions or on a price per issue basis; seminars which will be offered on a fee per participant basis; information from the data bank which will be charged on an individual consultation fee basis; assistance to businesses which will be offered on a man/time cost basis; and others such as a contracting service system that FIDE may develop on behalf of its clientele; or a percentage participation in successful commercial or financial transactions arranged by FIDE, etc. Revenue projections will be prepared during FIDE's first year of operations and a pricing mechanism and marketing system will be developed for FIDE's services over a five-year period. During the first two months of FIDE's operations, its technical staff will prepare a marketing plan, including an initial pricing mechanism for the services offered throughout the first year.

3. Interest Rate Spread

Under the Support Services Activity, A.I.D.'s Export Development and Services Project will create a Trust Fund to finance exporters' foreign exchange needs, with a part of the Fund's interest rate spread to go to FIDE. In the long run, this will provide a significant and constant source of revenue for FIDE.

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II. Federation of Agricultural Producers and Exporters (FEPROEXAH)

Under the Project, FEPROEXAH's principal functions will be to assist individual entrepreneurs to increase exports of agricultural products, form and assist fledgling producers' associations to stimulate exports of specific agricultural products, and to serve as the technical arm of the Honduran private sector in helping it represent agricultural exporters' interests with the GOH. FEPROEXAH's goals, objectives and organization, the services it will provide, and its capability to carry out its role in the project are discussed below.

A. FEPROEXAH's Goals, Objectives, and Organization

FEPROEXAH is a non-profit commercial organization registered under Honduras Commercial Code. The goal of FEPROEXAH and its member associations is to improve the socioeconomic well-being of the rural population through profitable agribusiness. This goal will be reached through the following processes: (a) develop and promote food self-reliance as well as the quality and quantity of export commodities; (b) encourage and facilitate investments, both domestic and foreign, in Honduran agribusiness ventures; (c) enhance productivity through cost-effective technological transfer; (d) improve the policy environment; (e) organize the agricultural and agroindustrial private sector; and (f) encourage innovative entrepreneurial behavior. The Federation held its first general assembly on February 11-12, 1984. A board of directors has been elected. FEPROEXAH's Articles of Incorporation received GOH approval on April 2, 1984.

Membership in the Federation is open to small, medium, and large producers, through commodity and regional organizations, agrarian reform and independent cooperatives, and agro-service companies. At present, FEPROEXAH is composed of ten producer associations:

Asociación de Productores de Cacao (APROCACAO)
Asociación de Ganaderos y Agricultores de Sula (AGAS)
Asociación Nacional de Citricultores de Honduras (ANACIHO)
Asociación Nacional de Avicultores de Honduras (ANAVI)
Cooperativa de Plataneros Independientes (COCOPLAIN)
Asociación Nacional de Porcicultores (ANAPOH)
Asociación Nacional de Apicultures (ANAPIH)
Asociación Hondurena de Caneros Independientes (AHCI)
Asociación de Horticultores, Flores y Afines (AHFAH)
Asociación Nacional de Bananeros Independientes (ANBI)
Asociación Nacional de Tabaqueros Independientes (APROTAVIDI)
Asociación Nacional de Productores de Café (APROCAFE)

B. FEPROEXAH's Services

FEPROEXAH's activities will include the following:

Institutional Strengthening: The Project will continue to support and strengthen FEPROEXAH. With Project resources, the Federation will expand its operations and services for member associations as well as agroindustrial and agricultural producers, exporters, and investors.

Technology Transfer: This activity includes both technical assistance and training. The technical assistance will provide agroexporters with technology transfer. The Project will provide a highly controlled and supervised private sector alternative to GOH sources of assistance. Three long-term foreign experts and four local specialists (productivity advisors) will supply assistance in cacao, citrus, and vegetables through selected outreach mechanisms. Additionally, the Project will finance up to 95 person/months of short-term technical assistance. The Project will establish the use of mass-media channels for technological transfer, as well as the operating mechanisms required to transfer appropriate technologies successfully researched by the Honduran Agricultural Research Foundation (FHIA) and other research centers. With regard to training, the Federation will sponsor workshops, field days, seminars, overseas and domestic work-study programs, and educational trips in order to transfer know-how in agroexport-related topics to production export systems. This training will highlight marketing and its requirements--specifically compliance with USDA, APHIS, and FDA regulations and quality and costs controls--as well as on-the-job and hands-on production training programs.

Export and Investment Services: The Project will finance highly focused business missions of Honduran agro-exporters as well as U.S. agribusiness investors and importers. Project funds will help provide exporters, producers, and investors with in-country services which are currently non-existent or of poor quality. It will also establish a systematic approach to search for, attract, and support foreign investors and buyers.

Information and Networking: The Project will make use of existing information through operational agreements with other data-collecting institutions, including FIDE. It will develop the production and export information required by its members and, through implementation of a computerized data base, will compile a roster of locally available expertise and experience in production and export.

These activities are described in detail below.

1. Institutional Support

FEPROEXAH will function at several levels. Its Board of Directors, elected from the presidents of FEPROEXAH's member Associations, will be directly

involved in policy dialogue with both public and private sector policy-making bodies on such topics as agricultural and agroexport legislation and the impact of the legal framework on financial markets.

Through its presence in the Board of Directors of several other organizations, FEPROEXAH will share in the decision-making processes of agribusiness-related institutions, such as the Honduran Agricultural Research Foundation, the Export Promotion Council, and the Joint Agricultural Consultative Corporation (JACC). The Board will act as counterpart to visiting agribusiness missions and independent investors who explore possible business ventures in Honduras.

Board members, as well as authorized Association members, will officially represent the Federation's interests and views in policy-making, financial, production, transportation, trade, and educational forums. Specifically, the FEPROEXAH Board will support FIDE in the latter's discussions with governmental officials to promote policy changes which facilitate the export process. These include financial policies and foreign exchange regulations, as well as regulation of the Export Promotion Law. At the same time, FIDE will assist FEPROEXAH in its policy dialogue with the government on agricultural and agribusiness-related themes.

Internally, the Board will formulate FEPROEXAH's own policies while it delegates the management functions to the Executive Director. The Executive Director will manage the Federation and will oversee the integration of the three service departments. His administrative secretary will supervise the support services.

FEPROEXAH will have an administrative department and three service departments: the Center for Agricultural and Agroindustrial Productivity (CAAP); the Information and Networking Unit (INU); and the Marketing and Investment Services Office (MISO). The three service departments are discussed under the description of activities below.

FEPROEXAH's administrative department provides the accounting, contracts, and financial controls required by FEPROEXAH. From its inception, accounting control and contract procedures will be fully computerized, following a format which facilitates Project implementation. The department will also assist its member associations in these areas. Another key task of this unit will be rigorous cost accounting. FEPROEXAH's management and Board of Directors will be continously advised as to what services have been funded with Project funds. The analysis of these costs and their benefits should assist in the internal decision making process.

2. Technology Transfer

The main function of the Center for Agricultural and Agroindustrial Productivity will be technological transfer through technical assistance and training. Its key purpose is to develop and service exportable products.

a. Technical Assistance

Through the networking and marketing activities described below, specific export opportunities will be identified and arrangements made for exploiting them. The activities needed to develop a specific agribusiness commodity could demand technical assistance throughout the production/marketing/processing chain. In some cases, the buyer and/or production partner may be willing to provide technical assistance at no explicit cost to Honduran producers and processors. In other cases, the technical assistance will be fully or partially financed under the Project. FEPROEXAH will be responsible for arranging technical assistance, and will keep files on domestic and foreign consultants, their specialties, charges, and capabilities, in order to become more proficient in providing technical assistance services.

The Project will provide technical assistance at three different levels: FEPROEXAH, Association, and farmers/exporters. For FEPROEXAH, the Project will finance one long-term adviser: an agribusiness investment, organization, and policy expert for five years. This advisor will assist the Federation attract investors into agroexport ventures, organize its service activities, promote appropriate policy measures, establish priorities, and provide guidance to the individual FEPROEXAH service units. The Project will also provide a long-term production and marketing adviser to FEPROEXAH for a period of three years.

These two advisers will work at FEPROEXAH and maintain links to its colleagues working with FIDE. They will meet the following requirements: agribusiness and cultural experience; broad understanding of, and relationship with, the U.S. food system; proven capability to manage complex technical assistance packages; agroexport and agroprocessing expertise; and flexibility to work within the demanding conditions found among Honduran producers. These advisers will design and help implement revenue enhancement mechanisms which allow FEPROEXAH attain the maximum possible financial sustainability as soon as possible. They will also be responsible for assisting Honduran producers to identify viable commodity systems having export potential; search for, attract, and support both foreign and national investors; organize viable production structures and producers organizations; make marketing arrangements; obtain and efficiently use technological and financial resources to produce export products; and coordinate resources from AID/W centrally funded projects as well as from other donors.

In addition, three long-term commodity-systems advisers will be provided: cocoa and citrus specialists for three years each, and a vegetables expert for five years. In addition to the international advisers, FEPROEXAH will hire four local productivity advisers for the three initial commodity systems (one each for cacao and citrus and two for vegetables). These productivity advisors will be supported by eight field technicians.

Both the international and the local direct-hire productivity advisors in cocoa, citrus, and vegetables will work for FEPROEXAH. Under the supervision of CAAP's director, they will support the respective commodity associations and their members. Through the Associations, these specialists will assist commercial farmers and agroindustrialists.

They will act as program and support advisors more than as extension agents. Their major direct roles will be the supervision of and provision of support for growers in their initial crop rehabilitation or first commercial trials as well as technical back-up for investors. These specialists will assist in channelling available technological resources to the Associations' membership and will find ways to make these commodity associations financially viable. This support to the Associations will strengthen them as individual units and will organize their programs to correspond to those designed and implemented by FEPROEXAH (i.e., Information and Networking Unit and Marketing and Investment Service Office).

Complementing the direct-hire expertise, FEPROEXAH will contract specific short-term consultants in cocoa, citrus, and vegetables, for up to approximately 95 person-months of services. This short-term assistance will allow agroexporters and commercial farmers capitalize on readily available and cost effective know-how. The use of short-term consultants allows for the flexibility which recent experience has shown necessary in responding to investors with highly tailored support.

The CAAP director will manage the technical assistance provided to the Associations and their members. He will also act as FEPROEXAH's official liaison to related international, regional, and domestic technical assistance programs aimed at the agricultural sector. When specific tasks not within the expertise of the long-term advisers are identified, FEPROEXAH will first look to the networking institutions. If they are unable or unwilling to arrange suitable assistance, FEPROEXAH will locate suitable assistance from the International Executive Service Corps, Project SUSTAIN, volunteers from bilateral programs, and several specialized organizations. Several of these technical assistance sources provide highly qualified experts and specialists at no cost to the users, except for local expenses. When the most economical sources have been exhausted, short-term consultants will be contracted.

In addition, CAAP will take advantage of the USAID-funded Rural Technologies Project to establish pilot or test production of selected commodities. The Rural Technologies Project can undertake test growing, packaging, storage, and processing. This can be done on small farms located in promising areas . The technicians at FEPROEXAH or the Associations will help set up production and marketing tests in those selected areas, and will provide support through FEPROEXAH's Project resources.

Inter-Association technological transfer will be a key responsibility of the CAAP. For example, beekeeping could become an additional income source for citrus exporters. Ornamental producers could expand into coffee regions. Plantain exporters could enter swine production. Irrigated sugar cane land could produce export quality melons and grassland could become pineapple plantations. Accelerated agroexport diversification should result. The guiding principle should be profits which reward entrepreneurial initiative. A better informed and supported agribusiness community should optimize the financial returns to their asset mix.

FEPROEXAH anticipates that no technical assistance will be given without some user's fee charged for the services. It is expected that local technical assistance, through well established contracts, will be self-supporting within five years.

b. Training

From the onset, agribusiness ventures will usually require a small number of capable farmers who can respond quickly to market opportunities and collectively produce the minimum volumes needed for efficient marketing. Smaller farmers, most of them in AID's target group, will need special assistance if they are to gain the benefits of Project activities. To help them get a head start on being able to keep up with their more experienced neighbors, training in basic agricultural techniques will be needed. Small and medium-scale farmers in particular will need training and hands-on experience in the rigors of producing for export before they can be tempted to take on the well-known risks of export crops. Such presently unfamiliar skills as vegetable cultural practices, field packing, and quality control will have to be stressed over and over again. Rehabilitation costs could be lost if strict follow-up is not pursued or if marketing requirements are bypassed.

As the key implementing unit, FEPROEXAH's CAAP will be responsible for: identifying training needs, designing specific action to address those needs, integrating other training delivery organizations into its program, and supervising the effectiveness of the training activities. The most qualified institution in Honduras to provide this work-study training is the Panamerican Agricultural School (EAP) at El Zamorano, which has agreed to collaborate with the training activity. EAP will embark on a major departure from its educational policy. For the first time in its 40-year history, it will implement a major producer-oriented training program. EAP, collaborating with FEPROEXAH's CAAP, will design training curricula and hire a program coordinator.

In line with the Project's strategy of utilizing available resources whenever possible, several other organizations besides EAP will address the training needs of FEPROEXAH's constituency. General export and investment training

will be offered by FIDE and managerial training by GEMAH (Honduran Association of Managers and Entrepreneurs). Most of the training will be carried out in Honduras, but in-country training resources will be complemented by opportunities made available in other countries. Short-term courses abroad in pertinent subjects, as well as attendance to workshops and seminars in agro-marketing and related topics will be funded.

The major thrust of overseas training will consist of placing qualified Honduran participants on work fellowships in U.S. agribusiness companies as well as in other countries. Overseas, they will work in packing sheds, citrus groves, cacao plantations, and vegetables fields through the overall preproduction, production, and postharvest cycle. Quality assurance measures will be stressed throughout their on-the-job training. This approach will have the added advantage of stimulating links between the U.S. agribusiness community, investors in other countries, and Honduran entrepreneurs.

For the overseas training, the Project will provide $450,000 in loan funds to pay a portion of the costs of two-month training trips to Costa Rica, Belize, Colombia, or Ecuador for cacao; to the U.S., Guatemala, Costa Rica, and Colombia for vegetables; and to the U.S. and Brazil for citrus.

As with technical assistance, the users will share in the costs of these services. However, neither the overseas nor domestic training activities are expected to become financially self-sustainable because they are activities which precede revenue generation by the participants.

3. Marketing and Investment Services

MISO's main purpose is to find markets for, and promote investments in agriculture and agroindustry. Besides the department chief, the executive director will place high priority on supporting this activity. The two long-term FEPROEXAH advisors will be contracted based on their qualifications to support MISO's operations. MISO will assist in international and domestic marketing as well as facilitate investment in agribusiness.

Agricultural Export Services (AES) and Agribusiness Investment Services (AIS) will form the central focus of MISO's operations. Through AIS and AES, agroexporters, especially those with little or no prior experience, as well as investors will be guided through the complicated maze of Honduran regulations--such as obtaining export and import permits, arranging for drawback benefits, working through foreign exchange constraints, dealing with foreign investors legislations, and handling shipping and financial procedures.

Additionally, this component will support marketing links between U.S. brokers and investors and Honduran agribusiness. This activity will finance export tours of local entrepreneurs who should become acquainted with marketing conditions and brokering arrangements in the U.S. and will finance certain local costs of visiting trade missions.

Activities will also include two- to three-day workshops by U.S. brokers in Honduras. During these events, brokers will explain their general method of operation as well as make specific contacts with Honduran entrepreneurs. Complementary workshops and seminars related to agricultural export and production policies will also be held for senior and middle-level management in the GOH.

Similar events will bring down experts from such agencies as the U.S. Department of Agriculture, the Commerce Department, and the Food and Drug Administration to Honduras to explain U.S. tariff and quality control requirements to potential agroexporters.

Besides export markets, diversified agricultural production necessitates domestic pricing information and internal marketing arrangements. Although initially assigned a low priority, MISO will assist in this arena by closely collaborating with public sector agencies (i.e., Honduran Institute for Agricultural Marketing (IHMA); Minister of Natural Resources) in basic grain and produce marketing activities. It will initiate a process which should culminate with a private sector-managed, comprehensive (i.e., international and domestic) marketing network.

MISO's assistance to agribusiness investors parallels its marketing services. The AIS mandate is to promote and develop investments in agroexports. Investors in commercial agriculture and agroindustry face a plethora of needs which only a systemic approach can meet. MISO is uniquely suited to perform this delicate role. MISO, with the active collaboration of FIDE, will act as the agroinvestor broker, bringing together investors, production, markets, services and policies. Investor search, follow-up on leads, promotional campaigns, joint-venture matching, in-country support, and overall trouble-shooting will form the core of the AIS services.

During the life of the Project, MISO will sponsor two major agroinvestor conferences, several well targeted foreign investor missions, and market search missions in the U.S. and Europe for Honduran investors. Through its relationships with outside networks, FEPROEXAH will encourage joint ventures, identify market opportunities for non-traditional agricultural exports, and develop the mechanisms to exploit them. It will organize and carry out business trips to identify and follow up on product-specific export opportunities. Business missions will be rigorously organized, including in-depth preparatory work, coaching in selling techniques, and follow-up activities.

Recent successful experiences in agroinvestment have demonstrated that such an integrated approach produces effective results. A foreign investor generally prefers to negotiate with a well-orchestrated comprehensive group and/or service system rather than with multiple isolated suppliers or fragmented entities.

FEPROEXAH for agroexports and FIDE for manufactures will act as the private sector counterparts to the Honduran Central Bank in the operation of the Dollar Export Trust Fund. FEPROEXAH will submit to the Central Bank the consolidated list of imported inputs required by net agroexporters who will benefit from this dollar facility. Within FEPROEXAH, MISO will provide this service.

4. Information and Networking

The Project will support FEPROEXAH's Information and Networking Unit. This user-oriented department will establish a system which will provide individual producers and organizations with up-to-date details on variables such as price fluctuations (both weekly and monthly) on a product-by-product basis, sudden supply short-falls by competing suppliers in other countries, and docking and unloading congestions at receiving ports in the U.S. and Europe. INU will operate a computerized information system to provide this service. In addition to this up-dated price, supply/demand, and shipping information, INU will also act as a clearinghouse and repository for agricultural product information on grades and standards for products imported into the U.S. and Europe, the latest legislation on plant quarantine restrictions, shipping regulations, agreements, tariffs and requirements (both by sea and by air), latest costs of transportation to various ports of entry, lists of importing countries' broker by agricultural product, analyses of changing consumer demand for non-traditional agricultural products, agribusiness input availability (including packaging materials), and local and foreign availability of credit lines for agribusiness, including supplier's credit.

Productive information will complement marketing data. Documentation on technological packages, cultural practices, and production systems will be collected, archived, and made accessible to associations and their members, as well as to the agribusiness community at large. A special collection will be made of the agricultural diversification experiences in other CBI countries. However, it is expected that the main agronomic reference library will be the excellent collection of the Foundation for Agricultural Research.

Each commodity system will require general and specialized marketing information. It will obtain some of this information directly from trade sources, and some through the Caribbean Basin Information Network (CBIN), for which FIDE is Honduras' affiliate. The San Pedro Sula Chamber of Commerce, to which FEPROEXAH will belong, is also a subscriber.

The Honduran agribusiness community seldom knows what agricultural and agroindustrial projects the public sector or international donors support. INU will provide a consolidated and continuously updated inventory of such programs. INU's information link-ups will grow as justified on a cost-effective basis. Its networking function will begin with domestic information centers such as those managed by FIDE; the Agricultural Research Foundation; the National University Center; the Ministry of Natural Resources,

National Agricultural Information Center; the Central Bank's Documentation Center; and the Ministry of Economy, International Trade Department. Depending on costs, revenues, and effectiveness, INU will establish formal links with international networks such as the CBI Network, the Postharvest Institute for Perishables' Data Bank, the Bank for Scientific and Technological Information of the United Nations (Vienna), the International Trade Center (UNCTAD/GATT; Geneva), the Interamerican Center for Professional Training (CINTEFOR, Montevideo), AGRIS (FAO, Rome) and AGRINTER (IICA, San José).

Finally, INU will organize and service a human resources data bank where the in-country available expertise, both individually and in terms of technical assistance firms are registered and documented. Publications will be reproduced and distributed on a cost-plus basis to cover expenses.

Initially, the Information and Networking Unit will communicate its findings through mass media channels. Eventually, it may publish a specialized self-financed newsletter. Due to FEPROEXAH's relatively large illiterate clientele, a radio program, financed through advertisement revenue, will be given the highest priority among several communication alternatives.

FEPROEXAH already has two microcomputers -- one placed at FEPROEXAH's headquarters and the other a portable, compatible unit. But the information networks envisioned for FEPROEXAH call for a more powerful unit. A minicomputer, with the adequate configuration to meet FEPROEXAH's information and administrative needs, will be procured with Project funds. INU will also subscribe to several specialized trade journals (i.e., the Packer; USDA's Foreign Agriculture publications; International Trade Center Material). Following FEPROEXAH's financial strategy, a fee for informational services will be charged.

C. Project Outputs

1. Institutional Support:

By the end of the Project, FEPROEXAH will have produced the following outputs:

a. FEPROEXAH's three service divisions and administrative division will have been fully operational for four years, providing services to approximately 2000 investors, exporters, growers, and overseas/regional importers.

b. Policy Dialogue

FEPROEXAH will have played an active role in policy dialogue. FEPROEXAH has adopted, in principle, the recommendations issued by the Presidential Agricultural Task Force as the centerpiece of its policy program. Specifically, the Agricultural Development Law will have been reviewed with GOH authorities and agroindustry legislation will have been approved by

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Congress. Improved financial policies with public and private banks will have been established and implemented. FEPROEXAH will have actively participated in the regulation and enforcement of the Export Promotion Law and in the implementation of more flexible foreign exchange regulations. FEPROEXAH will have hosted at least one agroexport policy workshop.

c. Financial Viability

By the end of the Project, the Federation will have implemented a revenue enhancement program (REP) which should strengthen its financial viability and growth. REP will center around:

--a cess on agroexports (duty levied by the producer associations with the approval of the government)
--users' fees
--technical assistance contracts
--admission and monthly membership fees
--endowment contributions, and grants for budgetary support
--implementation of programs sponsored by foreign and domestic agencies.

2. Technology Transfer:

By the end of the Project, FEPROEXAH will be servicing the agroexport community through:

a. training courses and seminars--each year, one workshop on each selected commodity/cluster system and one workshop with an export-oriented association will have been carried out;

b. liaison and coordination of Honduras agroenterprises with U.S. and other foreign companies--approximately 20 U.S. investors and/or companies will be assisted annually;

c. coordination of technical assistance to association members through CAAP's Productivity Advisors--at least four technical interventions will be promoted per selected commodity system or commodity cluster each year;

d. services of the Information and Networking Unit (i.e., telex; computer center; duplication equipment)--approximately 240 inquiries would have been addressed each year;

e. mass media programs-- dedicated radio and newspaper coverage; a half-hour weekly radio program would have been established and at least one newspaper will carry a weekly FEPROEXAH section covering production and export themes;

The following outputs are expected in the training area:

a. The EAP will have implemented the training programs required by FEPROEXAH's membership.

b. FEPROEXAH will have collaborated with different donor and domestic entities in training and technical assistance.

c. An active promotional campaign for project SUSTAIN and other U.S. food industry programs will have been successfully launched.

d. On-the-job training in the U.S. and other countries for 30 participants will have been carried out annually.

e. Evaluations to assess effectiveness of training programs will have been carried out.

3. Marketing and Investment Services

The Marketing and Investment Office will have:

a. Compiled a trade portfolio detailing who is producing agroexports or is interested in producing for exports, its experience, history, current location, and resource base;

b. Organized four business missions each year: one for each of the three selected crops--vegetables, cacao, and tree crops--and a multipurpose mission. Four to five Honduran private sector entities will participate in each one. These trade missions will have in-depth preparatory and follow-up phases.

c. Sponsored three commercial missions to Honduras annually. Besides its liaison services, FEPROEXAH will provide the administrative, technical, commercial, and legal support required by these agribusiness missions.

d. Assisted 150 foreign and local investors and exporters annually.

e. Organized two importers/brokers.

f. Organized two agroinvestors conferences in Honduras.

4. Information and Networking

The information and networking unit will have:

a. Established operational protocols with existing domestic information centers and will have shared information with those centers. Collaboration protocols will have been signed and implemented.

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b. Implemented the procedures to reach out to the associations and their members and to respond to their information needs; an average of 20 monthly inquires will be successfully answered.

c. Broadcasted a self-financed radio program and edited a newspaper weekly section.

d. Compiled, categorized, and maintained a current listing of available domestic expertise of both individuals and companies.

e. Compiled and maintained a current listing of services and funding available through domestic agencies, as well as local and foreign donors for commercial agriculture, agroexports and agroindustries.

f. Designed a user-accessible data base.

D. Project Inputs

A detailed budget is found in Annex F.2 of this Project Paper.
The Project will provide resources to develop and service competitive agroexports. FEPROEXAH, as the implementing organization for this activity, will manage the following resources:

a. Long-term International Specialists (19 person years/Grant $1,900,000)

(i) Management and Organization Advisor (5 years/$500,000)
(ii) International Agricultural Marketing Advisor (3 years/$300,000)
(iii) Three Commodity Advisors:
- Cocoa (3 years/$300,000)
- Citrus (3 years/$300,000)
- Vegetables (5 years/$500,000)

b. Short-term Specialist (95 months/$200,000) Grant; $750,000 loan)

(i) - New Commodity Systems (20 months/$200,000)
(ii) - Cocoa (25 months/$250,000)
(iii) - Citrus (25 months/$250,000)
(iv) - Vegetables (25 months/$250,000)

c. International Training (150 participants; 300 training months/loan $450,000)

d. Equipment (Loan $272,000)

(i) -Vehicles (6 work vehicles, one microbus, 8 motorcycles, spare parts, and tools/$169,000)

(ii) -Mini Computer System ($50,000)

(iii) -Training Equipment ($20,000)

(iv) -Office Equipment ($10,000)

(v) -Communications System ($23,000)

e. International Travel, Business Conferences, and International Networking (Loan $ 728,000)

f. Operational Support (GOH $950,000)

During the first year of operations, FEPROEXAH will initiate a revenue enhancement program to begin generating internal resources. It is anticipated that FEPROEXAH will receive revenue from admission fees from each Association (L200) and monthly membership dues (L50), as well as other financial sources such as: (i) a percentage of the cess on exports from member associations; (ii) users' fees; (iii) revenue from the interest rate spread; (iv) endowment contributions from other consolidated associations (i.e., APROCAFE, Fondo Canero); and (v) support from other donors. The objective of this program will be to make FEPROEXAH self-sufficient as soon as possible. Table F.1.1 provides a projection of FEPROEXAH's income over a ten-year period.

Table F.1.1: FEPROEXAH Income Projection
($000)

Income:	Year 1	2	3	4	5	6	7	8	9	10	TOTAL
Memberships	4	5	5	6	7	9	11	13	15	17	27
Services	37	50	92	115	133	146	160	177	194	246	427
Sales of Ag. Inputs (net)	26	53	90	113	150	165	182	200	224	242	432
AID Loan Funds	484	273	279	285	129						1,450
Int. Rate Diff.	105	635	770	1095	1355	1320	1310	1005	415	145	3,960
Transfers to/from Assoc.	(16)	9	(38)	54	(105)						(96)
Addl. LC Generations	750	200									950
Total Income	1,390	1,225	1,198	1,668	1,669	1,640	1,663	1,395	848	650	7,150

By the end of the Project, FEPROEXAH will have:

a) assisted at least thirty investors in the agroexport field.

b) assisted in the rehabilitation of at least 1200 Has. in citrus, and identified expansion areas for new plantings.

c) assisted in the rehabilitation of at least 1000 Has. in cacao and identified new expansion areas.

d) supported the establishment of two new horticultural export areas in the Siguatepeque and Quimistan as well as the expansion in the Comayagua Valley. Cucumbers, okra, and onions will be developed, or expanded as the initial crops.

e) identified at least eight additional commercially viable crops and their sites.

f) begun production on at least four of the eight additional qualified commodity systems.

g) identified and start up at least four vegetable processing ventures.

h) provided assistance in improved farm management systems for at least 100 growers.

i) improved organizational and administrative procedures in at least 10 associations.

j) develop the proper quality control mechanisms to ensure the application of pesticides approved for export crops to the U.S. and European markets.

4. Training Services

The above services cover all of the service needs that have been identified as necessary to facilitate the development of increased non-traditional products from Honduras, except for worker and management training. The Mission reviewed the adequacy of these services during PP preparation. They were found to be generally adequate for the expanded level of nontraditional exports that are expected to result from the Project. They are described below.

III. The Producers' Associations

A study of Agricultural Producers' Associations was carried out for USAID during intensive Project review. The study, which included an analysis of the potential of FEPROEXAH, was done by Aníbal Boccardi in March 1984; the USAID/H bulk files contain a copy.

In sum, the study accounts for the lack of success of producers' associations in the past by pointing out that, with the exception of the Coffee Growers' Association and the more recently formed associations, the existence of these associations was more nominal than operative. The main obstacle to the viability of the associations was in their reason for existing. They were not created for the purpose of providing services and assisting in the development of their members' productive activities, but rather as pressure groups to defend members before political authorities to safeguard their land tenure when it was threatened by campesino invasions. The associations were prevented from achieving this purpose by the Government expropriation and redistribution of lands under the Agrarian Reform. Unable to ensure land tenure for their members, the associations could only hold on to their members through the acquisition of personal political power.

Following the passage in 1974 of the Agrarian Reform law, the traditional associations lacked public support and met with long periods of government indifference and outright hostility from campesinos and political leaders. They had access to neither technical assistance nor training. Agricultural production remained dependent on the abilities of individual producers, handed down from generation to generation. The associations had no access to credit, since neither their lands nor their production could serve as collateral. With the exception of ornamental plants and citrus, the associations produced for a limited internal market, run by middlemen, without quality standards or diversity, and based on volume demand--all of which closed the door to expansion and improvements. The associations also lacked information about the possibilities, demands, and requirements of the external market.

Since 1983, however, important changes have taken place, providing the associations with possibilities for an orderly development. Three events have been particularly notable: the visit of the U.S. Presidential Agricultural Task Force; promotion of the Caribbean Basin Initiative; and the visit of the National Bilateral Committee on Central America (NBCCA) which resulted in the formulation of the Jackson Plan. The decision of the Government of Honduras to take advantage of these opportunities has provided stagnant producers' associations with new expectations and a new dynamism and has resulted in the creation of new associations for other agricultural products as well as the impetus for the formation of a federation of associations--FEPROEXAH.

The Project will help to strengthen FEPROEXAH and two of its recently formed member associations--APROCACAO and AHFAH--as well as to provide support for one association with a successful track record-- ANACIHO. FEPROEXAH is discussed above, and the three producers' associations are discussed here.

A. ANACIHO

In 1977, the National Organization of Citrus Growers of Honduras (ANACIHO) was established for the purpose of assisting citrus growers to improve the quality and quantity of their production, to obtain better pr ces for their products, and to attack the external market in a more organized ay. ANACIHO's producers have demonstrated the viability of citrus production and export abroad, particularly to Europe, prior to the opening of markets in the United States by the CBI. The expansion of the citrus industry in Honduras over the next several years is assured, in part, as a result of a joint-venture with the U.S. firm Griffin and Brand which includes the provision of significant technical assistance. At present, this Association has 900 members, representing 2,500 hectares of oranges, grapefruit, and limes. It is estimated that approximately 12,000 family members depend directly on these members.

ANACIHO's primary concern at present is to bring all Honduran citrus producers, no matter what their size and particularly including agricultural reform sector producers organizations, into the Association. The Association is now in the process of incorporating the producers from regions such as the Lower Aguân.

Examples of ANACIHO's achievements include the following:

- opening of the European market to a greater percentage of the fruit produced in Honduras.
- better organization and coordination of exporting activities to Europe and the United States
- better negotiations with officers of the Honduras government, as well as international organizations such as the USAID Mission
- participation in seminars, conferences and other meetings that have taken place both in Honduras and foreign countries.
- the motivation of current producers to increase the yield and quality of their crops.
- improvement of the relation between citrus producers and the GOH

As a principal founding member of FEPROEXAH, and with its President serving as President of FEPROEXAH, ANACIHO is very closely linked with FEPROEXAH and has very high hopes for its success. The efficiency and dedication with which the President has worked to establish FEPROEXAH can provide a model of agroexport development for the entire Latin American region. The end objective of this effort is to create agroexport leaders who will form a strong national team and who will provide mutual support to other agroexporters. This will take place through a common effort to develop Honduran human resources, to locate leaders and place them in positions of responsibility, and to transfer technical know-how and ability from the overly bureaucratized public sector to private agroexporters. To this end, the FEPROEXAH team of experts which will be assembled to implement the agroexport portion of the proposed Project will use the lessons of past experience to build a more successful future for Honduran exporters.

During Project implementation, ANACIHO will receive substantial technical assistance through FEPROEXAH, which will permit it to expand on its current activities and improve the services being provided to its members. The main objective of FEPROEXAH is to organize and coordinate the activities of all exporters through the producers' associations, in order to increase exports to the United States and the European Common Market. The Federation will provide assistance to ANACIHO to achieve the following objectives:

1. To increase purchasing power in obtaining all types of input items.
2. To increase bargaining power to negotiate existing and increased export sales contracts, both in amount exported and prices obtained for their commodity.
3. To channel requests and offers of economic and educational assistance.
4. To address the needs of independent and cooperative producers.
5. To provide a link between association members and the public sector.

ANACIHO has had considerable success so far, but much remains to be accomplished. There are many producers, both large and small, that are not members of the association as yet. If larger producers in the Atlântida area were to join, it would increase significantly the status of the Association and FEPROEXAH and would diminish internal competition that decreases the effectiveness of export activities in Honduras. ANACIHO needs additional personnel, office staff and general facilities to improve its effectiveness, as well as faster and better communications, both internally between members, and between the association and buyers, shippers, and markets. Existing members pay a contribution to the association on the basis of exported commodities. Contributions from members are at times slow in being received, which places an additional burden on the small staff currently conducting the business of the association.

During Project implementation, ANACIHO will:

Secure offices, personnel and equipment, in coordination with the needs of FEPROEXAH, and improve general office procedures to increase efficiency in conducting the affairs of both ANACIHO and FEPROEXAH.

Increase grower participation to reach preferably 100% of all producers, or at least 90%.

Continue to improve the favorable and positive relations between the GOH and the Association in order to facilitate the necessary steps in securing inputs, negotiations related to export activities, and overall negotiation between GOH entities and the association. This is particularly important with the following offices: INA, the Dept. of Natural Resources, the Council for Economic Planning, and the Central Bank.

B. APROCACAO

The Cacao Producers' Association was formed in early 1984 and is still in the process of organization. Its first undertaking was to support the national cadastre of cacao producers now underway. It has close ties to FEPROEXAH.

While still a fledgling organization, APROCACAO will receive assistance through the Project and FEPROEXAH to establish its administrative system and to develop the services which it will provide to producers. FEPROEXAH will provide the technical assistance required to establish a national program of production of different varieties of cacao, a project for the integrated processing of cacao, training for the association's members at all levels, as well as immediate assistance in structuring the association and its operations. This assistance began with the implementation of the AID-FEPROEXAH bridge financing agreement and will continue with the proposed Project.

C. AHFAH

The Honduran Association of Growers of Vegetables, Flowers, and Similar Products (AHFAH) was also formed in early 1984 of private producers and cooperatives, as well as agrarian reform sector producers. Members include cooperatives which have successfully exported cucumbers and melons.

Like APROCACAO, AHFAH is in the process of organization and will receive assistance through the Project and FEPROEXAH to establish its administrative system and to develop the services which it will provide to producers. FEPROEXAH will provide the technical assistance required to establish a program of production initially for three vegetables: cucumbers, okra, and dried onions. FEPROEXAH will also provide training for the association's members at all levels, as well as immediate assistance in structuring the association and its operations. This assistance began with the implementation of the AID- FEPROEXAH bridge financing agreement and will continue with Project 522-0207.

Detailed Financial Analysis

I. Detailed Budget

A. Activity Costs

Act. No.	Activity Description and Planned Costs	($000) AID Grant	AID Loan	GOH	Private Sector	Total
I.	Export Policy and Promotion	500	900	900		2,300
	A. Policy	400	150	400		950
	1. Export Policy Adviser	200				200
	2. Short Term Consultants	200				200
	3. Observation Trips		30			30
	4. Training/One-Stop Center		120			120
	5. GOH Costs			400		400
	B. Promotion	100	750	500		1,350
	1. Export Promotion Adv.	100				100
	2. Trng. of Overseas Reps.		300	300		600
	3. Partic. in Conferences Seminars, etc.		200			200
	4. U.N. Invest. Prom. Off.		250	200		450
II.	Export Development	4,100	5,100	1,600	3,100	13,900
	A. Manufactured Exports	2,000	2,900	650	3,100	8,650
	1. Manuf. Exp. Devel.	2,000	2,100	650		4,750
	a. TA from U.S. Instit.	2,000				2,000
	b. Area Specialists		750			750
	c. FIDE U.S. Represent.		450			450
	d. New Prod. Devel. Adv.		300			300
	e. Short Term Consultants		200			200
	f. CBIN Infor. Sys. Usage		250			250
	g. FIDE Equipment		50			50
	h. Business Conferences		100			100
	i. FIDE Local Expenses			650		650
	2. Labor Intensive Exports		300		3,100	3,400
	a. Lab. Int. Ind. Adviser		300			300
	b. Mgmt. Co. Capitaliz.				600	600
	c. Industrial Parks				2,500	2,500
	3. Furn./Wood Prod. Adv.		500			500
	B. Agricultural Exports	2,100	2,200	950		5,250
	1. Agric. Exp. Devel.	1,000	1,450	950		3,400
	a. FEPROEXAH Adviser	500				500
	b. Marketing Adviser	300				300
	c. New CS Development	200				200
	d. Training outside Hond.		450			450
	e. Equipment		272			272
	f. International Travel		304			304
	f. Business Missions		424			424
	g. FEPROEXAH Local Exp.			950		950
	2. Cocoa System Devel.	300	250			550
	a. Cocoa Dev. Special.	300				300
	b. Short Term Adv.		250			250
	3. Citrus System Devel.	300	250			550
	a. Citrus Dev. Spec.	300				300
	b. Short Term Adv.		250			250
	4. Vegetable System Devel.	500	250			750
	a. Vegetable Dev. Spec.	500				500
	b. Short Term Spec.		250			250
III.	Financial Services	200	10,000		2,500	12,700
	a. Dollar Financing		10,000			10,000
	Trust Fund		10,000			10,000
	b. Payment Ins. Feas. Study	200				200
	c. Local Currency Invest.				2,500	2,500
IV.	AID Project Management	1,200				1,200
	a. Banking Adv.	200				200
	b. Private Sector Adviser	400				400
	c. Project Liaison Officer	250				250
	d. Agric. Proj. Liaison Off.	250				250
	e. Recruitment of Advisers	100				100
	Total	6,000	16,000	2,500	5,600	30,100
		22,000		3,100		

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B. Functional Account Breakdown of AID Resources

Act. No.	Activity Description and Planned Costs	($000) SDA Grant	SDA Loan	ARDN Grant	ARDN Loan
1.	Export Promotion	500	900		
2.	Export Development	2,000	2,900	2,100	2,200
	a. Manuf. Exports	2,000	2,900		
	b. Agric. Exports			2,100	2,200
3.	Financial Services	200	5,000		5,000
4.	AID Project Management:	900		300	
	Total	3,600	8,800	2,400	7,200
		12,400		9,600	

II. Description of AID-Financed Inputs by Activity

The AID-financed inputs, except for the Trust Fund, are described in this section.

A. Export Policy and Promotion

1. Policy Activity

a. Export Policy Adviser ($200,000 Grant)

The Export Policy Adviser will assist the GOH to completely review its export policies and develop a revised set of export incentives. He will help personnel of the one-stop center for government approvals to analyze and design new procedures for streamlining of internal procedures for government approvals. He will train GOH personnel working in the one-stop center on how best to deal with actual and potential investors, and assist in the preparation of instructions and publications for those investors. Approximately two years services will be needed at an estimated cost of $100,000 per year.

b. Short-Term Consultants ($200,000 Grant)

Short-term consultants will be needed to assist the Export Policy Adviser in certain specific tasks, such as streamlining GOH procedures, analyzing the feasibility of free zone status for industrial parks, assisting in start-up of the one-stop center, developing an efficient system of control of free zone operations, and training of Ministry of Finance and Customs Service employees in its implementation. Approximately 16 months of such services will be needed. It is anticipated that some of this assistance will be obtained through a PASA agreement with the DOC. Costs are estimated at $12,500 per person month.

c. Observations Trips ($30,000 Loan)

These will include observation trips to privately operated industrial parks in Mexico, the Dominican Republic and Haiti. The observation trips will be taken by an average 8 persons (for example 4 GOH officers, 2 FIDE officials and 2 persons from the private sector). Trips are estimated to average 7 days each.

d. Training/Start-Up Costs for One-Stop Center ($120,000 Loan)

In order to function effectively, the Ministry of Economy will need to train its personnel in international trade development and ensure that they can deal effectively with the problems of potential investors in obtaining GOH approvals. The Project will finance the costs of five participants for long term training in economic development. These officials will be responsible for preparing and updating the inputs the training of Honduras' overseas representatives. Short term training will be provided for these and additional Ministry of Economy officials who work in the One Stop Center. The long term training costs are is estimated at $90,000 for five person years. Short terms courses are estimated at $10,000. Equipment for the One Stop Center are estimated at $20,000. This includes financing the office furniture and a small computer/word processor and software.

2. Promotion Activity

a. Export Promotion Adviser ($100,000 Loan)

The adviser will help the Ministry of Economy to plan its program of training for GOH overseas representatives, and develop its information system to support those representatives on a continuing basis. He is expected to be a PASA employee from the Department of Commerce Foreign Commercial Service. The cost of $100,000 is estimated on the basis of PASA agreements with other USG agencies for GS 15 level employees.

b. Training of Overseas Representatives ($300,000 Loan)

A selection of Honduras' diplomatic missions will be made to establish and strengthen trade and investment activities. These will include Honduran Consuls in at least 12 cities in the United States, and the Commercial Attaches in the Honduran Embassies in Washington, Canada, at least 5 European capitals in Caribbean and South American countries. Honorary Consuls will be considered as well as career foreign service personnel. These are the links between diplomatic missions and the GDFT/ Foreign Ministry investment and trade development program.

A total of 24 individuals will be selected and given an orientation program in Honduras and an initial set of promotional materials. They will establish permanent communication links with the GDFT and FIDE. During the course of their careers they will be selected to participate in programs sponsored by UNDP/GATT/UNIDO,, OAS and other multilateral and bilateral donors.

The GDFT will give each of the 24 investment and trade representative one copy each of the 4 audiovisual presentations, at an estimated cost of $300 each, $1,200 the set. They will also receive a basic library of informational and promotional brochures, costing about $3,000. An initial training seminar will be given for them in Tegucigalpa with the assistance of the UNDP/UNCTAB/GATT for the following purposes:

- To learn about FIDE/FEPROEXAH/DGFT programs, to meet with the private sector, and to discuss Honduras' prospects for trade and investment over the next 5 years.
- To learn techniques of investment and trade promotion.
- To discuss specific investment and trade programs for the individual areas: goals over the next 6 months and next 5 years; systems for achieving the goals, reporting and follow-up mechanisms and procedures.

The representatives will be encouraged to visit FIDE, FEPROEXAH and DGFT offices and the offices of the businessmen with investment and trade interests, to get first hand information and to establish personal relationships. The least costly and most effective communication links should be determined and the system for maintaining regular contact.

An example of the composition of participants is:

Official overseas representatives	24
FIDE/FEPROEXAH	6
DGFT	6
Ministry of Finance, Central Bank	6
Private Sector	50
AID	3
Others	5
	100

The cost of the annual seminar during project implementation is estimated at $121,000. The cost of the initial "kits" given to the representatives is estimated $28,800 for audio-visual kits, and $3,000 for publications kits, for a total of $100,800. The remaining $78,200 will be used for establishing an appropriate communication system, such as teletype, in the offices of the key representatives, to establish direct communication links with FIDE and the GDFT.

c. Participation in Conferences and Seminars ($200,000 Loan)

Honduras will participate in CBI related conferences generally sponsored by the DOC and U.S. regional groups, and also with six regions in the country with which it will develop continuing relationships. Three of these regions have been selected and relationshiops have been established: Atlanta, Georgia, with access to the southeastern U.S.; New Orleans, Louisiana with access to the Mississipppi river basin states; and Mobile, Alabama. Additional relationships will be established with at least three other areas, from among the "silicon valley" region of California, the Boston "Route 128" region, Chicago, New York and Miami.

Project funds will finance promotion material at a cost of $50,000. This includes 6 folding transportable exhibits at a total cost of $12,000, informational/ promotional brochures at a cost of $15,000, four audio visual presentations at a cost of $20,000, and contingencies of $3,000.

The cost of GOH participation in 3 CBI sponsored conferences annually and 12 area conferences annually are estimated at $150,000. This includes air travel of $75,000, per diem of $131,250, and contingencies of $18,750.

d. Investment Promotion Office ($250,000 AID Loan)

The United Nations Industrial Development Office (UNIDO) operates a Caribbean Investment Service Office (CISO) in a building near the U.N. headquarters in New York. CISO provides office space, secretarial service, phones, and training for investment promotion officers from developing countries in the Caribbean. Normally two officers are sent for training - one to learn about promoting investment in the developed world, the other to learn how to provide support from the home base. Normally, two years of CISO services, at an approximate annual cost of $75,000 are required to complete training. AID funds will finance the training program at a cost of $150,000. An additional $100,000 will be used to set up an Investment Promotion Office in New York as described in the Project Description. These funds will be used for equipment, furnishings, an initial stock of promotional material developed by the GDFT, and U.S. domestic and international travel costs of personnel. The GOH will pay salaries, settling in costs of personnel assigned to the office, and personal expenses in accordance with its normal policy for overseas representatives.

B. Export Development

1. Manufactured Export Development

a. Technical Assistance from a U.S. Institution ($2,000,000 Grant)

The U.S. Institution will be the principal source of assistance to FIDE and

its link with the U.S. business community. It will help FIDE to identify opportunities, entrepreneurs willing and able to act on these opportunities, and the promotion of these opportunities leading to their implementation. It will offer continuity of effort over a five year period.

The U.S. Institution will provide a field director for a period of three years. The director will be an industrial engineer, also capable of project financial analysis, who will be coordinator of the USI's activities in Honduras, through FIDE. His principal activity will be to assist FIDE with the sector and other studies conducted to identify potential projects, with the preliminary evaluation of the projects, and with assistance to the entrepreneurs involved with the projects in preparing the pre-financing technical evaluations, plant design and loan applications; and with the eventual plant installation and operations. He will coordinate his activities with those of the mission's senior private sector advisor. The director will assist FIDE to identify the specialists the U.S. Institution will supply and to schedule their time and activities in Honduras. The services of the field director are estimated to cost $435,000 for three years of continuous service in Honduras.

The U.S. Institution will also provide short term advisors specialized in production and marketing in specific sectors, specialists in specific manufacturing plant operations and in transportation, financial and other services as needed. After familiarizing themselves with the country they will concentrate on identifying trade and investment opportunities and promoting these in the United States. This staff will be backed up and coordinated by a home office staff. It is anticipated that the U.S. Institution will have its own offices, or will have an associate with offices, in various key cities in the United States, from which these potential promotional activities can be organized on a regional basis.

The U.S. Institution will also provide office space and secretarial assistance for a FIDE representative who will be integrated into the operations on behalf of Honduras, of the U.S. Institution.

A total of 55 person months of short-term advisors will be needed at a cost of $857,292. Of these, 32 person months are for production/marketing specialists with industry specific knowledge e.g. apparel, electronics, pharmaceuticals. Each short-term advisor will take an initial 2 week familiarization trip to Honduras and will spend an average of two weeks in Honduras and one month in the U.S. each year helping to develop and promote projects. The services of these specialists are estimated to cost $495,420 during implementation.

Project and subject specific specialists (e.g. steel foundry operations, transportation) will be needed for approximately 15 person months at a cost of $224,400. The remaining 8 person months are for Financial Specialists, who

will assist in financial planning of major projects and in arranging sources of funding in the U.S. and elsewhere. The services of the Financial Specialists are estimated to cost $137,472 for 8 person months during the five year implementation period.

The field staff will be supported by a home office staff consisting of a U.S. coordinator (average 5 months annually), a senior officer of the institution (average 0.5 months annually) for overall direction, and another senior officer (average 1 month annually) for direct supervision. The total cost of these services is estimated at $342,000 for 33 person months during Project Implementation.

In summary, personnel assigned to the project will be the field director during 36 months at a total cost of $435,000, and approximately 55 person months of short term advisers at a cost of $857,292, and approximately 33 person months of U.S. office personnel at a cost of $342,000, for a total personnel cost of $1,634,292. In addition, the U.S. Institution will incur other expenses of $240,000 during implementation. These expenses include $150,000 for 6 promotional seminars and lunches; $40,000 for printed material, reports, and publications; and $50,000 for phone, cable, entertainment, etc. Total reimburseable expenses are therefore expected to total $240,000 during implementation. A provision for contingencies in the amount of $125,708 added to the total personnel and reimbursable costs of $1,874,292, makes the total budget for the U.S. Institution $2,000,000.

b. Area Specialists ($750,000 Loan)

The area specialists are individuals who will assist FIDE to develop a regional approach to penetrate the US market in search of buyers for honduran export products and partners for honduran business firms. The regional approach is desired because of the complexities and vastness of the US market, particularly for inexperienced relatively small new exporters. The area specialists will:

- Assist FIDE to develop a network of institutional relationships with trade associations, chambers of commerce and city or state governments, that will serve as a base to conduct business in their respective regions.

- Identify and communicate through FIDE about business opportunities and potential in the region.

- Arrange and coordinate business meetings for Honduran exporters and entrepreneurs.

- Advise Hondurans on business practices in the US and the region.

FIDE expects to contract 5 area specialists, who are each expected to work on Honduras opportunities about 2 months per year. Three regions have already being selected: Miami, New Orleans, and Atlanta. Other regions being considered are Chicago, Los Angeles, and Mobile, Alabama. Final selection of the regions will depend on its potential to advance the business development opportunities of the products or product areas that will receive priority attention in the project. The area specialists will be retained under contract by FIDE for a period of 2 years. Performance under the contract will be evaluated every 6 months and the continuation of the contract will depend on concrete business results. Specific targets will be set in the contracts.

It is estimated that the cost of the area specialists contract will be the following:

Cost Items	Quantities	Unit Prices	Total
Professional services	50 person/months	10,000	500,000
Travel	25 trips	5,000	125,000
Communications		7,500/yr	75,000
Representation		5,000/yr	50,000
			750,000

c. FIDE U.S. Representation ($450,000 Loan)

FIDE will place a member of its staff at the offices of the U.S. Institution. He will be Honduras' point man in opening doors of U.S. businesses to Honduran firms and products. He will have to travel extensively in the U.S. and make occasional trips to Honduras in carrying out his reponsibilities. The costs of maintaining the representative in the U.S. are estimated at $90,000 per year, which includes $60,000 for salary and expenses, $10,000 for communications, $15,000 for travel, and $5,000 for other costs.

d. New Products Development Adviser ($300,000 Loan)

The Manufactured Exports Activity concentrates on the labor intensive apparel industry, and on wood products industries, as Honduras is already exporting these products and they have good growth potential. Another obvious choice for Honduras is electronics, which accounts for well over 60% of all 806.3/807 exports to the U.S., but which is still a nascent industry in Honduras. Serious interest by U.S. and Honduran entrepreneurs has been expressed in initiating assembly operations at the low-technology end of the scale.

The advisor will have had production experience in the electronics industry as an electronics engineer, or similar experience, and will have a wide range of contacts that will facilitate marketing connections. He will evaluate the potential for electronics assembly work and will assist in developing and

implementing projects. He will also be capable of advising on the development of other product lines. The estimated costs of the adviser are estimated at $300,000, which includes salary, post differential, housing, and other direct costs of $252,000; transportation of household effects, car, travel, etc. of $21,000; and trips to the U.S. and other expenses of $27,000.

e. Short-Term Consultants ($200,000 Loan)

Honduras' principal assets for generating new industrial exports are low-cost trainable labor, proximity to market, and good transportation facilities. They provide a basis for many industrial activities other than the apparel/wood products/electronics sectors that are considered to be the priority activities in the near future. For example, a manufacturer of luxury yachts is successfully exporting to the U.S., and a group of investors is negotiating to buy a steel foundry to make custom moldings for the U.S. market. Other opportunities will surface as entrepreneurs follow up their individual interests. Short term consultants will be hired to assist individual enterprises in feasibility analysis for new labor intensive manufacturing activities.

Agro-industrial products will also come under the purview of these consultants. FEPROEXAH, FIDE's sister organization, will be identifying and supporting agro-industrial activities that become part of integrated agricultural-processing systems, but these will not cover the universe of agro-industrial proyects that in some way process agricultural raw materials. These short-term consultants will be an additional source of services for those projects that do not otherwise have adequate coverage.

The estimated costs of 20 person months of services from short term consultants are $125,000 for personal services, $12,500 for air transport, $67,600 for per diem, and $4,6000 for other costs.

f. CBIN Information System Usage ($250,000 Loan)

The CBIN (Caribbean Basin Information Network) is an electronic data transmission system that was set-up to facilitate economic development, technology transfer and the growth of businesses of the countries in the Caribbean Basin. FIDE will become an affiliate of the CBIN. Through its affiliation, it will obtain information related to foreign markets, export and import laws, regulations and tariffs. business conditions in other Caribbean Basin countries, specific business opportunities. It will advertise specific Honduran business and investment opportunities to potential foreign investors, and request technical assistance on behalf of Honduran business firms.

The cost estimate for setting up (excluding equipment) and operating two systems for a 5 year period, is:

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- Technical Feasibility Study	15,000
- Marketing Strategy Study	10,000
- Subscription Fees Analysis	17,000
- Usage Hours	30,000
- Access and Usage of Add. Data Banks	40,000
- Staff Training	35,000
- Promotion	25,000
- Telecommunications	55,000
- Equipment Maintenance	10,000
- Technical Assistance	13,000
	250,000

g. FIDE Equipment ($50,000 Loan)

FIDE's extensive and constant contact with Honduran business firms, expected frequent staff travel between Tegucigalpa and San Pedro Sula, and visits to industrial sites with potential foreign investors and business partners will require two vehicles at an estimated cost of $28,000. In addition, equipment, installation, and software needed to implement the electronic data transmission system (CBIN) and for other office needs, will require purchase of 2 small computers and a modem. The cost for the computer equipment, software, and installation is estimated at $22,000.

h. Business Conferences ($100,000 Loan)

One of FIDE's major objectives is to promote the image of the country as a good place to invest in and do business with. FIDE's staff will attend business conferences and participate as panelists, and accompany honduran businessman to specialized trade shows. The latter is one of the best ways tp establish direct contact between buyers and producers, learn about the latest products and technological innovations in the market, and become familiar with market trends. Additionally, FIDE's staff will travel by itself or with honduran businessman to several regions in the U.S. where special market penetration efforts are being made with the assistance of area specialists. The average cost of the participation in a business meeting or conference is estimated at $2,000, which includes overseas travel ($1,100), local travel ($300), telecommunications ($150), inscription fees and representation expenses ($450). An average of ten (10) business trips per year are planned at a total cost of $100,000.

i. Labor-Intensive Industries Adviser ($300,000 Loan)

This will be a specialist in 806.3/807 assembly operations, and in the creation of privately operated industrial parks in free trade zones. The parks will provide external economies, services and incentives (through Free

Zones status) to encourage the attraction and development of labor intensive industries.

The adviser will help to establish two Industrial Park Management Companies (IPMC)--one in Tegucigalpa and one in San Pedro Sula. The IPMCs will own, operate, manage and promote the industrial parks. The advisor will train the IPMC staff, and organize the services the IPMC will provide, and advise FIDE and the IPMCs on the planning of the development of the physical facilities in the industrial parks.

The advisory services will require two persons, one skilled in the physical layout of industrial parks and the other in the management and promotional aspects. The services will be contracted through a firm experienced in this kind of development. The cost of an advisor for overall planning, management and promotion of the industrial parks is estimated at $168,480, which includes 1 month of services in Honduras, 1 month of services in the U.S., and 20 days of home office time each year at a total cost of $131,040; air transportation between the U.S. and Honduras of $9,000; per diem of $8,640; travel in the U.S. of $10,800; and per diem in the U.S. of $9,000.

The cost of the advisor for physical planning of industrial parks and construction is estimated at $71,850, which includes 15 days in Honduras, 10 days travel in the U.S., and 10 days in the home office each year at a total cost of $57,330; air transportation between the U.S. and Honduras of $4,500; per diem in Honduras of $4,320; travel in the U.S. of $2,700; and per diem in the U.S. of $3,000.

In addition, seminars, entertainment, communications, and publications, etc. are estimated at $45,000, and contingencies at $14,670. The total cost of these services is $300,000.

j. Furniture/Wood Products Adviser ($500,000 Loan)

This will be a specialist in wood products manufacturing who has had manufacturing experience himself and who can supply technical assistance to a range of wood products industries, most of them likely to be furniture and construction products. This latter includes present exports such as doors, molding, dowel sticks, frames and windows; and potential new exports such as wooden toys, tongue depressors, etc.

The advisor will provide assistance in areas such as product design and introduction of new products, improvement of finishing, improvement of the production process and quality control, effective and minimum cost packing and transportation; marketing channels and handling of the products in foreign markets, such as customs clearance, warehousing, shipping, and billing. The advisor will also identify areas where groups of manufacturers might profit by

cooperating through development of a specific product export company that may be formed among the producers, successful exporters sub-contracting with smaller producers, and consolidation of shipments of two or more exporters.

Since the range of needed services is so wide, it is expected that the advisor will be a consulting company or a prime contractor who will sub-contract as needed. The estimated costs are estimated at $500,000 over five years, which includes: the services of the principal adviser for 5 months a year in Honduras and 1 month a year in the U.S. at an estimated cost of $356,700, the services of short-term consultants at $132,100, and contingencies at $11,200. The principal adviser's costs include personal services of $250,000, air travel between the U.S. and Honduras of $12,500; per diem in Honduras of 72,200; air travel in the U.S. of $4,500; per dien in the U.S. of $7,500; and communications and other costs of $10,000. The costs of the short term advisers are estimated at personal services of 40 person weeks at a cost of $83,300; air transportation of $20,000, and per diem of $28,800.

2. Agricultural Exports

a. FEPROEXAH Adviser ($500,000 Grant)

This specialist will assist FEPROEXAH and its members supply cost effective services to producers and agroexporters, attract foreign and domestic investments into agroexport ventures, and negotiate a sound policy environment. The adviser will assist the Board of Directors and Senior Management of FEPROEXAH and the three producer's associations to establish appropriate organizational structures; execute membership drives; establish dues and fees and collection procedures; develop operating procedures, user oriented information networks, investors services, and training technical assistance programs; plan and implement their service delivery programs, and negotiate policy reforms with the GOH. The advisor will provide immediate assistance in management and organization to FEPROEXAH's line departments (Information and Networking Unit; Marketing and Investment Service Office and the Center for Agricultural and Agroindustrial Productivity). His counterpar will be FEPROEXAH's Executive Director. After an initial consolidation phase at FEPROEXAH, he will ollaboration with each commodity specific team, he will provide progressively increasing assistance to the three producer's associations, and to any others that may be formed during project implementation. The cost of this specialist, including support needs, are estimated at $500,000 over three years.

b. Marketing Adviser ($300,000 Grant)

This adviser will help design and implement agricultural export promotion activities. His priority tasks will be to identify marketing channels for products currently produced, or which could be produced in Honduras; assist

producers and exporters to negotiate sales and transportation contracts; assist the producer's associations in marketing their commodities; and help organize the services provided by FEPROEXAH in the areas of exports and transportation support.

He will provide technical assistance, and train local specialists, in post harvest marketing techniques covering harvesting, packaging, stowing and quality controls through the establishment and enforcement of commercially used grades and standards to ensure consumer acceptance in the target markets. The adviser must have full knowledge of how to comply with USDA and APHIS controls. The cost of the Marketing Specialist is estimated at $300,000 for 3 years of services.

c. New Commodity System Adviser ($200,000 Grant)

This will be one or more short term consultants who assist FEPROEXAH to analyze the next most viable commodity systems that should be developed. They will play the same role during implementation that the Post-Harvest Institute for Perishables played during project development. A total of $200,000 will fund twenty person months at an estimated cost of $10,000/month.

d. International Training ($450,000 Loan)

Hands on training in model farms, orchards and training centers in countries more advanced than Honduras in the three selected commodity systems will be the preferred educational mode supported through this project. As new commodity systems come on stream, growers and technicians belonging to those commodity systems will benefit from this activity. The cost per participant has been estimated at $3000 per two months of work training ($1000 for travel, $1500 for living expenses; and $500 for other costs.

During the first three years of implementation, 30 participants per year, ten from each commodity system, will benefit from this training. During the last two years, it is expected that participants from new qualified commodity systems will form part of the 30 participants per year profiting from the work training program. The total cost of $450,000 will provide training for a total of 150 participants over the five years of implementation.

e. Equipment ($272,000 Loan)

FEPROEXAH's program, although based in the agricultural and agroindustrial heartland of Honduras, San Pedro Sula, is nationwide in coverage. The advisers, productivity specialists, and extensionists will travel extensively to support investors, growers, and exporters. The following transportation equipment will be purchased: a work vehicle for each long term advisor, for a total of five vehicles ($80,000); a microbus for FEPROEXAH's central office

($25,000), and motorcycles for each of the eight field technicians ($12,000). Each vehicle will need a radio. The cost of a radio system --a central plant and a unit per work-vehicle-- is estimated at $23,000. The total cost of transportation equipment is therefore $192,000.

FEPROEXAH will have to provide current production and marketing information both from Honduran and foreign sources. Additionally, it will have to keep a strict control of imported agroinputs by buyer, item, time period and financial plan. It will also have to provide an accounting of Project implementation costs, keep accounting records and baseline data for the producer's associations. A small computer, peripheral equipment, software, electrical protection regulators, installation, services and training are expected to cost $50,000.

The Federation and its associations have a large functionally illiterate clientele and it will have to train these growers. The following equipment will be needed for training uses: 2 complete BETAMAX systems, 3 additional BETAMAX tape recorder/players, 100 Betamax tapes, two (2) 16 mm. projectors, 2 carrousel slide projectors, two 35 mm camaras and complementary equipment, 2 overhead projectors, one opaque projector, recorders, one conference audio system (microphones, speakers, amplifier), 2 flip charts, 3 blackboards, and 3 portable projection screens. The cost of this equipment has been estimated at $20,000.

To implement this Project, the Federation will have to expand its staff, and the office equipment necessary to support this expansion. Project funds will finance the procurement of 2 metallic program boards, one programable and two regular desk calculators, three electric typewriters, one copier, library equipment (i.e. microfiche reader and copier, magazine displays), and other office equipment. The cost of these items has been estimated at $10,000.

f. <u>International Travel, Business Conferences and International Networking (AID Loan $728,000)</u>

After the current lack of competitive, exportable production, the most serious constraint endangering a successful Honduran export drive is misinformation. This "wrong knowledge" precludes U. S and European investors from even remotely considering Honduras as an investment site. This problem will be addressed through agroinvestors and marketing conferences in Honduras. In addition, U.S. investors groups will be invited to visit the country in prearranged business missions. The cost of two agroinvestors conferences, two marketing conferences, and four business missions is estimated at $250,000 over the five project years.

The efforts to change Honduras' image among foreigners will be complemented by visits of Honduran producers, exporters and investors to the U. S and Europe

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to promote sell their products and seek investors. Well trained small groups will visit the U.S., attend carefully selected workshops and seminars, participate in trade fairs, and follow up on leads previously identified. These groups will target those agribusiness with high labor costs, weather risks, and/or investments overseas, specifically in Mexico. They will also visit succesful agroexport ventures and/or programs in other Caribbean Basin countries or in Latin America. The cost of this activity has been estimated at $200,000 over the planned project time horizon.

FEPROEXAH staff and members should be constant and effective private sector promotors for Honduran agroexports. They should be well aware of how the market is changing, be ready to negotiate and protect the interests of the Honduran agroexporters in their trade with foreign companies, and project an overseas image of effective response. An export oriented institution must be able to deal with their potential buyers where those entrepreneurs are. This project element will allocate $3500 per month to support FEPROEXAH's direct international travel needs. The cost reaches $210,000.

FEPROEXAH must establish an adequate, albeit small, reference documentation center, with publications and sources providing intelligence on foreign markets, competing countries, and investment circles. This component will finance the start up of this collection with approximately $53,000. Additionally the membership to several trade organizations, subscription to trade journals and market intelligence services will be funded at the rate of $3000 a year, for a project life total of $15,000. The total cost of this element has been estimated at $68,000.

h. Cocoa Development Specialist ($300,000 Loan)

This adviser will form part of, and receive support from FEPROEXAH's CAAP. He will assist both current and potential cocoa growers in an active search for, and support of, foreign and domestic investors in cacao production and processed goods. His main responsibility is to eliminate the knowledge-gap existing in the Honduras cocoa industry by transferring appropriate preproduction, production and post harvest technology. He will help APROCACAO to identify existing problems (e.g. weeds and plagues, improper plant spacing, little or no fermentation, drainage); design solutions and the mechanisms required to implement them. Through APROCACAO, he will assist the GOH in the formulation of a proper policy to foster the cocoa industry, and establish the required quarantine measures to impede the introduction of monilia and other plagues into Honduras.

The advisor will assist in the establishment and/or expansion of needed clonal gardens and the construction and operation of on farm and regional processing centers. In close collaboration with the local cocoa technical staff, he will recommend cost effective technological packages, including the economic use

of required inputs. The adviser will assist APROCACAO and the FEPROEXAH to develop the mechanisms (i.e. sales of seed and other inputs, technical assistance and training contracts, user's fees) needed to ensure the financial viability of both institutions. Three years of the adviser's services are expected to cost approximately $300,000.

i. Cocoa Short-Term Advisors ($250,000 Loan)

The short-term consultants will complement the industry wide expertise of the long term adviser by providing assistance outside his areas of expertise. Improper soil management, weed control, and drainage are areas in which assistance will be needed. Management of the clonal garden and processing of cocoa beans will require highly specialized assistance. The permanent cocoa team will identify the short-term assistance needed. Twenty-five person months, at an average cost of $10,000 per month are expected to cost approximately $250,000.

j. Citrus Development Specialist ($300,000 Loan)

This adviser will form part of, and receive support from, FEPROEXAH's Center for Agricultural and Agroindustrial Productivity. Through his citrus industry background he will provide comprehensive assistance to the commodity system. His main functions will be to transfer cost effective technology to Honduran technicians and growers, and facilitate linkages with U.S. markets and investors in the citrus industry. The Adviser will work primarily with technicians and trainers, supervise their effectiveness with the growers and advise FEPROEXAH on policy issues relating to citrus industry development.

Working with the local citrus team and in close collaboration with the Agricultural Research Foundation (FHIA), as well as with existing and expected processing plants, the advisor will: assess current production and post harvest practices and problems, (i.e. drainage, quality controls, site selection for expansion, packing and shipping), identify solutions, and establish technical assistance, training and financial programs to improve existing conditions. In conjunction with FEPROEXAH's Marketing and Investment Service Office, he will assist in identifying new markets for fresh fruit as well as for processed products and by products, and collaborate in attracting and supporting domestic and foreign investors. The specialist will also design and set up a financially self-sustaining technical assistance and training system. The costs of the 3 years of assistance from the adviser are estimated to cost $300,000.

k. Short-Term Citrus Advisers ($250,000 Loan)

The industry-wide expertise of the Citrus Development Specialist will require complementary support from short-term advisers in areas such as: formulation

of the most economical fertilizer mix, low cost solutions for drainage problems, and finding good uses for rejected fruit. The cost of approximately 20 months of short term assistance is estimated at $250,000.

1. Vegetable Development Specialist ($500,000 Grant)

This specialist will work through FEPROEXAH and AHFAH to transfer cost effective technology to local technicians and growers, facilitate linkages with the U.S. food industry, and assist in the institutional strengthening, through the supply of revenue generating services, of FEPROEXAH and the Horticultural Association.

From his broad expertise in the produce industry, he will apply cost effective technological packages which anticipate the significant production and post harvest risks associated with the vegetable industry. This assistance, focussed on technological transfer, will span the whole commodity system of the three vegetables (cucumber; onions; okra) selected to initiate the agricultural export drive.

Specifically, the specialist will provide assistance in introduction of adaptable commercial cultivars; identification, and use of existing marketing channels for specific vegetables and lines; application of post harvest treatments and (d) identification of agroindustrialization opportunities, their problems and solutions (i.e. pickle okra and cucumbers). In collaboration with FHIA, he will provide solutions to unexpected agronomic and/or post harvest problems. The identification of additional money making vegetable opportunities and expansion areas and the mechanisms to benefit from these opportunities will be an equally important task.

The adviser's industry contacts should facilitate an increased interest on the part of the U.S. food industry in Honduras as a source of competitive supplies and/or as a rewarding investment site. Working in close collaboration with the local Horticultural productivity advisors and staff --his/her immediate technological transfer target-- this advisor will design and set up a financially self-sustaining technical assistance and training system. The adviser's services are expected to cost $500,000 for five years of assistance.

m. Vegetable Short Term Technical Adviser ($250,000 Loan).

The varied number of potentially profitable vegetables, and the multiple post harvest treatment as well as marketing channels found in the produce business necessitates a broad range of expertise which probably cannot be found in a single specialist. Thus, some of the tasks assigned to the Vegetable Development Specialist will require additional assistance from short-term advisers. The cost of 20 months of this assistance is estimated at $250,000.

3. Feasibility Study for Payment Insurance ($200,000 Loan)

Among the general conclusions of the Price Waterhouse study of Export Services and Financing Needs in Honduras is that the major need of exporters of non-traditional products is for working capital. In spite of the high liquidity position of most Honduran banks, funding for working capital requirements -- or for any other requirements -- is available only if the borrower can satisfy the banks' traditionally high collateral guarantees. The banks usually require this collateral in the form of real property in urban areas. A typical form of working capital financing in use in Honduras is a direct bridge loan to an exporter who has previously been given a general purpose line of credit adequately secured. The underlying export transaction is not considered the primary, or even a signicant source of repayment for the financing. The banks' lending criteria are not transaction-oriented. Under the circumstances, assets suitable for collateral requirements are usually already encumbered, or there are not sufficient unencumbered assets to secure any major development of export industries. The banks' insistence in maintaining their collateral requirements will effectively block any possible expansion of non-traditional exports.

The project includes an activity to persuade and assist at least some, of the commercial banks to move toward transaction-based financing. However, a simultaneous approach must be to seek ways of replacing at least part of the collateral requirements on which the banks insist, with same other acceptable form of guarantee.

Four actions that can be taken to reduce collateral requirements are:

- Encourage banks to utilize export transaction based financing mechanisms as the principal source of repayment.
- Encourage the establishment of international trade departments in commercial banks.
- Encourage export receivable factoring activities with U.S. financial institutions.
- Establish and implement an export insurance program.

The first three will be achieved through the process of qualifying for Trust Fund resources. This section deals with the latter, a credit insurance program. The program establishes an export credit insurance fund that would provide commercial risk gurantees to banks as an incentive to increase credit available to exporters. The insurance would reduce the collateral requirement in relation to the proportion of the risk it covers, and would encourage transferring loan resources to export activities.

The insurance system would require establishing a reserve fund that would cover about five times the value of the fund in export credit insurance

coverage. If this insurance coverage were 50% of the normal collateral requirement, it would induce an export value of 10 times the value of the fund. If the insurance coverage were 60% of the normal collateral requirement, it would induce an export value of 8.3 times the value of the fund, but collateral requirements would drop from 50% to 40%, as illustrated below.

Reserve Fund	Credit Insurance Coverage	Percent Risk Covered	Total Export Value	Collateral Requirements
$1	$ 5	50%	$10	$5 (50%)
$1	5	60%	8.3	3.3 (40%)

The higher the percentage of the risk covered by the fund, the lower the collateral requirements would be and the larger the number of nontraditional exporting firms could participate. The trade-off is that the total value of export shipments covered would be lower with a given amount in the fund.

Since the insurance would reduce the commercial exposure of the participating banks, the banks could afford to reduce interest charges for the loan. One banker estimated the program could enable him to charge two percent above his borrowing cost of funds which he estimated ranged between 11 and 14 percent. In general, interest rates of 17 to 19% currently being charged for short/term (180 day) loans could be lowered to between 13 and 16 percent.

The exporters would benefit by gaining access to short-term credit with reduced interest and collateral requirements. The insured bank could provide working capital pre-exporting needs, and post-shipment financing in advance of payment by the importer. In the event of default by either the exporter or the importer, the lending bank would be paid the agreed 50 to 60 percent of the face value of the loan, and the insurer would take action to collect from the defaulting party.

A feasibility study is needed to develop the credit insurance concept, to assess demand for the insurance among exporters, to undertake a risk analysis to determine the cost of the premium and to design the implementation procedures and mechanisms in the context of current Honduran banking and commercial practices. The study would have to determine the appropriate sponsoring entity and assess the advantages and disadvantages of public, private or mixed sponsorship of the export credit insurance program. Careful analysis of the costs and benefits would have to be made and the effects on the GOH external debt or fiscal burden, and its commitments to the IMF and other external agencies.

If feasibility is demonstrated, local currency generations will be used to establish a Reserve Fund in the Central Bank. The management and operation of the Fund would be done through one or more insurance companies in Honduras,

FIA, a new export development corporation or some other suitable mechanism. The program would be "marketed" to the banks with the intention of persuading them that the FIDE affiliates who participate in this program will be lower commercial risks. The purpose will be to encourage the banks to move toward transaction financing and to factor the reduced commercial risks into less stringent collateral requirements and more favorable loan terms.

The estimated increase in exports, total working capital requirements, and the proportion and amounts of working capital that will be provided by the investor, the bank under the insurance program, and the bank with collateralized guarantees is shown below:

Source of Working Capital Requirements

Year	Increase in Exports ($000)	Working Capital Requirements (40%) ($000)	Investor (20%) ($000)	Loans Total (80%) ($000	Loans Insured (60%) ($000)	Loans Collateralized (40%) ($000)
1	10,000	4,000	800	3,200	1,900	1,300
2	20,000	8,000	1,600	6,400	3,800	2,600
3	35,000	14,000	2,800	11,200	6,700	4,500
4	55,000	22,000	4,400	17,600	10,600	7,000
5	75,000	30,000	6,000	24,000	14,400	9,600

To sustain a projected level of exports of $75 million, working capital credit insurance of about $14.4 million will be needed, which requires a Reserve Fund of about $2.9 million (20%).

Assuming the fund were fully employed and the charge to the user was 1% to 2% annually, the interest payments to the fund would be in the range of $144,000 to $280,000 annually when the insured amounts reached $14.4 million in the 5th year. The cumulative total in five years would be $374,000 - $748,000 if there were no defaults.

Interest Charge Collected ($000)

Year	Insurance Issued	Premium 1%	Premium 2%	Cumulative 1%	Cumulative 2%
1	1,900	19	38	19	38
2	3,800	38	76	57	114
3	6,700	67	134	124	243
4	10,600	106	212	230	460
5	14,400	144	288	374	748

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4. AID Project Management

a. Banking Adviser ($200,000 Grant)

This will be a senior executive from a U.S. commercial or investment bank. Candidates are now being identified by a U.S. executive talent search company. The adviser will assist AID and FIDE in evaluating the proposals from local banks for participating in the Trust Fund, analyze the cost of the proposed services, and monitor the implementation of the Trust Fund. He will also advise AID on ways of mobilizing U.S. and Honduran capital for equity investments. He will assess the development possibilities of a capital market in Honduras, and design investment schemes, e.g., joint partnerships, joint equity investment funds, trading companies that are needed for specific investment opportunities. The cost of the adviser's services is estimated at $200,000 for two years.

b. Private Sector Development Adviser ($400,000 AID Grant)

These funds will finance a continuation of the services of the Mission's Senior Private Sector Adviser who has worked on development of the Project for the last year on PD&S funds. An extension of 5 years will be needed. Based on present costs this would amount to $400,000 over the five-year period. The Adviser will assist FIDE and the Producer's Association on the institutional development aspects of their programs. Specifically, he will assist FIDE with internal organization and management, external staff training, program planning and budgeting, costing of services, policy statements, publications, and information systems. He will monitor FIDE's implementation of the Manunfactured Exports Activity.

c. Project Liaison Officer ($250,000, AID Grant)

The services of this contractor will needed throughout the life of the Project to maintain liaison with all participating institutions, advise the USAID/H Private Sector Officer of implementation progress and problems, and initiate corrective actions. The Liaison Officer has already been contracted with PD&S funds to assist in initial implementation actions. Based on her present contract, five additional years of services have been budgeted at an annual cost of $50,000 per year for 5 years.

d. Agriculture Project Liaison Officer ($250,000, AID Grant)

The services of this contractor will needed throughout the life of the Project to maintain liaison with all participating institutions, advise the USAID/H Agricultural Office of implementation progress and problems in the agricultural export activities, and initiate corrective actions. A contract with a Honduran citizen or resident is contemplated at an annual cost of $50,000 per year for 5 years.

III. Financial Viability of Implementing Agencies

A. FIDE

1. Income and Expenses during Project Implementation

FIDE's budget for the first ten years of operations is shown in Table 1. As is seen, income from memberships, contributions and service charges covers a small portion of FIDE's costs. Membership fees will be charged to companies and individuals and will entitle them to reduced rates for services provided by the Foundation. Contributions will be sought from other private sector associations, the country's 15 commercial banks, savings and loan associations, insurance companies, multinational companies operating in Honduras, and major industries. The income from these sources is estimated at $275,000 during the first five years. Service charges will also contribute to FIDE's income. The income from this source is estimated at $370,000 during the first five years. As FIDE's Board has not yet set the rates for memberships and service charges, a Condition Precedent has been included in the Project Authorization requiring that this be done prior to first disbursement for assistance to FIDE.

In order to bridge the income gap that FIDE will experience during Project implementation, the Project design includes several additional sources of income that will help FIDE maintain financial viability during this period. These sources of income are: Dollar costs financed from the AID Loan ($2.1 million); the interest rate differential described in Section II.G. of the project description ($4,650,000), and a counterpart contribution to the project ($650,000). The calculations for the income from the interest rate differential are shown in Table 2. With the additional income from these sources, FIDE will be able to provide the required level of services during project implementation.

2. Income and Expenses after Implementation

After implementation is over, income from the AID Loan and counterpart contributions are not expected to be available to FIDE. However, income from the interest rate differential will continue and will peak in years six and seven, FIDE's income from charges for services and the support from the private sector are expected to continue rising as income from the interest rate differential starts to decline. Even with conservative assumptions regarding these sources of income, FIDE should be viable through at least the 10th year after the start of implementation as shown in Table 1. FIDE may experience some difficulty in obtaining dollars for its U.S. staff and other dollar costs and will have to rely on the banks benefitting from the program to make dollar conversions if a dollar shortage still exists at that time. The arrangements made to ensure that FIDE will be able to continue

providing a high level of services after implementation ends hold a reasonable chance of achieving that purpose.

B. FEPROEXAH

1. Income and Expenses during Project Implementation

FEPROEXAH's budget for the first ten years of operation is shown in Table 4. FEPROEXAH's income from memberships, contributions and service charges will cover a small portion of its costs. Memberships will come from initial registration of member associations and individual enterprises, and monthly fees from each of them. An extraordinary contribution is required at the end of each year. The income from these sources is estimated at $27,000 during the first five years. Charges are made for the following services: sale of accounting manuals for each productive activity; management and technical courses; computer services; preparation of credit requrests to the banking system; use of telephone and telex; and photocopies. The income from service charges is estimated at $411,000 during the first five years. FEPROEXAH will also import and sell agricultural inputs to its members at competitive prices. The net income from these sales during the implementation period is estimated at $435,000. As FEPROEXAH's Board has not yet set the rates for memberships and service charges, nor established its pricing policy for agricultural inputs, a Condition Precedent has been included in the project authorization requiring that this be done prior to first disbursement for assistance to FEPROEXAH.

In order to bridge the income gap that FEPROEXAH will experience during project implementation, the Project design includes several additional sources of income. They are: Dollar costs financed from the AID Loan ($2.2 million); the interest rate differential described in Section II.G. of the project description ($3,950,000), and a counterpart contribution of $950,000. The calculations for the income from the interest rate differential are shown in Table 2. With the additional income from these sources, FEPROEXAH will be able to provide the required level of services during project implementation.

2. Income and Expenses after Implementation

After Project implementation is over, income from the AID Loan and counterpart contributions will not be available to FEPROEXAH. However, income from the interest rate differential will continue and will peak in years six and seven. FEPROEXAH's income from service charges and the sale of agricultural inputs are expected to continue rising after the income from the interest rate differential starts to decline. Even with conservative assumptions regarding these sources of income, FEPROEXAH should be viable through at least the 10th year after the start of implementation as shown in Table 4. FEPROEXAH may

Table 1: FIDE Income and Expenses
($000)

	Year 1	2	3	4	5	6	7	8	9	10	TOTAL
Income											
AID Loan Funds	385	370	405	450	490	-	-	-	-	-	2,100
Interest Rate Diff.	104	635	770	1095	1355	1620	1630	1335	855	645	10,044
Addl. Local Currency	400	125	125	-		-	-	-	-	-	650
Membership Fees	40	45	50	60	85	100	120	175	200	250	1,125
Service Charges	40	50	70	85	129	150	200	300	350	400	1,774
Total Income	969	1,225	1,420	1,690	2,059	1,870	1,950	1,810	1,405	1,295	15,693
Expenses											
Membership Campaign	10	12	15	18	22	30	35	40	45	50	277
Information System	40	45	50	55	60	65	70	75	80	85	625
Seminars and Publications	80	130	150	180	180	120	180	125	100	100	1,345
Business Conferences	20	22	25	27	30	35	40	45	50	55	349
Mkt. and Prod. Asses.	90	180	195	230	210	175	200	140	100	50	1,570
Area Specialists	100	120	145	175	300	200	275	250	-	-	1,565
Overseas Represent.	75	80	85	90	180	300	320	350	350	350	2,180
New Prod. Dev.	60	120	200	250	500	350	260	150	100	85	2,075
Short-Term Consult.	40	40	40	40	40	50	55	60	65	70	500
Operations	320	370	380	420	450	475	500	525	500	450	4,390
Equipment	50	-	-	-	-	50	-	-	-	-	100
Contingencies	84	106	135	205	87	20	15	50	15	-	717
Total	969	1,225	1,420	1,690	2,059	1,870	1,950	1,810	1,405	1,295	15,693

Table 2: Interest Earned and Applications
($000)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Disb. of Credit Funds:												
Trust Fund	10000											
Invest. Cap. Fund	1400	2100	3400	4800	2800							
Indust. Parks	1100	1800	2000	2100	2500							
Total	12500	3900	5400	6900	5300							
Cum. Total 1/	12500	16400	21300	28700	34000	34000	34000	34000	33420	32650	31540	30430
Interest Earned	344	1590	1980	2780	3450	3740	3740	3740	3680	3590	3470	3350
Applications:												
Total Debt 2/	13500	18400	25300	33700	40000	40000	40000	40000	39420	32450	31140	29830
AID Debt Serv.	135	320	440	590	740	800	800	1380	1730	2320	2680	3080
Bal. Avail.	209	1270	1540	2190	2710	2940	2940	2360	1950	1270	790	270
Applied to:												
FIDE Over. Repr. 3/						300	320	350	390	440	500	270
FIDE Local Costs	104	635	770	1095	1355	1320	1310	1005	780	415	145	
FEPRO. Local Costs	105	635	770	1095	1355	1320	1310	1005	780	415	145	

1/ Starting in 1992, this amount is reduced by the amount of principal repaid to AID.
2/ This includes the $16 million borrowed under this project plus the $24 million in local currency used for industrial parks and agricultural export credit.
3/ FIDE's overseas costs are AID Loan financed during project implementation.

Table 3: Local Currency Uses and Sources

Use	Source ($000) Local Currency Generations 1/	Source ($000) Interest Generations 2/	Total
I. Export Policy and Promotion	-	-	-
II. Export Development	24,000	9,600	33,600
A. Manufactured Exports	9,500	4,650	14,150
1. Manuf. Exp. Devel.		4,650	4,650
a. FIDE Local Expenses		4,650	4,650
2. Labor Intensive Exports	9,500		9,500
a. Loans for Industrial Parks	9,500		9,500
B. Agricultural Exports	14,500	4,950	19,450
1. Agric. Exp. Devel.		4,950	4,950
a. FEPROEXAH Local Costs		4,950	4,950
2. Cocoa System Devel.	3,000		3,000
a. Investment Credit	3,000		3,000
3. Citrus System Devel.	9,000		9,000
a. Investment Credit	9,000		9,000
4. Vegetable System Devel.	2,500		2,500
a. Investment Credit	2,500		2,500
III. Financial Services	2,500		2,500
Private Investment	2,500		2,500
IV. AID Project Management			
Total	26,500	9,600	36,100

1/ These funds will be made available by converting the Private Sector Working Capital Fund now financed by ESF generations into an Export Development Fund.
2/ These funds will be generated from the interest earned on the Trust Fund ($10 million), the Agricultural Export Fund ($14.5 million) and the Industrial Parks Infrastructure Loans ($9.5 million).

Table 4: FEPROEXAH Income and Expenses
($000)

	Year										TOTAL
	1	2	3	4	5	6	7	8	9	10	
Income:											
Memberships	4	5	5	6	7	9	11	13	15	17	27
Services	37	50	92	115	133	146	160	177	194	246	427
Sales of Ag. Inputs (net)	26	53	90	113	150	165	182	200	224	242	432
AID Loan Funds	484	273	279	285	129						1,450
Int. Rate Diff.	105	635	770	1095	1355	1320	1310	1005	415	145	3,960
Transfers to/from Assoc.	(16)	9	(38)	54	(105)						(96)
Addl. LC Generations	750	200									950
Total Income	1,390	1,225	1,198	1,668	1,669	1,640	1,663	1,395	848	650	7,150
Expenditures:											
Management unit	124	137	150	165	184	198	203	213	224	235	760
Tech. specialist	131	144	142	139	-						556
Admin. support	37	40	40	49	53	56	58	61	64	68	219
Support services	8	9	10	11	12	13	13	14	14	15	50
Contract services	79	87	96	-	-						262
In-Country Training	190	195	145	155	-						685
Overseas Training	150	100	100	100							450
Equipment	172	50	50			50	50	50	50		272
New Com. Sys. Devel.				500	1,000	840	840	600	160		1,500
Operational Support	292	322	325	313	257	270	285	271	200	200	1,509
Int. Travel/Bus. Missions	162	123	129	185	129	135	135	119	100	100	728
Contingencies	45	18	11	51	34	78	79	67	36	32	159
Total Expenditures	1,390	1,225	1,198	1,668	1,669	1,640	1,663	1,395	848	650	7,150

experience some difficulty in obtaining dollars for its U.S. staff and other dollar costs and will have to rely on the banks benefitting from the program to make dollar conversions if a dollar shortage still exists at that time. The arrangements made to ensure that FEPROEXAH will be able to continue providing a high level of services after implementation ends hold a reasonable chance of achieving that purpose.

C. Financial Viability of the Industrial Park Management Companies

To analyze the financial viability of the industrial parks, an area selected by Industrial Parks, Inc. one kilometer from the Toncontin International Airport in Tegucigalpa, was used as a model. The area is 40 hectares and has a capacity for 65 factory structures. The prototype factory used in the analysis is 20,000 square feet, employing 200 production workers and 34 supervision, management, administrative personnel. Although only 28 structures will be built under the project, the costs and returns are based on the model site and it is assumed that the additional structures will be built with non-project funds starting in the sixth year after implementation begins. The results of an analysis based on the Tegucigalpa site are expected to be applicable to either city. Economies of scale will have minimal effects on the financial viability of the activity, as the sites in either case will be adjacent to access roads and reasonably close to water, power, sewerage and communications lines. Thus, infrastructure costs will be modest and will be recovered through payments for the services of the IPMCs.

Under present cost and market conditions, it will cost about $200 per square meter to cover the costs of the building shell and all related on-site infrastructure. The related costs include preparation of the site, extending water, power, sewerage, and communications lines to each building site, the transport circulation system and landscaping and lighting. The internal infrastructure will be phased with the construction of the factory shells. No allowance has been made for promotion as this will be financed from AID loan funds during the first five years, and from operating profits from the sixth year on. It is assumed the land will be leased at a nominal price which is included in the $\$200/m^2$ construction cost. The renter will be responsible for finishing work at his expense: installing air conditioning, lowering ceilings, well finishing, special flooring, partitioning, etc. These improvements remain the property of the developers when the tenant moves.

The rental charge is assumed to be $3.50 per square feet annually. Of this amount, (in 1985 prices) $3.00 is earmarked for payment of debt service and eventual return on investment and $.50 is earmarked for operating expenses and profit. The development plan is to construct one or two units ahead of the demand. The estimated phasing is 4 units the first year and 6 each additional year for 10 years. The total of 64 units will be constructed by the eleventh

year. The cost of each factory shell is $400,000 in 1985 prices. Assuming the construction program starts in 1985, and assuming an inflation rate averaging 8% annually, the total investment cost outlay will rise from about $1.6 million the first year to $5.2 million in the final year. The total outlay in current prices for the 64 bulding development will be about $39 million over the 11 year period, as shown in the overall cash flow, Table 5.

The financial plan of the development is assumed to be 30% equity and 70% financing at 15 year term (including 1 year grace) and 19% annual interest. The summary of debt service payments is shown in Table 5. The loans needed by the IPMCs will be financed from local currency funds now available in the Central Bank. The funds will be channeled from the Central Bank through the domestic banking system to the IPMCs. Any commercial bank will be eligible to draw on these funds to make loans to the IPMCs on a long term basis at an interest rate to be negotiated in each case based on the expected returns of the investment. AID will approve each loan made to the IMPCs. Where the zones are developed on municipal or national land, a rental will be negotiated with the municipality or the national government, and the facilities will revert to the appropriate government agency within 50 years of the date of the lease agreement with the developer.

Projected rental collections assumes that full rentals will be collected from all factories operating in previous years and one-half of the rentals will be collected from the factories collected in the year when new construction is taking place. In the Private Industrial Parks in Mexico, renters must pay in advance and to guarantee payment for a minimum period of five years. This possibility is not taken into consideration in these projections.

Rental payments in current prices are estimated at $120,000 the first year and rise to $2.0 million in the fifth year, $7.9 million the final year of construction (11th year), and increase at an annual rate of 8% from the 13th year on, reflecting the assumed inflation rate.

In the cash flow, an additional $300,000 is added to the equity requirements the first year to cover studies, legal fees, organization expenses etc. (The project budget includes $600,000 because two IPMCs will be organized. This is not expected to materially affect the financial viability of the IPMCs.) Slight deficits are shown for the 2nd ($3,400) and 3rd years ($8,500). The net annual flow is a positive $43,000 in the 4th year, increased to $2 million in the 10th year and to $7 million in the 15th year, after debt service payments. The return to equity before taxes in current prices is 25.9% and in constant prices is 16.6%.

The working capital requirements of the private development group will be partly supplied from internal generation of funds from the project, and partly by investor resources.

Table 5: Industrial Park Activity Cash Flow
($000)

	Source of Funds				Use of Funds			Net Flow	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)=(4)-(7)	(9)=(8)-(2)
Year	Loan	Equity	Net Income	Total	Invest.	Debt Service	Total	Annual	To Equity
1	1,120.0	780 1/	120.0	2020	1900 2/	106	2006	14	(766)
2	1,814.4	777.6	453.6	3045.6	2592	457	3049	(3.4)	(781)
3	1,958.9	839.5	909.5	3707.9	2798.4	918	3716.4	(8.5)	(848)
4	2,116.8	907.2	1436.4	4460.4	3024	1393	4417	43.4	(863.8)
5	2,286.5	979.9	2041.5	5307.9	3266.4	1882	5148.4	159.5	(820.4)
6	2,467.9	1,057.7	2,732.3	6257.9	3525.6	2387	5912.6	345.3	(712.4)
7	2,666.2	1,142.6	3523.1	7331.9	3808.8	2908	6716.8	615.1	(527.5)
8	2,879.5	1,234.1	4422.1	8535.7	4113.6	3449	7562.6	973.1	(261.0)
9	3,109.7	1,332.7	5441.9	9884.3	4442.4	4013	8455.4	1428.9	96.2
10	3,358.3	1,439.3	6996.7	11394.3	4797.6	4587	9384.6	2009.7	570.4
11	3,627.1	1,554.5	7901.9	13083.5	5181.6	5188	10369.6	2713.9	1159.4
12			8951.0	8951.0		5446	5446	3505	3505
13			9669.1	9669.1		5074	5074	4595.1	4595.1
14			10444.8	10444.8		4728	4728	5716.8	5716.8
15			11278.1	11278.1		4327	4327	6951.1	6951.1
16			12130.5	12180.5		3876	3876	8304.5	8304.5
17			13155.8	13155.8		3406	3406	9749.8	9749.8
18			14208.0	14208.0		2938	2938	11270	11270.0
19			15344.6	15344.6		2498	2498	12846.6	12846.6
20			16573.4	16573.4		2073	2073	14500.4	14500.4
21			17898.2	17898.2		1671	1671	16227.2	16227.2
22			19330.6	19330.6		1289	1289	18041.6	18041.6
23			20878.1	20878.1		920	920	19958.1	19958.1
24			22544.6	22544.6		593	593	21951.6	21951.6
25			24349.4	24349.4		271	271	24078.4	24078.4
	27,405.0	12,045.1			39,450.4				

IRR=25.89% in current prices; $\frac{1.2589}{1.08}$ = 16.6% in constant prices

1/ $480,000 equity portion of loan plus $300,000 for studies, legal fees etc.
2/ $1,600,000 cost of construction plus $300,000 expenditures on studies, legal fees etc.

The renters will pay for all services provided. The principal operating cost components to be borne by the operators are personnel costs, travel, communications and promotion. It is estimated that the personnel budget will be about $136,000 the first year and will increase to about $230,000 the 5th year and about $300,000 from the 10th year on, all in constant 1985 prices. The $0.50/ft^2 rental fee earmarked for operating expenses will eventually cover these expenses, and after about the 6th year will provide a surplus that could contribute to earnings, but deficits can be estimated for the first five years. The accumulative negative total of these operating expenses increases to its maximum point of $353,000 the fifth year and then declines as the rental payments used to defer operating costs increase more rapidly than the costs.

To the degree these operating costs may be underestimated, increases may be necessary in rental charges, in the initial working capital fund, and/or working capital financing arranged.

This analysis takes into account only income from rental of factory space. There are other sources of income that will probably accrue. Some services can be offered at a price that more than covers costs. Shelter plan operations can be provided and probably will.

It is the general practice that building "fit up" improvements made to the shell by the user at his expenses, remain in place when he leaves. Average turnover may be 25% annually. These improvements may increase the value of the original shells by a much as 4 times the original cost, which would justify raising rentals to $12-14ft^2. In practice, the difference can be split with the new tenant giving him a rate of about $8/ft^2. He perceives this as a bargain while the operators double their income with no additional investment.

To offset these possible windfalls, of course, are periods when depressed economic conditions may cause slow-downs in the building schedule and vacancies in constructed buildings. The managers will have to be extremely skillful in accumulating surpluses during good times to tide them over the troughs.

With reasonable effort in and success from promotion of the industrial parks, the above analysis indicates that they will be financially viable. The Project's financial plan assumes an 80-20 loan-equity split instead of the 70-30 split used in the financial analysis. A final analysis will be done prior to the use of local currency funds for infrastructure and shelter construction loans. Should the smaller equity contribution significantly affect the Project's financial viability, the terms on the loans will be extended beyond the planned 15-year term to compensate.

D. Viability of the Producers' Associations

1. During Project Implementation

The projected budgets for the Cocoa, Citrus and Vegetable Producers' Associations are shown in Tables 6, 7, and 8. Each of them will have difficulties during the implementation period in financing the level of services required by the Project design, since at the outset they will depend almost exclusively on membership dues for their income. Each of them will receive assistance in developing its service charges and fee structures. They will all have their charges established by the end of the second year of the Project. FEPROEXAH will include within its budget the costs of the productivity advisers and extensionists for the first two years. Furthermore, FEPROEXAH will provide cash contributions to the Associations as needed during the first five years to enable them to survive and improve their service delivery and maintain financial solvency. With these arrangements, the Associations are expected to be financially viable during implementation.

2. After Implementation

In the first five years after implementation ends, the Associations should be able to make ends meet with their own income. By that time, each of them will have developed revenue-generating services for their members that will allow for small surpluses sufficient to cover overhead and technical assistance. These services are described in the Project description.

E. Trust Fund Viability

1. Growth of the Fund

A cash flow was prepared for the Trust Fund using the following assumptions:

- During the first year, 50% of the $10 million AID loan finances working capital for manufacturing industries with loan maturities of 6 months, the other 50% finances working capital for agricultural and agroindustrial production with loan maturities of up to 12 months.

- Once the fund resources exceed $10 million, exporters can use the exchange facility without having to finance their inputs. This was done to ensure that the original Trust Fund capital is always earning interest for FIDE and FEPROEXAH.

- Beginning in the third year fixed asset investment financing, represents 25% of the cash-flow generated from the working capital financing. These loans are assumed to have an average maturity of 5 years, including 1 year of grace.

Table 6: APROCACAO Income and Expenses
($ 000)

	Year 1	2	3	4	5	6	7	8	9	10	TOTAL
Income:											
Contributions		6	6	7	8	8	9	10	11	12	77
Services	-	9	15	27	28	36	41	44	47	50	297
Sales of Agric. Inputs	-	-	-	15	20	27	31	33	35	37	198
Tech. Assistance Contracts						45	49	55	60	66	275
Transfers to/from FEPROEXAH	6	(6)	31	6	50	-	-	-	-	-	87
Total	6	9	52	55	106	116	130	142	153	165	934
Expenses:											
Management Unit	1	1	16	17	19	19	23	25	28	31	180
Technical Specialists			7	7	41	45	49	55	60	66	330
Adminstrative Support	3	3	3	3	3	4	4	5	5	5	38
Operating Costs	2	2	23	25	38	38	42	44	46	48	308
Contingencies		3	3	3	5	10	12	13	14	15	78
Total	6	9	52	55	106	116	130	142	153	165	934

Table 7: ANACIHO Income and Expenses
($ 000)

	Year 1	2	3	4	5	6	7	8	9	10	TOTAL
Income:											
Contributions	3	3	4	4	5	5	6	6	7	7	19
Services	35	71	104	176	217	239	263	289	318	349	603
Tech. Cont.	–	–	–	–	–	70	77	85	94	103	430
Transfers to/from FEPROEXAH	9	(3)	6	(56)	(1)						(45)
Total	47	72	114	124	222	314	346	380	418	460	577
Expenses:											
Management	13	16	18	20	22	24	27	29	32	35	89
Technical	–	7	16	17	64	70	77	85	94	103	104
Administrative Support	10	11	12	13	14	15	17	19	20	23	60
Operating Costs	22	34	62	67	110	121	133	146	161	177	296
Contingencies	–	3	5	6	11	83	91	101	111	122	28
Total	47	72	114	124	221	314	346	380	418	460	577

Table 8: AHFAH Income and Expenses
($ 000)

	Year										TOTAL
	1	2	3	4	5	6	7	8	9	10	
Income:											
Contributions	4	5	6	6	7	8	9	10	11	12	28
Services	–	–	–	115	153	168	185	204	224	246	268
Tech. Cont.	–	–	–	–	–	74	81	89	98	108	450
Transfers to/from FEPROEXAH	1	–	1	(4)	56						54
Total	5	5	7	117	216	250	275	303	333	366	350
Expenditures:											
Management unit	1	1	1	25	27	30	33	36	40	43	55
Technical specialists	–	–	–	17	67	74	81	89	98	108	84
Administrative Support	2	2	2	11	11	12	13	15	16	18	28
Support Services	1	1	1	3	3	3	4	5	5	5	9
Operational Support	1	1	2	56	98	108	119	130	143	158	158
Contingencies			1	5	10	23	26	28	31	34	16
Total	5	5	7	117	216	250	275	303	333	366	350

2. Dollar Availability in Relation to Project Needs

The dollars generated by the Trust Fund increase to $163 million by the end of the fifth year of implementation. Given the large size of the Fund, an estimate of $100 million has been used as the maximum amount so that, as the Mission has proposed to the Central Bank, when growth of the Fund so permits, part of the dollars will be made available to the Central Bank to help finance the imports of other importers. The amount of $100 million will clearly sustain a much higher level of imports than the $59 million of yearly exports in the fifth years of the Project will require. Accordingly, the Trust Fund will serve its intended purpose and leave significant possibilities of helping exporters not producing the exports directly assisted by the Project. The Fund is therefore appropriately sized in relation to Project needs.

Table 9: Trust Fund Cash Flow
($ 000)

YEARS	1	2	3	4	5
Beginning Balance	10.0	26.31	34.76	72.39	108.24
Loan Placements	12.18	42.44	41.45	75.61	113.29
Working Capital	12.18	29.28	32.76	58.46	87.60
6 month financing	7.18	9.54	19.72	32.74	49.06
12 month financing	5.0	6.58	13.04	25.72	38.54
Fixed Assets	-	13.16	8.69	17.15	25.69
Gross Proceeds from Exports	29.84	39.42	82.12	152.53	230.10
6 months	11.09	14.74	33.22	56.08	95.57
12 months	18.75	24.68	48.90	96.45	134.53
Loan/ Inputs Purchase Recovery	12.18	16.12	36.05	63.95	97.35
Working Capital/Inputs Purch.	12.18	16.12	32.76	58.46	87.60
Fixed Assets	-	-	3.29	5.46	9.75
Operations Balance	17.66	23.30	46.06	88.58	132.75
Distribution of Balance:					
Trust Fund	14.13	18.64	36.34	44.29	66.38
Central Bank	-	-	-	26.57	39.82
Exporter	3.54	4.66	9.22	17.72	26.55
Ending Balance	26.31	34.76	72.39	108.24	163.73

F. Financial Viability of Private Export Operations

The Project's mechanisms for channeling financial assistance to private export operations use commercial banks and credit companies to provide such assistance. Each of them, except BANADESA and FIA, are proven competent lenders with years of experience in the banking business. They will ensure viability of private export operations financed under the project by lending only to capable firms for good export projects. If they err, it will be on the side of conservatism, but they won't go broke. The assistance provided through the project to potential exporters will add insurance that their operations are viable. FIA will soon start receiving technical assistance in risk analysis and resource mobilization under the Small Business Development Project. It should be able to pick out viable operations for assistance, given that its Board of Directors has five bankers among its six members. BANADESA has not had an overwhelmingly good record in picking viable enterprises. BANADESA will want to help campesino cooperatives get into exporting, in the hopes of recovering past debts by improved future performance. The Mission will watch this closely, and may approve all loans that BANADESA makes to help ensure that only viable operations are financed.

G. Conclusions

The above analysis examined the financial viability of each of the Project funded activities. Each of them has been shown to be financially viable and sized appropriately to meet Project needs. Accordingly, the Project is considered financially viable.

FINANCIAL FEASIBILITY OF THE COMMODITY SYSTEMS SELECTED TO INITIATE THE NTEA PROGRAM

The financial analysis of the three vertically coordinated commodity systems demonstrates the financial viability of the project and also stresses the requirement for assured placement of products in the export market. The three proposed activities generate internal rates of return (IRR) above the 12 per cent cut-off.

Detailed description of key assumptions and data sources used for the analysis are provided in the sections below. However, there are several common parameters which bound the analyses.

First, conservatism dominated the projection of likely areas and levels of production. Given the organizational maturity of the supporting commodity associations and FEPROEXAH, and the requirement for significant changes in producer behavior to realize production goals, prudence prevailed.

Second, production yields are given in terms of export-quality produce. Domestic markets have no value in the analysis. While evidence exists to challenge this assumption, the size of the local market suggests that expanded production may, at same time, depress local prices below the marketing variable cost of the culls. The exception was cocoa, where the domestic price is reported to be higher than the export price for substandard cocoa, because of active buying from El Salvador. These "irrational" sales are motivated more by a Salvadoran need to acquire hard currency than by the market value of cocoa.

Third, the analysis of the citrus commodity system uses only the value of extracted juice in contrast to fresh exports. The concentration on Valencia orange orchards for juice will benefit from a relatively short pay back period and optimizes the benefits of the CBI. Honduran frozen orange concentrates do not have to pay the hefty US duty ($0.34/lb or $2.43/gallon) that importers of Brazilian frozen concentrate orange juice must pay.

Fourth, the analysis does not capture the entire commodity system: producer to foreign buyer. It is built on direct project costs and benefits accruing to the growers.

Fifth, the internal rates of return for the rehabilitation activities (cocoa and oranges) are very high. This is normally the case in rehabilitation projects of any kind. Not only does new money capture the sunk costs of establishing the orchards, but the time requirement from investment to return is considerably shortened.

Sixth, it is important to stress that the financial feasibility is absolutely dependent on access to foreign markets. The production levels prices paid to producers and incorporation of directed technical assistance to growers flow from this basic condition.

In summary, the activities proposed under the project are financially feasible.

A. Financial Analysis of the Citrus Rehabilitation Commodity System

The financial anaysis of the proposed citrus commodity system is presented in Tables No. C.1. and C.2.. This is an analysis of the rehabilitation of 1200 existing hectares of oranges. Knowledgeable sources in the Honduran citrus industry claim that a well-cared-for orchard has a productive life of as many as fifty years. However, a twenty-five year life was assumed for the rehabilitation component.

The citrus system analyzed was developed from the research carried out by the PIP-directed citrus commodity team as documented in their June 6, 1984 report.

The rehabilitation program analysis covers a total of 1,200 hectares, of which 200 hectares will be rehabilitated in year one, 300 in year two, 500 in year three and 200 in year four. Of this total, 600 hectares are expected to require drainage improvements: 100 in year one, 150 in year two, 250 in year three, and 100 hectares in year four. All rehabilitation was assumed to be accomplished in year four of the rehabilitation cycle. Rehabilitation costs were estimated at $2180 per hectare for maintenance. These costs are found in the citrus commodity team report. Total rehabilitation costs are the sum of drainage and maintenance costs during years one through four, and only maintenance costs in years five through twenty-five.

Yields were taken from the citrus commodity system report. Existing yields of 37.5 metric tons per hectare were assumed to increase linearly to the proposed yield of 51 metric tons per hectare five years after the beginning of orchard improvement. This is a yield increase of 2.7 metric tons per hectare per year. When the 1200 hectares have received the benefits of the full rehabilitation cycle, they will produce 61,200 MT of juicing oranges, or an annual increase of 36 per cent over the 45,000 MT which would have been produced in the target area withouth the rehabilitation effort.. Perhaps more significant is the fact that the economic life of the groves will be extended substantially beyond their present life expectancy.

According to the citrus commodity report, 65 per cent of the total orange yield can be used for juice concentrate. The analysis did not include any marketable use of the 35 per cent remainder, because of price uncertainties caused by the large increase in supply. However, the percentage not sold for juice can be expected to provide some additional marginal income for the producer from local and regional markets, up to the point where domestic or regional sales revenues cover the variable marketing cost.

Two production models were designed: One covers 600 hectares with drainage problems, and another covers 600 hectares on already well-drained land. The analysis uses a price for the producer of $75 per metric ton. This is a current contract price offered by a recently established, CBI-lured, U.S. company.

The analysis shows an internal rate of return of 22.3 per cent for the rehabilitation of 1200 hectares of orange orchards for production of juicing oranges.

Without the project, the target groves would have generated a given level of revenues. When these revenues are substracted from revenues projected under the project, the IRR drops to 16.7 per cent. According to several private and public sector sources, many orange groves are abandoned after the cost of harvesting overtakes farmgate revenues. Following this criterion, the non-project groves cease to earn a positive return in the eigth year, and are abandoned.

The citrus rehabilitation component will create a demand estimated at 153 person-days/ha. for the area requiring drainage, while well-drained lands employ 123 person-days/ha. During the five project years, these ratios add up to 313,650 person-days or the equivalent of 1,255 jobs annually. From the sixth year on, approximately 165,000 workdays will be generated (the equivalent of 662 full-time rural jobs) in the rehabilitated area targetted for direct project impact.

The citrus rehabilitation component, with an IRR of 22.3 per cent, is profitable and should be undertaken. The production of oranges from rehabilitated orchards can be viewed as a mechanism for the entrance of Honduran citrus (oranges) into the export arena. It will provide growers with the opportunity to learn production techniques necessary for producing an export-quality fruit while rewarding them with profits for doing so. In addition, it will provide Hondurans with additional experience in exporting their agricultural products. This experience will be valuable for the continued export of juice products, and could be easily brought to bear upon the problems which fresh oranges, grapefruit or Persian limes might encounter when their export on a larger scale become feasible.

The marketing expertise developed by Honduran exporters and the production expertise developed by Honduran growers represent an external benefit, not included in the above analysis. However, developing the knowledge and skills of these two groups of the citrus commodity system should generate returns to the citrus industry far beyond those calculated for this juice project.

B. Financial Analysis of the Cocoa Rehabilitation Commodity System

While cocoa has been grown commercially in Honduras since the early 1940's, production levels have remained insignificant. It is widely agreed that the cocoa growers' lack of access to international markets has foreclosed their incentive to seek out advanced technology. Likewise, because production levels are low, public resources have not been channeled to research, technical assistance, or training programs.

The analysis is premised on (1) the strong likelihood of market access facilitated by this project, and (2) the application of improved technology to increase yields. Based on project investigations, both assumptions are judged to be sound. The project will support rehabilitation of existing plantings. The rehabilitation program targets one half of existing acreage over a four-year period. Based on the research carried out by the PIP-led cocoa commodity team, the following yield and cost data formed the basis of the analysis.

REHABILITATION: ONE HECTARE OF COCOA

YEAR	YIELD (kgs/ha)	MAINTENANCE COSTS
1	265	1143
2	535	437
3	805	512
4	1000	590

Yield in the first year represents average yields in Honduras. The yield increases over a four-year period to the expected 1000 kgs. per hectare. This upper limit represents about one half the yields attained in other parts of the world using the same basic technology. Table CA-1 summarizes the cocoa component production and financial data.

Maintenance costs are heavy in the first years as intensive cleaning and pruning is required. Costs decrease in year two but then increase as harvesting and processing costs rise with higher production levels. Yields and costs level off in the fourth year and are assumed to remain constant over the 25-year period adopted for the analysis, although the economic life of the cocoa tree extends beyond 25 years.

The farmgate price of cocoa was difficult to establish. The international market for cocoa is famous for wide fluctuations seemingly unrelated to supply levels. An FOB price of $1.00 a pound was used, after discussion with officials of the Hershey Corporation. Further, the associated marketing margin was assumed to be 40 per cent, a high estimate by Hershey and other sources. Thus, the farmgate price used in the analysis was $0.60 per pound or $1.32 per kg.

The schedule of net benefits is derived for a 25-year period for the rehabilitation program. The IRR for cocoa was calculated based on this 25-year revenue flow.

A very high 61.9 per cent IRR for the rehabilitation program is generated because the additional expenditure for rehabilitation is capturing the sunk cost and time associated with the original planting. The cocoa program is financially feasible.

Even when the stream of net revenue for the non-project cocoa orchards was deducted from project benefits, the IRR dropped to only 30.9 per cent, still a healthy return.

By the fifth project year, the rehabilitated orchards will generate the equivalent of 276 full-time jobs, or 69,000 person-days (see Table LB.2). This project will directly cause the production of 835 MT, or a 215 per cent jump, over the production (265 MT) which would have been supplied by the target area without the project.

C. Financial Analysis of the Vegetable Commodity Systems

The financial analysis of the three-crop vegetable system is summarized in tables V-1 and V-2. The system analyzed included cucumbers, onions, and okra, grown in three locations in Honduras: Comayagua, Siguatepeque, and Quimistan. The area under vegetable cultivation will be increased by 600 has. in Comayagua, 175 has. in Siguatepeque, and 125 has. in Quimistan, for a combined project vegetable target area of 900 hectares. The analysis was for a period of seven years. Production of all three crops was assumed to be exported. No provision was made for including any local sales revenue from non-exported production.

The financial analysis indicates that at a 17 per cent discount rate, the net present value of the project, once the non-project revenue was deducted, reached $17.3 million for the vegetable system. This analysis was carried out under a number of assumptions, which are discussed below. The vegetable system analyzed was developed by the PIP vegetable team. Data on acreage, exportable yield per hectare, and variable production costs used here were

taken from their report. Packing costs and fixed production costs were taken from Emil Belibasis (An Examination of the Feasibility of Exporting Honduran Fresh Cucumbers to the United States Winter Market, 1983, University of Florida, unpublished thesis).

The farmgate price used for cucumbers in this study was $240 per MT. This price was arrived at by removing export costs (see Belibasis, op. cit.) of $4.02 per 58-pound box from a CIF Miami price of $13.50 per box, adjusted to a metric ton basis. $13.50 per box is a conservative estimate of the Miami price Honduran producers are currently facing, and are likely to face in the future. The post-harvest cost, estimated at $110 per MT were further substracted to arrive at the farmgate price.

The farmgate prices for onions and okra were determined by subtracting from price figures, listed in the PIP team vegetable report, the same post-harvest cost per metric ton used for cucumbers.

Export-quality vegetable production demands a high labor content. One hectare in cucumbers provides 822 person-days of productive rural employment. (See Table LB-1 for the analysis of the vegetable component demand for labor). By the end of the project, 2,010 productive annual jobs will have been created.

In the last project year, farmgate net revenue will increase by $3.9 Million. Cucumber output will have increased by 3,800 MT, okra by 1,925 MT, and onions by 8,100 MT. (See Table V-1 and V-2 for the production and financial details.)

The selected vegetable commodity systems meet the criteria selected for the introduction of new commodities or expansion of existing ones (i.e. investor interest, labor advantage, and profitability). Although the potential exists for a faster expansion into other valleys and vegetable crops as a direct result of project-sponsored services, the high-risk nature of vegetable production and the volatility of its markets counsels against a more aggressive approach.

Of the three selected commodity systems, vegetables will be the most fundamentally affected by the market-driven, entrepreneur-determined strategy selected for this Project.

SUMMARY TABLES FOR VEGETABLES, CITRUS,

COCOA AND LABOR GENERATION

CITRUS

Table C-1
Table C-2
Table C-3

VEGETABLES

Table V-1
Table V-2

COCOA

Table CA.1
Table CA.2
Table CA.3

LABOR GENERATION

Table LB:1A
Table LB:1B
Table LB:2
Table LB:3

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Table C-1

C - I - T - R - U - S R - E - H - A - B - I - L - I - T - A - T - I - O - N

(In US$ and MT's)1/

(1) Citrus Rehab. Year	(2) Drainage (Has)	(3) Cost Per Ha.	(4) Total Drainage Cost	(5) Mainten-ance (Has)	(6) Maint. Cost Per Ha	(7) Total Maint. Cost	(8) Total Rehab. Cost	(9) Rehabilitation Yields (MT/Ha) (1)	(10) (2)	(11) (3)	(12) (4)	(13) Rehabilitation Ha by Year (1)	(14) (2)	(15) (3)	(16) (4)
One	100	216	21600	200	2180	436000	457600	38	0	0	0	200	0	0	0
Two	150	216	32400	500	2180	1090000	1122400	40	38	0	0	200	300	0	0
Three	250	216	54000	1000	2180	2180000	2234000	43	40	38	0	200	300	500	0
Four	100	216	21600	1200	2180	2616000	2637600	46	43	40	38	200	300	500	200
Five				1200	2180	2616000	2616000	48	46	43	40	200	300	500	200
Six				1200	2180	2616000	2616000	51	48	46	43	200	300	500	200
Seven				1200	2180	2616000	2616000	51	51	48	46	200	300	500	200
Eight				1200	2180	2616000	2616000	51	51	51	48	200	300	500	200
Nine to Twenty-five				1200	2180	2616000	2616000	51	51	51	51	200	300	500	200

1/ Computations were calculated with their decimals. Therefore, the numbers will not correspond to calculations made directly with values shown on this table.

Table C-2

C - I - T - R - U - S R - E - H - A - B - I - L - I - T - A - T - I - O - N

(In US$ and MT's)1/

(17) Citrus Rehabil. Year	(18) Total Product.2/	(19) Juice Convertion Factor	(20) Juice (MT)	(21) Price per MT Juice ($)	(22) Total Revenue	(23) Net Benefits
One	7500	0.65	4875	75	365625	-91975
Two	19290	0.65	12539	75	940388	-182013
Three	39390	0.65	25604	75	1920263	-313738
Four	49590	0.65	32234	75	2417513	-220088
Five	52830	0.65	34340	75	2575463	-40538
Six	56070	0.65	36440	75	2733413	117413
Seven	58770	0.65	38201	75	2865038	249038
Eight	60660	0.65	39429	75	2957175	341175
Nine to Twenty-five	61200	0.65	39780	75	2983500	367500

1/ Computations were calculated with their decimals. Therefore, the numbers will not correspond to calculations made directly with the values shown on this table.

2/ Column (18) is the product of the vector formed by columns (9; 10; 11; 12;) times the vector formed by columns (13; 14; 15; 16)

Table C-3

C - I - T - R - U - S R - E - H - A - B - I - L - I - T - A - T - I - O - N

FINANCIAL ANALYSIS OF CITRUS GROVES WITHOUT PROJECT

(24) Year	(25) Has.	(26) Prod. MT/Ha	(27) Juice Con/Fact.	(28) Price MT/Jce	(29) Total Reven.	(30) Total Cost /Ha	(31) Total Costs	(32) Net w/o Project Reven.	Project Benefits	Net Benefits
1	200	38.00	0.55	75.00	313500	1400	280000	33500	-91975	-125475
2	500	37.24	0.55	75.00	764235	1393	696500	67735	182013	-249748
3	1000	36.50	0.54	75.00	1490410	1379	1379070	11340	-313738	-425078
4	1200	35.77	0.54	75.00	1743959	1365	1638335	105624	-220088	-325712
5	1200	35.05	0.54	75.00	1700534	1352	1621952	78583	-40538	-119121
6	1200	34.35	0.54	75.00	1658191	1338	1605732	52459	117413	64954
7	1200	33.66	0.53	75.00	1616902	1325	1589675	27227	249038	221811
8	1200	32.99	0.53	75.00	1576641	1313	1573778	2863	341175	338312
9-25									367500	367500

IRR: DIRECT PROJECT BENEFITS: .2233149
NET PROJECT BENEFITS: .1675889

Table CA.1

C - O - C - O - A - R - E - H - A - B - I - L - I - T - A - T - I - O - N

(1200 Hectares, 1985-1989)

(1) YEAR	(2)	(3) HAS.	(4) YIELD KGS/HA	(5) PROD. KGS.	(6) PRICE $/KG	(7) REVENUE $	(8) MAINT. COST/HA.
ONE	Rehab.(1/A)	250	265	66250	1.32	87450	1143
TWO	Rehab.(1/B)	250	535	133750	1.32	176550	437
	Rehab.(2/A)	250	265	66250	1.32	87450	1143
THREE	Rehab.(1/C)	250	805	201250	1.32	265650	596
	Rehab.(2/B)	250	535	133750	1.32	176550	437
	Rehab.(3/A)	250	265	66250	1.32	87450	1143
FOUR	Rehab.(1/D)	250	1000	250000	1.32	330000	589
	Rehab.(2/C)	250	805	201250	1.32	265650	596
	Rehab.(3/B)	250	535	133750	1.32	176550	437
	Rehab.(4/A)	250	265	66250	1.32	87450	1143
FIVE	Rehab.(1:2/D)	500	1000	500000	1.32	660000	589
	Rehab.(3/C)	250	805	201250	1.32	265650	596
	Rehab.(4/B)	250	535	133750	1.32	176550	437
SIX	Rehab.(1:2:3/D)	750	1000	750000	1.32	990000	589
	Rehab.(4/C)	250	805	201250	1.32	265650	596
SEVEN TO TWENTY-FIVE	Re(1:2:3:4/D)	1000	1000	1000000	1.32	1320000	589

Table CA.2

C - O - C - O - A - R - E - H - A - B - I - L - I - T - A - T - I - O - N

(1200 Hectares, 1985-1989)

(1) YEAR	(2)	(3) LABOR COST	(4) INPUT COST	(5) TTL/CCLE COST	(6) TOTAL ANN/CST	(7) NET REVEN	(8) NET REVEN. YEAR
ONE	Rehab.(1/A)	75750	210000	285750	285750	-198300	-198300
TWO	Rehab.(1/B)	47250	62000	109250		67300	
	Rehab.(2/A)	75750	210000	285750	395000	-198300	
							-131000
THREE	Rehab.(1/C)	51750	97375	149125		116525	
	Rehab.(2/B)	47250	62000	109250		67300	
	Rehab.(3/A)	75750	210000	285750	544125	-198300	
							-14475
FOUR	Rehab.(1/D)	54000	93250	147250		182750	
	Rehab.(2/C)	51750	97375	149125		116525	
	Rehab.(3/B)	47250	62000	109250		67300	
	Rehab.(4/A)	75750	210000	285750	691375	-198300	
							168275
FIVE	Rehab.(1:2/D)	108000	186500	294500		365500	
	Rehab.(3/C)	51750	97375	149125		116525	
	Rehab.(4/B)	47250	62000	109250	552875	67300	
							549325
SIX	Rehab.(1:2:3/D)	162000	279750	441750		548250	
	Rehab.(4/C)	51750	97375	149125	590875	116525	
							664775
SEVEN TO TWENTY-FIVE	Re(1:2:3:4/D)	216000	373000	589000	216000000	731000	731000

Internal Rate of Return: 61.98835

TABLE CA.3

C - O - C - O - A - R - E - H - A - B - I - L - I - T - A - T - I - O - N

W/O PROJECT COCOA FINANCIAL ANALYSIS

(1200 Hectares, 1985-1989)

(1) YEAR	(2) GROSS REV. W/O PRJT	(3) TOTAL GROSS REV.	(4) TOTAL CST/CCLE	(5) TOTAL COSTS	(6) LABOR COST	(7) INPUT COST	(8) NET REV. W/O PRJT	NET PROJECT BENEFITS
ONE	87450	87450	25000	25000	17250	7750	62450	-260750
TWO	87450		25000		17250	7750		
	87450	174900	25000	50000	17250	7750	124900	-193450
THREE	87450		25000		17250	7750		
	87450		25000		17250	7750		
	87450	262350	25000	75000	17250	7750	187350	-226825
FOUR	87450		25000		17250	7750		
	87450		25000		17250	7750		
	87450		25000		17250	7750		
	87450	349800	25000	100000	17250	7750	249800	-131525
FIVE	174900		50000		34500	15500		
	87450		25000		17250	7750		
	87450	349800	25000	100000	17250	7750	249800	249525
SIX	262350		75000		51750	23250		
	87450	349800	25000	100000	17250	7750	249800	414975
SEVEN TO TWENTY-FIVE	349800	349800	100000	100000	69000	31000	249800	481200

IRR: 30.97672

TABLE V-1
VEGETABLES FINANCIAL ANALYSIS
(In US$ and MT's)

FIVE YEARS / THREE COMMODITY SYSTEMS

Area:1/ Comm. Sys. (CS)	1	2	3	Total CS Has	Total Prod. Has	Xport Yield Mt/Ha	Total Prod. Mts.	Prod. Cost/ Ha	Price $/MT	Total Prod. Costs	Total Proj. Area Costs	Total Labor Costs	Total Proj. Area Labor Cost	Total Input Cost	Total Proj. Area Input Cost	Total Farm Reven. Per CS	Total Net Farm Reven. Per CS	Annual Net Reven.
	---- Hectares ----																	
YEAR ONE																		
Cucumber	130	25	0	155		50.72	7862	3800	240	589000		382850		206150		1886957	1297957	
Onion	0	0	0	0		27.00	0	1632	90	0		0		0				
Okra	0	0	0	0	155	11.0	0	1250	170	0	589000	0	382850	0	206150			
																		1297957
YEAR TWO																		
Cucumber	180	50	25	255		50.72	12935	3800	240	96900		629850		339150		3104348	2135348	
Onion	50	20	0	70		27.00	1890	1632	90	114240		74256		39984		170100	55860	
Okra	25	0	25	50	375	11.00	550	1250	170	62500	1145740	40625	744731	21875	401009	93500	31000	
																		2222208
YEAR THREE																		
Cucumber	230	75	40	345		50.72	17500	3800	240	1311000		852150		458850		4200000	2889000	
Onion	100	50	0	150		27.00	4050	1632	90	244800		159120		85680		364500	119700	
Okra	50	0	50	100	595	11.00	1100	1250	170	125000	1680800	81250	1092520	43750	588280	187000	62000	
																		3070700
YEAR FOUR																		
Cucumber	275	75	50	400		50.72	20290	3800	240	1520000		988000		532000		4869565	3349565	
Onion	150	75	0	255		27.00	6075	1632	90	367200		238680		128520		546750	179550	
Okra	75	0	75	150	775	11.00	1650	1250	170	187500	2074700	121875	1348555	65625	726145	280500	93000	
																		3622115
YEAR FIVE TO SEVEN																		
Cucumber	300	75	50	425		50.72	21558	3800	240	1615000		1049750		565250		5173913	3558913	
Onion	200	100	0	300		27.00	8100	1632	90	489600		318240		171360		729000	239400	
Okra	100	0	75	175	900	11.0	1925	1250	170	218750	2[illegible]3350	142188	1510178	76563	813173	327250	108500	3906813

1/ Area No. 1 = Comayagua; Area No. 2 = Siguatepeque; Area No. 3 = Quimistán.

Table V-2 - Page 1 of 1

TABLE V-2
CORN FINANCIAL ANALYSIS 1/
(In US$ and MT's)

	C - O - R - N		F - I - N - A - N - C - I - A - L				R - E - T - U - R - N - S									
Total CS Has.	Total Project Has.	Total Costs	Total Project Area Costs	Total Labor Costs	Total Project Labor Costs	Total Implem. Costs	Total Project Implem. Costs	Gross Reven. /Ha	Net Benefits /Has	Total Net Benef.	Total Corn Net Benefits	Net Project Benefits	Corn NET PRESENT VALUE /.17		Project CS NET PRESENT VALUE /.17	
YEAR ONE																
155		512		348		164		664	152	23614						
		512		348		164		512								
	155	512	79360	348	53965	164	25395	512								
											23614	1274342	23614	604322	1274342	17279961
YEAR TWO																
255		512		348		164		664	152	38849			57131		2165077	
70		512		348		164		664	152	10665			118071		2987669	
50	375	512	192000	348	130560	164	61440	664	152	7618			137115		3504044	
											57131	2165077	137115		3769698	
YEAR THREE																
345		512		348		164		664	152	42561			137115		3769698	
100		512		348		164		664	152	15235			137115		3769698	
100	5	512	279040	348	189747	164	89293	664	152	15235			137115		3769698	
											83031	2986779	137115		3769698	
YEAR FOUR																
400		512		348		164		664	152	60940			137115		3769698	
225		512		348		164		664	152	34279			137115		3769698	
150	775	512	396800	348	269824	164	126976	664	152	22853			137115		3769698	
											118071	3504044	137115		3769698	
YEAR FIVE TO SEVEN																
425		512		348		164		664	152	64749			137115		3769698	
300		512		348		164		664	152	45705			137115		3769698	
175	900	512	460800	348	313344	164	147456	664	152	26661			137115		3769698	
											137115	3769698	137115		3769698	

1/ Commodity was used as a surrogate variable to compare with and without project benefits.

TABLE LB:1A PROJECT LABOR GENERATION/VEGETABLES

NUMBER OF PERSON/DAYS (PRS/DAY)

CREATED BY INITIAL COMMODITY SYSTEM

SEVEN YEARS THREE INITIAL COMMODITY SYSTEMS IN VEGETABLES

COMMODITY SYSTEMS	HECTARES								
VALLEYS PRJ/YEAR	COMAYAGUA	SIGUATEPEQUE	QUIMISTAN	TOTAL CS/HAS	TOTAL PJT/HAS	PRS/DAYS/ CS	TTL DAYS/ CS	TTL PJT PRS/DAYS	PRS/YEAR 1/
YEAR 1									
CUCUMBER	130	25	0	155		822	127410		
ONION	0	0	0	0		353			
OKRA	0	0	0	0	155	270	0	127410	510
YEAR 2									
CUCUMBER	180	50	25	255		822	209610		
ONION	50	20	0	70		353	24710		
OKRA	25	0	25	50	375	270	13500	247820	991
YEAR 3									
CUCUMBER	230	75	40	345		822	283590		
ONION	100	50	0	150		353	52950		
OKRA	50	0	50	100	595	270	27000	363540	1454
YEAR 4									
CUCUMBER	275	75	50	400		822	328800		
ONION	150	75	0	225		353	79425		
OKRA	75	0	75	150	775	270	40500	448725	1795

TABLE LB:1B PROJECT LABOR GENERATION/VEGETABLES

NUMBER OF PERSON/DAYS (PRS/DAY)

CREATED BY INITIAL COMMODITY SYSTEM

SEVEN YEARS THREE INITIAL COMMODITY SYSTEMS IN VEGETABLES

COMMODITY SYSTEMS	HECTARES			TOTAL	TOTAL	PRS/DAYS	TTL DAYS	TTL PJT	PRS/YEAR 1/
VALLEYS PRJ/YEAR	COMAYAGUA	SIGUATEPEQUE	QUISTN	CS/HAS	PRS/HAS	PRS/CS	PER/CS	PRS/DAYS	PRS/YEAR
YEAR 5									
CUCUMBER	300	75	50	425		822	349350		
ONION	200	100	0	300		353	105900		
OKRA	100	0	75	175	900	270	47250	502500	2010
YEAR 6									
CUCUMBER	300	75	50	425		822	349350		
ONION	200	100	0	300		353	105900		
OKRA	100	0	75	175	900	270	47250	502500	2010
YEAR 7									
CUCUMBER	300	75	50	425		822	349350		
ONION	200	100	0	300		353	105900		
OKRA	100	0	75	175	900	270	47250	502500	2010

1/ Person year = 250 person days.

TABLE LB:2 PROJECT LABOR GENERATION/COCOA

NUMBER OF PERSON/DAYS (PRS/DAY)

COCOA SEVEN YEARS CYCLES	HECTARES IN ECAH CYCLE 1ST	2ND	3RD	4TH	5TH	6TH	7TH	HAS/PRS YR	LABOR	PERSON YEAR	PRS/CYCLE HA	PRS/PJT YEAR
PRJ/YEAR												
1ST YEAR	250	0	0	0	0	0	0	250	25250	101	101	101000
2ND YEAR	250	250	0	0	0	0	0	500	41000	164	63	63000
3RD YEAR	250	250	250	0	0	0	0	750	58250	233	69	69000
4TH YEAR	250	250	250	250	0	0	0	1000	76250	305	72	72000
5TH YEAR		250	250	250	250	0	0	1000	69000	276	72	54000
6TH YEAR			250	250	250	250	0	1000	71250	285	72	36000
7TH YEAR				250	250	250	250	1000	72000	288	72	18000
TOTAL	1000	1000	1000	1000	750	500	250		41300	1652		41300

1/ Person year = 250 person days.

TABLE LB:3 PROJECT LABOR GENERATION/CITRICS

NUMBER OF PERSON/DAYS (PRS/DAY)

CITRUS SEVEN YEARS CYCLES	HECTARES IN ECAH CYCLE 1ST	2ND	3RD	4TH	5TH	6TH	7TH	TOTAL HAS.	TOTAL LABOR	LABOR COEFICIENT PRS CYCLE	PERSON/DAYS PRS/PJT/YEAR	PERSON 1/ YEARS
W/DRAINAGE PJT/YEAR												
1ST YEAR	100	0	0	0	0	0	0	100	15300	153	91800	367
2ND YEAR	150	100	0	0	0	0	0	250	36050	131	78600	314
3RD YEAR	250	150	100	0	0	0	0	500	71300	134	80400	322
4TH YEAR	100	250	150	100	0	0	0	600	81650	135	8100	324
5TH YEAR		100	250	150	100	0	0	600	80550	137	68500	274
6TH YEAR			100	250	150	100	0	600	81400	137	34250	137
7TH YEAR				100	250	150	100	600	82000	137	13700	55
SUBTOTAL	600	600	600	600	500	250	100		448250		448250	1793
W/O DRANGE												
1ST YEAR	100	0	0	0	0	0	0	100	12300	123	73800	295
2ND YEAR	150	100	0	0	0	0	0	250	30950	125	75000	300
3RD YEAR	250	150	100	0	0	0	0	500	62300	128	76800	307
4TH YEAR	100	250	150	100	0	0	0	600	75650	129	77400	310
5TH YEAR		100	250	150	100	0	0	600	76950	131	65500	262
6TH YEAR			100	250	150	100	0	600	77800	131	32750	131
7TH YEAR				100	250	150	100	600	78400	131	13100	52
SUBTOTAL	600	600	600	600	500	250	100		414350		415350	1657
TOTAL CITRUS PROJECT FIELD LABOR											862600	3450

1/ Person year = 250 person days.

The Economic Analysis of the Project

The costs that must be estimated and included in this economic evaluation are of two types: costs that are part of this AID project that will stimulate export activity, and the costs of each individual export activity that result in generating export income. The former are designated as, "external investment costs".

The external investment costs consist of the following:

1. AID loans and grants expended on technical assistance, training, travel and equipment for GOH and private sector institutions involved in implementing the project: $12.0 million

These $12 million will be expended during the five years of the project. The programming over this five years is projected to be:

TABLE 1. PROGRAMMING OF EXTERNAL INVESTMENT COSTS

	YEAR 1	2	3	4	5	TOTAL
Amount expended ($000,000)	3.3	2.7	2.4	2.1	1.5	$12

2. Private Sector expenditures to Support FIDE and FEPROEXAH and to provide equity for an Industrial Park Management Company: $10 million

For FEPROEXAH Operating Expenses	$4,750
For FIDE Operating Expenses	4,650
Equity for the IPMC	600

The programming of private sector contributions is projected as follows:

TABLE 2. PROGRAMMING OF PRIVATE SECTOR CONTRIBUTION
($ 000)

	YEAR 1	2	3	4	5	TOTAL
FIDE	184	730	890	1,246	1,600	4,650
Mgt. Co.	600					600
FEDPROEXAH	156	752	919	1,383	1,540	4,750
Total	940	1,482	1,809	2,629	3,140	10,000

A considerable share of these FIDE and FEDPROEXAH costs paid by the private sector are financed by a portion of the interest rate spread from a $10 million trust fund loan to the GOH which will be used through the participating Honduran commercial banks to finance business foreign exchange payments. The loan itself is not a cost in the economic analysis but the interest generated used to contribute to payment of FIDE and FEDPROEXAH expenses and incorporated in the above figures, is taken as a cost.

3. GOH costs associated with the project are at least partly personnel and supporting costs of government officials already on the payroll who will now be used to support project activities. Additional costs resulting from the project are estimated to be:

* Export Policy and Promotion (75% of $900,000):	$ 675,000
* Contribution to FIDE and FEPROEXAH:	$1,600,000
TOTAL:	$2,275,000

The programming is estimated to be: (In $ 000)

YEAR					
1	2	3	4	5	TOTAL
1,285	460	260	135	135	2,275

Additional amounts are programmed for GOH lines of credit for the export fund, the three commodity systems and industrial park development. These are financing flows which are not included in the economic analysis. The effect of loans from these sources of financing will be reflected in the economic activity they generate, which is incorporated in the economic analysis.

A summary of the project costs follows (in $ millions):

TABLE 3. SUMMARY OF PROJECT EXTERNAL COSTS
($000,000)

	1	2	3	4	5	TOTAL
Expenditures From						
A.I.D. Direct T.A. Grant and Loans	3.2	2.7	2.4	2.1	1.6	12.0
Private Sector Contribution to Support Institions	.940	1.482	1.809	2.629	3.140	10.0
GOH Budgetory Support	1.285	0.460	0.260	0.135	0.135	2.275
TOTAL	5.425	4.642	4.469	4.864	4.875	24.275

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These are considered to be the external investment costs, external to the costs that are associated directly with the agricultural and industrial activities stimulated by this proyect. The "internal costs" are estimated separately with the calculation of the costs and benefits associated with each type of productive activity.

These external costs are in current prices. For the economic analysis they should be converted to constant 1985 prices assuming an inflation rate of 6% (a blended average of U.S. and Honduran changes in price levels).

TABLE 4. PROJECT "EXTERNAL" INVESTMENT IN CONSTANT PRICES
($000,000)

IN CURRENT PRICES	PRICE INDEX	IN CONSTANT PRICES
5.43	1.0	5.43
4.64	1.06	4.38
4.47	1.124	3.98
4.86	1.191	4.08
4.88	1.262	3.87

Economic Activities Stimulated by the External Investment Costs

There are six groupings of economic activities that will be stimulated by this project. In the agricultural sector they are three commodity groups, cocoa, citrus and vegetables, for which detailed and comprehensive production and marketing programs are being prepared. Although these commodity groups are the focus of the agricultural export development program, the assistance provided by the FEPROEDXAH and individual advisors and of credit programs will assist many additional producers not directly included in these three programs.

In the industrial sector the main thrust will be the location of new export industries in the expanded free zone areas under privately operated industrial parks management mainly in apparel and electronic/electric assembly operations, and wood products. It is felt that the most conducive environment for encouraging investment in export industries can be created in these parks. However, the promotional efforts related to the parks, an improved drawback law, the efforts of FIDE and other factors will also stimulate industrial export development outside of the parks. The six groupings of economic activity benefiting from this project and that are examined separately are:

- The cocoa commodity system
- The citrus commodity system
- The vegetable commodity system

- "Other "agricultural exports
- Export industries established in privately operated industrial free zones.
- "Other" industrial exports

In each of the six groupings, estimates are made of investment and operating costs and income. All prices for the balance of this analysis are in constant 1985 dollars. These calculations determine the profitability to the private investor. The economic analysis is similar to the financial analysis in that both assess the profit of an investment. However, the economic analysis measures the effect of the project from the point of view of the nation rather than from that of the individual entrepreneur. There are different concepts of costs and benefits in each type of evaluation. Basically, the economic evaluation requires adjustments of certain values in the financial analysis that reflect these differences.

Adjustments Required by the Economy Analysis

In the first instance, depreciation and transfer costs, (interest and subsidies) are eliminated from the financial analysis. Secondly, for reasons of market imperfections or policy limitations, actual market prices may differ significantly, from prices that would reflect the relative scarcities of various kinds of resources. In this case, economic prices must be substituted for financial prices where the two diverge. Shadow pricing is used when market prices are clearly innacurate measures of real economic costs of inputs, or the real value (benefits) of outputs. The real economic cost of a factor of production is the marginal opportunity cost, i.e. the loss in output in the present marginal use of an input that would result if the marginal unit of the factor of production were transferred to the project.

The market prices that are considered to be most in need of adjustment are those for unskilled labor and foreign exchange. Unemployment is over 20% of the labor force and underemployment another 30%. There are some 30,000 new entrants to the labor force each year with fewer employment opportunities than existed when the CACM was growing, political conditions in Central America were relatively stable and economic activity world wide was more vigorous. There may be no alternative employment for many of those employed in the activities generated by this project. That is, labor employed in the project would be otherwise employed without the project in activities that contributed considerably less or not at all, to GDP growth. Given the rapidly increasing numbers of unemployed that may be expected for the indefinite future without this export development project, the opportunity cost of the unskilled labor employed as a result of the project would approach zero. A much more conservative adjustment factor of .6 has been selected as the shadow price.

The other price that seems to require a significant adjustment is that of foreign exchange. The parallel market in Honduras has offered dollars at about a 25-30% premium over the official rate of 2 lempiras per dollar during

this past year. It is higher in Miami by several percent. An adjustment factor of 30% has been selected as a reasonable approximation of the difference between the official rate and what would be the equilibrium exchange rate in a free market.

Export Industries Operating from Industrial Park Free Zones

The project anticipates the establishment of 28 factories in one or more industrial parks with free zone status in Tegucigalpa and/or San Pedro Sula in 5 years. Most of the factories are expected to be in the apparel, electric/electronic assembly, and wood working industries. Others could come from a wide range of 188 product groups, in which Honduras has a competitive advantage according to a recent study of comparative competitive advantages in assembly operations. 1/

Although apparel manufacturers are likely to be the most numerous group occupying the trade zones (most foreign owned companies in the Puerto Cortes Free Zone are in the apparel industry), an eventual imposition of quotas can be anticipated. For that reason apparel manufacturers are limited to about 40% of the total. The wood working industry is the next highest category with about 30%, the electric/electronic assembly operations with about 18% and "other" industries about 14%.

TABLE 5.
ILLUSTRATIVE LIST OF PRODUCERS IN THE INDUSTRIAL PARK FREE ZONES

YEAR	APPAREL	ELECTRIC/ ELECTRONIC	WOOD WORKING	ALL OTHER	TOTAL
1	2	1	1	-	4
2	3	1	1	1	6
3	2	1	2	1	6
4	2	1	2	1	6
5	2	1	2	1	6
	11	5	8	4	28

Factory output each year will be equivalent to the production of the factories built the previous year plus one quarter of the production of the factories started in the current year.

1/ Promoting New Exports of Manufactures from Honduras, International Parks, Inc. 1984.

The cost of construction of the factory shells and industrial park infrastructure is estimated to be $200 per square meter, an average of $400,000 per unit. The projected construction schedule (in 1985 prices) is:

YEAR ($000,000)					
1	2	3	4	5	TOTAL
1.6	2.4	2.4	2.4	2.4	11.2

The economic cost is:

		ECONOMIC COST ($000,000)				
YEAR	FINANCIAL COST	LABOR 1/ (1)	IMPORTED MATERIALS 2/ (2)	DOMESTIC MATERIALS (3)	INDIRECT TAXES 3/ (4)	TOTAL (1)+(2)+(3)-4
1	1.6	.192	.624	.800	.128	1.488
2	2.4	.288	.936	1.200	.192	2.232
3	2.4	.288	.936	1.200	.192	2.232
4	2.4	.288	.936	1.200	.192	2.232
5	2.4	.288	.936	1.200	.192	2.232

1/ Labor is 20% of total cost. Adjustment factor is .6
2/ Imported materials are 30% of total cost. Adjustment factor is 1.3
3/ 10% of material costs

Apparel Industry Assembly Operation

The prototypical model for this category is a recently completed evaluation of the men's dress shirt assembly operation.2/ The following table illustrates the production costs before using adjustment factors to convert to economic prices and after using the adjustment factor.

TABLE 6.
MEN'S DRESS SHIRT ASSEMBLY (TSUS 807) OPERATION: OPERATING COSTS
($ 000 1985 PRICES)

		ADJUSTMENT FACTOR	ADJUSTED COST
Direct Labor	360	.6	48
Factory Overhead			
Supervisory/Technical Personnel	48	1.0	48
Fringe on:			
Direct Labor	140	.6	84
Sup./Tech. Personnel	17	1.0	17
Labor Variances	30	1.0	30
Mis. Operating Costs	11	1.1	12
Power	22	1.1	24
Rent	67	1.0	67
Depreciation	94	0	0
Subtotal Factory Overhead	429		282
G and A			
Personnel	61	1.15	70
Fringe	20	1.15	23
Insurance	10	1.1	11
Legal	5	1.0	5
Accounting	5	1.0	5
Travel	18	1.3	23
Computer Service	2	1.0	2
Telephone and Telex	4	1.0	4
Employee Housing	5	1.0	5
Inland Freight	9	1.2	11
Subtotal G and A	139		159
Total Costs	928		657
Nominal Profit 6%	(56)		
Value of Export	984		984
Net Income			327
With a Honduran owned factory:			
Total Costs	928		657
Interest	94	0	0
Total Assembly Costs	1022		657
Profit Margin 20%	204		
Value of Exports	1226		1226
NET INCOME			569

2/ Comparative Analysis of Investment Factors for Production Sharing Ventures. Production Sharing International and Free Zone Authority Services 1984.

The illustrated case is of a wholly owned U.S. subsidiary that arbitrarity assigns a 6% profit margin to the Honduran operation. This margin is increased to 20% for a Honduran owned contract operation.

The financial costs total $928,000. The arbitrary nominal 6% profit totals $56,000 with the value of exports at $984,000. The economic costs, after shadow pricing unskilled labor, the imported material inputs, and foreign employees salaries, totals $657,000. If the exporter exchanges the proceeds in the parallel market there are no futher benefits for the country. If the dollar proceeds are changed in the Central Bank an upward adjustment factor of 30% can be applied to each dollar exchanged.

The investment cost including finishing of the rented building, machinery, equipment and furnishing is estimated at $3,000 per production worker, a total of $600,000 per factory. These are essentially costs in foreign exchange.

TABLE 7. INVESTMENT COSTS FOR APPAREL FACTORIES
(in dollars)

YEAR	NUMBER PER YEAR	COST EACH	TOTAL COST	ADJUSTMENT FACTOR	COST IN ECONOMIC PRICES
1	2	600,000	1,200,000	1.19	1,428,000
2	3	600,000	1,800,000	1.19	2,142,000
3	2	600,000	1,200,000	1.19	1,428,000
4	2	600,000	1,200,000	1.19	1,428,000
5	2	600,000	1,200,000	1.19	1,428,000
	11		6,600,000		7,854,000

Approximately 6% of the costs is payment to unskilled labor which is shadow priced at 60% resulting in a downward adjustment factor of 3.6%. Indirect taxes bring this adjustment factor to 5%.. The shadow price for foreign exchange, however, is 30% on 80% of the investment costs. This brings the final adjustment factor to 1.19.

The assumption is that the new zones will operate similarly to the Puerto Cortes Free Zone and that the occupants will be able to purchase their lempiras freely at the market rate in the parallel market.

It is not clear to what degree the occupants of the new zones will retain the privilege that occupants of the Puerto Cortés Free Trade Zone have, of being able to purchase lempiras freely at the market rate outside of Honduras, and of not having to repatriate profits to Honduras. The simplifying assumption is made that Hondurans will retain control over sufficient foreign

exchange to pay for necessary imported inputs and will repatriate the balance, and that foreign firms will re-invest the nominal profits attributed to the off-shore operation. However, no foreign exchange adjustment (30%) is applied to the export receipts, allowing for the extreme case that foreign exchange earnings will not be repatriated.

The operating costs at economic prices are $657,000 and the value of exports at the official rate is $984,000 leaving a margin of $327,000. If the factory were owned by a Honduran in the zone, he would work on a normal profit margin rather than a nominal one, in this case estimated at 20%. With the same operating costs, at economic prices the value of exports would be $1,226,000 and the net would be $569,000.

TABLE 8.
Net Economic Income from Apparel Operations in Free Zones

YEARS	1	2	3	4	5	6	7	8	9	10
					($ 000)					
U.S.	82	327	327	327	327	327	327	327	327	327
Honduran	142	569	569	569	569	569	569	569	569	569
U.S.		82	327	327	327	327	327	327	327	327
U.S.		82	327	327	327	327	327	327	327	327
Honduran		142	569	569	569	569	569	569	569	569
U.S.			82	327	327	327	327	327	327	327
Honduran			142	569	569	569	569	569	569	569
U.S.				82	327	327	327	327	327	327
Honduran				142	569	569	569	569	569	569
U.S.					82	327	327	327	327	327
Honduran					142	569	569	569	569	569
	224	1202	2343	3239	4135	4807	4807	4807	4807	4807

Electric/Electronic Assembly Operations

Table 9 presents the calculations converting the operating costs to economic prices.

TABLE 9.
SPECIALTY POWER SUPPLY ASSEMBLY (TSUS 807) OPERATIONS: OPERATING COSTS
($000)

		ADJUSTMENT FACTOR	ADJUSTMENT COST
Direct Labor	202	.6	121
Factory Overhead			
Supervisory/Technical Personnel	131	1.0	131
Fringe on:			
Direct Labor	79	.6	47
Super./Tech./Personnel	46	1.0	46
Labor Variances	12	1.0	12
Training Materials	5	1.15	6
Spare Parts	5	1.3	7
Miscellaneous Costs	14	1.1	15
Power	18	1.1	20
Rent	42	1.0	42
Depreciation	60	0	
Subtotal Factory Overhead	412		326
G and A			
Mgt./Adm./Clerical Personnel	52	1.15	60
Fringe	17	1.15	20
Insurance	11	1.1	12
Legal	5	1.0	5
Accounting	5	1.0	5
Travel	9	1.3	12
Computor Service	2	1.0	2
Employee Housing	5	1.0	5
Subtotal G and A	112		121
Inland Freight	6	1.2	7
Total Offshore Assembly Costs	732		575
Nominal Profit 6%	44		
Value of Exports	776		776
Net Income			201
With Honduran Owned Factory:			
Total Costs	732		
Interest	17		
Total Costs	749		575
Profit Margin 20%	150		
Value of Exports	899		899
Net Income	150		324

The annual net economic income projection is as follows:

TABLE 10.
NET ECONOMIC INCOME FROM ELECTRIC/ELECTRONIC ASSEMBLY OPERATIONS IN FREE ZONES
($000)

YEARS	1	2	3	4	5	6	7	8
U.S.	50	200	200	200	200	200	200	200
Honduran		81	324	324	324	324	324	324
U.S.			50	200	200	200	200	200
Honduran				81	324	324	324	324
Honduran					81	324	324	324
TOTAL	50	281	574	805	1129	1372	1372	1372

The investment in the electric/electronic assembly operations can vary from $3,000 to $40,000 and more per worker. The operations expected for Honduras during the first five years are simple assembly operations that require a slightly higher investment than in the apparel industry or about $500,000 per factory of 100 workers.

TABLE 11.
INVESTMENT COSTS FOR ELECTRIC/ELECTRONIC ASSEMBLY
(In dollars)

YEAR	NUMBER PER YEAR	COST EACH	TOTAL COST	ADJUSTMENT FACTOR	COST IN ECONOMIC PRICES
1	1	500,000	500,000	1.19	595,000
2	1	500,000	500,000	1.19	595,000
3	1	500,000	500,000	1.19	595,000
4	1	500,000	500,000	1.19	595,000
5	1	500,000	500,000	1.19	595,000

Wood Working Operations

The projections for the 8 wood working operations are based on discussions with exporters of wood products in Honduras. Of the eight producers, 4 are assumed to be in operations with export sales averaging $1 million and the other 4 in operations averaging $2 million.

The investment requirement for a production level of $1 million (value of sales) is approximately $500,000 finishing the rented building, furnishings, machinery and equipment. An additional $300,000 would be required to double production to $2 million. Assuming an even mix of the two sizes, an estimate of the investment costs follows:

TABLE 12.
INVESTMENT COSTS FOR WOOD WORKING FACTORIES
(In dollars)

YEAR	$1 MILLION OUTPUT	$2 MILLION OUTPUT	TOTAL	ADJUSTMENT FACTOR	ECONOMIC COSTS
1	500,000		500,000	1,19	595,000
2		800,000	800,000	1,19	952,000
3	500,000	800,000	1,300,000	1,19	1,547,000
4	500,000	800,000	1,300,000	1,19	1,547,000
5	500,000	800,000	1,300,000	1,19	1,547,000
TOTAL	2,000,000	3,200,000	5,200,000		6,110,000

The estimated net income for each of the two scales of operation is shown in tables 13 and 14, and the total net income from the wood working industries in the industrial park free zones, is shown in table 15, all in economic prices. The ownership of all woodworking factories is assumed to be Honduran.

TABLE 13.
WOOD WORKING OPERATIONS: OPERATING COSTS
For $1,000,000 Scale Operation

TOTAL SALES	%	TOTAL ($000)	ADJUSTMENT FACTOR	ADJUSTED COST ($000)
Factory Overhead	67	670		598
Raw Materials	33	330	1.0	330
Direct Salaries	15	150	.6	90
Fringes	1	10	.6	6
Materials	10	100	1.2	120
Electricity	1	10	1.1	11
Repair and Maint.	1	10	1.1	11
Funds and Lubricants	1	10	1.5	15
Employee Transport	1	10	1.5	15
Depreciation	4	40	0	-
G and A	11	110	-	115
Salaries and Wages	40	40	1	40
Fringes	.5	5	1	5
Social Security	1	10	1	10
Telephone/Telex	.5	5	1.1	6
Local Taxes	.4	4	0	-
Vehicle Cost	.8	8	1.5	12
Travel	.4	4	1.3	5
Insurancae	1.0	10	1.1	11
Legal Fees	.4	4	1	4
Other	2.0	20	1.1	22
Cost of Sales	5	50		56
Salaries and Wages	.1	10	1.0	10
Rent	.1	10	1	10
Overland Freight	.1	10	1.5	15
Promotion	.1	10	1	10
Other	.1	10	1.1	11
Total Cost 83%		830		769
Total Sales 100%		1000		1000
Gross Profit 17%		170		231 (23% sales)

TABLE 14.
WOOD WORKING OPERATIONS: OPERATING COSTS
FOR $2,000,000 SCALE OPERATION

	ADJUSTED COST FOR $1,000,000 SCALE OPERATION	% INCREASE IN ADJUSTMENT COST OVER $1,000,000 SCALE OPERATION	ADJUSTED COST FOR $2,000,000 SCALE OPERATION
Factory Overhead	598		1166
Raw Materials	330	100	660
Direct Salaries	90	75	158
Fringes	6	75	11
Materials	120	100	240
Electricity	11	90	21
Repair and Maint.	11	90	21
Fuel and Lubricants	15	90	29
Employee Transport	15	75	26
Depreciation	-	-	-
G and A	115		168
Salaries and Wages	40	50	60
Fringes	5	50	8
Social Security	10	50	15
Telephone/Telex	6	50	9
Local Taxes	-	-	-
Vehicle Cost	12	50	18
Travel	5	50	8
Insurance	11	50	17
Legal Fees	4	25	5
Other	22	25	28
Cost of Sales	56		94
Salaries and Wages	10	50	15
Rent	10	50	15
Overland freight	15	90	29
Promotion	10	75	18
Other	11	50	17
Total Cost 83%	769		1428
Total Sales 100%	1000		2000
Gross Profit 17%	231		572
	(23% of sales)		(29% sales)

TABLE 15.
NET ECONOMIC INCOME FROM WOOD WORKING OPERATIONS IN FREE ZONES
(INCOME IN $000)

Size of Operation	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7
$1 Million	58	231	231	231	231	231	231
$2 Million		143	572	572	572	572	572
$1 Million			58	231	231	231	231
$2 Million			143	572	572	572	572
$1 Million				58	231	231	231
$2 Million				143	572	572	572
$1 Million					58	231	231
$2 Million					143	572	572
	58	374	1,004	1,807	2,610	3212	3212

Other Industrial Activities in the Industrial Parks

Twenty-four of the twenty-eight industrial activities projected to locate in the industrial parks are expected to be among the apparel, electric/electronic and woodworking industries. No attempt is made to speculate on the composition of the other four, or to develop profiles for them. Average values are taken for the 24 identified industries and applied to the balance. The average net income in economic prices is about $250,000, a blend of U.S. and Honduran owned factories.

The investment costs are as follows:

TABLE 16.
INVESTMENT COSTS FOR UNSPECIFIED INDUSTRIES
(In 1984 Prices, U.S. Dollars)

YEAR	ECONOMIC COSTS
1	
2	600,000
3	600,000
4	600,000
5	600,000

The annual net income from these operations is projected to be:

TABLE 17.
NET ECONOMIC INCOME FROM FOUR UNSPECIFIED INDUSTRIES
($ 000)

	YEARS						
INDUSTRY	1	2	3	4	5	6	7
1		63	250	250	250	250	250
1			63	250	250	250	250
1				63	250	250	250
1					63	250	250
		63	313	563	813	1000	1000

Total Investment Costs and Net Income of Industries in the Industrial Park Free Zones

The total investment costs are shown in table 18.

TABLE 18.
TOTAL INVESTMENT COSTS OF IPFZ INDUSTRIES
($000)

YEAR	APPAREL	ELECTRIC/ ELECTRONIC	WOOD WORKING	OTHER	TOTAL
1	1428	595.0	595.0	-	2618
2	2142	595.0	952.0	600	4289
3	1428	595.0	1547.0	600	4170
4	1428	595.0	1547.0	600	4170
5	1428	595.0	1547.0	600	4170
	7854	2975.0	6118.0	2400	19417

The total net income is shown in table 19.

TABLE 19.
TOTAL NET ECONOMIC INCOME OF INDUSTRIES IN THE IPFZ

($000)

YEAR	APPAREL	ELECTRIC/ ELECTRONIC	WOOD WORKING	OTHER	TOTAL
1	224	50	58	-	332
2	1202	281	374	63	1920
3	2343	574	1004	313	4234
4	3239	805	1807	563	6414
5	4135	1129	2610	813	8687
6	4807	1372	3212	1000	10391
7	4807	1372	3212	1000	10391

Table 42 schedules the flows of investment in IPFZ construction and in industrial activities, and the project benefits from industrial export activity. The IRR calculated from these flows is 44.8%. A major reason for it being so high is the labor intensity of the industries and the relatively low investment cost.

Employment in the IPFZ:

Relating the total amounts paid for salaries and wages to the average payment per employee, the following is the estimate of employment in each of the types of industries, and for total employment in the IPFZ.

TABLE 20.
EMPLOYMENT IN THE IPFZ

INDUSTRY	NO. FACTORIES	EMPLOYMENT			
		DIRECT PRODUCTION	OTHER	TOTAL	TOTAL ALL FACTORIES
Apparel	11	200	34	234	2574
Electric/Electronic	5	112	50	162	810
Wood					
$1 Million volume	4	125	15	140	560
$2 Million volume	4	220	27	247	988
Other	4	175	35	210	340
					5772

Value of Exports Produced in the IPFZ

The average value of production in the apparel industries is $928,000. The export value is $984,000 for foreign owned enterprises (assigning a profit margin of 6% to the off-shore operation) and $1,022,000 for Honduran owned enterprises operating with a normal commercial margin.

For the electric/electronic operations the average value of production is $732,000, and the export value is $776,000 for foreign owned firms, and $899,000 for Honduran owned firms.

The wood working operations are assumed to be of two sizes, $1 million and $2 million value of exports. The four unspecified industries are taken as an average of the other 24, their export value of production averaging $1,136,000.

TABLE 21.
EXPORT VALUE OF PRODUCTION IN THE IPFZ
(Dollars)

INDUSTRY	NO. FACTORIES	AVERAGE EXPORT VALUE	TOTAL EXPORT VALUE	
Apparel				
U.S. Owned	6	984,000	5,904,000	
Honduran Owned	5	1,226,000	6,130,000	12,034,000
Electric/Electronic				
U.S. Owned	2	776,000	1,552,000	
Honduran Owned	3	899,000	2,697,000	4,249,000
Wood Products				
	4	1,000,000	4,000,000	
	4	2,000,000	8,000,000	12,000,000
Sub Total	24			28,283,000
Other	4	1,200,000		4,800,000
TOTAL				33,083,000

Effect of the Project on Industrial Export Development Outside of the IPFZs

The effects of the technical assistance and the financial mechanisms provided by the project, and of FIDE's activities, will not be limited to the industrial activities in the IPFZs. An improved drawback law will encourage the establishment of new, and the expansion of established, export industries elsewhere in the country. It is assumed that these will generate industrial export activities that will add about 20% to the value of exports and employment of the industries in the IPFZs.

The impact of the project on the industrial sector will, therefore, have the following results:

	Within the IPFZs	Within Honduras
Export Value of Production ($000)	32,827	39,392
Employment	5,772	6,926

Agricultural Commodity Systems

The project includes the development of three agricultural commodity systems, cocoa, citrus and vegetables.

Cocoa Project:

Currently income is approximately $350 per hectare, and operating costs are $100, $69 in labor and $31 in materials. The operating costs for each 250 ha. phase in the project, in financial and economic prices, is presented in Table 22.

TABLE 22. COCOA WITHOUT PROJECT: FINANCIAL AND ECONOMIC COSTS
(In dollars)

YEAR	LABOR FINANCIAL (1)	LABOR ECONOMIC (2)	MATERIALS 1/ FINANCIAL (3)	MATERIALS ECONOMIC 2/ (4)	INDIRECT TAXES ON MATERIALS 3/ (5)	TOTAL (2)+(4)-(5)
1	17,250	10,350	7,750	9,145	775	18,720
2	34,500	20,700	15,500	18,290	1,550	37,440
3	51,750	31,050	23,250	27,435	2,325	56,160
4	69,000	41,400	31,000	36,580	3,100	74,880
5	69,000	41,400	31,000	36,580	3,100	74,880
6	69,000	41,400	31,000	36,580	3,100	74,880

1/ Adjustment factor .6
2/ 60% adjusted by factor of 1.3, equivalent to combined factor of 1.18
3/ 10%

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The net economic income calculation, without the project, is shown in table 23

TABLE 23. NET ECONOMIC INCOME WITHOUT PROJECT
(In dollars)

YEAR	INCOME	ECONOMIC COST	NET ECONOMIC INCOME
1	87,500	18,720	68,780
2	175,000	37,440	137,560
3	262,500	56,160	206,340
4	350,000	74,880	275,120
5	350,000	74,880	275,120

With the project, which involves the rehabilitation of 1,000 hectares of cocoa plantations, operating costs, yields and revenues will rise. Table 24, presents the financial, and economic operating costs.

TABLE 24. COCOA PROJECT: FINANCIAL AND ECONOMIC OPERATING COSTS
(In dollars)

YEAR	LABOR		TOTAL	IMPORTED MATERIALS		OTHER	INDIRECT TAXES ON	
	FINANCIAL	ECONOMIC	1/MATERIALS	FINANCIAL	ECONOMIC	2/MATERIALS	MATERIALS 3/	TOTAL
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(2)+(5)+(6)-(7
1	75,750	45,450	210,000	64,875	76,553	145,125	21,000	246,128
2	123,000	73,800	272,000	122,875	144,993	149,125	27,200	340,718
3	174,750	104,850	369,375	216,250	255,175	153,125	36,938	476,212
4	228,750	137,250	462,625	305,500	360,490	157,125	46,263	608,602
5	207,000	124,200	345,875	329,875	389,253	16,000	48,988	480,465
6	213,750	128,250	377,125	361,125	426,128	16,000	52,113	518,265
7	216,000	129,600	373,000	357,000	421,260	16,000	51,700	515,160
8	216,000	129,600	373,000	357,000	421,260	16,000	51,700	515,160

1/ Adjustment factor .6
2/ 60% adjusted by factor of 1.3, combined factor 1.18
3/ 10%

The net economic income with the project is shown in table 25.

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TABLE 25. COCOA NET ECONOMIC INCOME WITH PROJECT
(In dollars)

YEAR	INCOME FINANCIAL	INCOME ECONOMIC 1/	ECONOMIC COST	NET ECONOMIC INCOME
1	87,450	111,062	246,128	(135,066)
2	264,000	335,280	340,718	(5,438)
3	529,650	672,656	476,212	196,444
4	859,650	1,091,756	608,602	483,154
5	1,102,200	1,399,794	480,465	919,329
6	1,255,650	1,594,676	518,265	1,076,411
7	1,320,000	1,676,400	515,160	1,161,240

1/ 90% exported to hard currency areas with adjustment factor of 1.3, plus 10% local sales, combined factor of 1.27

The net income with the project, without the project and the project benefits are shown in Table 26.

TABLE 26. NET ECONOMIC INCOME WITH AND WITHOUT THE PROJECT
(In Dollars)

YEAR	NET INCOME WITH THE PROJECT	NET INCOME WITHOUT THE PROJECT	PROJECT BENEFITS
1	(135,066)	68,780	(203,846)
2	(5,438)	137,560	(142,998)
3	196,444	206,340	(9,896)
4	483,154	275,120	208,034
5	919,329	275,120	644,209
6	1,076,411	275,120	801,291
7	1,161,240	275,120	886,120
8	1,161,240	275,120	886,120

TABLE 27. COCOA PROJECT: COSTS, BENEFITS AND ECONOMIC IRR

YEAR	INVESTMENT 1/	OPERATING PROJECT BENEFITS	NET BENEFITS
1	53,000	(203,846)	(256,846)
2	53,000	(142,998)	(195,998)
3	53,000	(9,896)	(62,896)
4	53,000	208,034	155,034
5		644,209	644,209
6		801,291	801,291
7		886,120	886,120
8			886,120
9			886,120
10	13,000		873,120
11	13,000		873,120
12	13,000		873,120
13	13,000		873,120
14			886,120
15			886,120
16			886,120
17			886,120
18			886,120
19			886,120
20			886,120
			IRR 55.9

1/ Cocoa fermentation centers, $50,000 each, of which $10,000 is imported machinery and equipment with an adjustment factor of 1.3 equivalent to a combined factor of 1.06 for the fermentation centers. The machinery and equipment is replaced each 10 years.

Citrus Project

Without the Project, the citrus enterprises are typically cared for with the minimum of effort and materials, declining each year. Many have already reached the end of this phase and have been abandoned. In the projections of net revenues, as the decline reaches the eighth year, it is assumed this will happen, without the rehabilitation project. The project involves the rehabilitation of 1200 hectares of citrus orchards.

The project operating costs and their conversion to economic costs are presented in Tables 28, 29, and 30.

The costs and revenues without the Project are presented in Table 31, the conversion to economic costs in Table 32, and the calculation of net economic revenues in Table 33. The net revenues with and without the Project and the Project benefits (the difference between the two streams) are presented in Table 34.

The prices estimated for the project are farm gate prices. The construction of an orange juice plant is planned, with the production scheduled for export to hard currency areas. When this occurs, the normal operating income of the plant will add to the net benefits and this will be further increased by the premium placed on foreign exchange earnings. However, the costs and benefits of this activity are not included in the project at this time.

No significant investment costs in plant and equipment are anticipated in this rehabilitation program.

TABLE 28. CITRUS PROJECT: LABOR COSTS WITH PROJECT
($ 000)

YEARS	1	2	3	4	5	6	7	8
a) With Drainage								
100 has	79.5	72.1	75.1	76.4	79.1	79.1	79.1	79.1
150		134.3	108.2	112.7	114.6	118.7	118.7	118.7
250			223.8	180.3	187.8	191.0	197.8	197.8
100				89.5	72.1	75.1	76.4	79.1
600 has	89.5	206.4	407.1	458.9	453.6	463.9	472.0	474.7
b) Without Drainage								
100 has	67.0	69.7	72.7	74.0	76.7	76.7	76.7	76.7
150		100.5	104.6	109.1	111.0	115.1	115.1	115.1
250			167.5	174.3	181.8	185.0	191.8	191.8
100				67.0	69.7	72.7	74.0	76.7
600 has	67.0	170.2	344.8	424.4	439.2	449.5	457.6	460.3
TOTAL	156.5	376.6	751.9	883.3	892.8	913.4	929.6	935.0

TABLE 29. CITRUS PROJECT: MATERIALS COSTS
($ 000)

YEARS	1	2	3	4	5	6	7	8
a) With Drainage								
100 has	125.3	124.7	130.8	132.1	135.0	135.0	135.0	135.0
150		188.0	187.1	196.2	198.2	202.5	202.5	202.5
250			313.3	311.8	327.0	330.3	337.5	337.5
100				125.3	124.7	130.8	132.1	135.0
600 has	125.3	312.7	631.2	780.0	784.9	798.6	807.1	810.0
b) Without Drainage								
100 has	123.1	124.5	130.6	132.4	134.7	134.7	134.7	134.7
150		184.7	186.6	195.9	198.6	202.1	202.1	202.1
250			307.8	311.3	326.5	331.0	336.8	336.8
100				123.1	124.5	130.6	132.4	134.7
600 has	123.1	309.2	625.2	762.7	784.3	798.4	806.0	808.3
TOTAL	248.4	621.9	1256.4	1542.7	1569.2	1597.0	1613.1	1615.4

TABLE 30
CITRUS REHABILITATION PROJECT: REVENUES, FINANCIAL OPERATING COSTS AND CONVERSION TO ECONOMIC COSTS
($ 000)

YEAR	REVENUES	LABOR COSTS		MATERIAL COSTS		INDIRECT TAXES ON MATERIALS 3/	TOTAL
		FINANCIAL	ECONOMIC 1/	FINANCIAL	ECONOMIC 2/		
1	365.6	156.5	94	248.4	293	25	362
2	940.4	376.6	226	621.9	734	62	898
3	1920.3	751.9	451	1256.4	1483	126	1808
4	2417.5	883.3	530	1542.7	1893	154	2269
5	2575.5	892.8	536	1569.2	1926	157	2305
6	2733.4	913.4	548	1597.0	1960	160	2348
7	2865.0	929.6	558	1613.1	1980	161	2377
8	2957.2	935.0	561	1615.4	1982	162	2381
9	2983.5						

1/ Adjustment factor .6
2/ 60% adjusted by factor of 1.3 (combined factor of 1.18)
3/ 10%

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TABLE 31. COSTS AND REVENUES WITHOUT PROJECT
(In Dollars)

YEAR	COSTS TOTAL	COSTS LABOR	COSTS MATERIALS	REVENUES	NET REVENUES
1	280,000	112,000	168,000	313,500	33,500
2	696,500	278,600	417,900	764,235	67,735
3	1,379,070	551,628	827,442	1,490,410	111,340
4	1,638,335	655,334	983,001	1,743,959	105,624
5	1,621,952	648,781	973,171	1,700,534	78,582
6	1,605,732	642,293	963,439	1,658,191	52,459
7	1,589,675	635,870	953,805	1,616,902	27,227
8	1,573,778	629,511	944,267	1,576,641	2,863

TABLE 32. WITHOUT PROJECT: CONVERSION TO ECONOMIC COSTS
(In Dollars)

YEAR	LABOR FINANCIAL (1)	LABOR ECONOMIC 1/ (2)	MATERIALS FINANCIAL (3)	MATERIALS ECONOMIC 2/ (4)	INDIRECT TAXES ON MATERIALS 3/ (5)	TOTAL ECONOMIC (000) (2)+(4)-(5)
1	112,000	67,200	168,000	198,240	16,800	248,640
2	278,600	167,160	417,900	493,122	41,790	618,492
3	551,628	330,977	827,442	976,382	82,744	1,224,615
4	655,334	393,200	983,001	1,159,941	98,300	1,454,841
5	648,781	389,269	973,171	1,148,342	97,317	1,449,294
6	642,293	385,376	963,439	1,136,858	96,344	1,425,980
7	635,870	381,522	953,805	1,125,490	95,381	1,411,631
8	629,511	377,707	944,267	1,114,235	94,427	1,397,515

1/ Adjustment Factor .6
2/ 60% Adjusted by Factor of 1.3 equivalent to a combined factor of 1.18
3/ 10%

TABLE 33. ECONOMIC COSTS REVENUES AND NET INCOME WITHOUT THE PROJECT
($000)

YEAR	REVENUES	ECONOMIC COSTS	NET ECONOMIC REVENUES
1	313.5	248.6	64.9
2	764.2	618.5	145.7
3	1490.4	1224.6	265.8
4	1744.0	1454.8	289.2
5	1700.5	1449.3	251.2
6	1658.2	1425.9	232.3
7	1616.9	1411.6	205.3
8	1576.6	1397.5	179.1

TABLE 34
CITRUS PROJECT: NET ECONOMIC REVENUES WITH AND WITHOUT THE PROJECT
($ 000)

	WITH PROJECT				
YEAR	REVENUES	COST	NET REVENUES	WITHOUT PROJECT NET REVENUES	PROJECT BENEFITS
1	365.6	362	3.6	64.9	(61.3)
2	940.4	898	42.4	145.7	(103.3)
3	1920.3	1808	112.3	265.8	(153.5)
4	2417.5	2269	148.5	289.2	(140.7)
5	2575.5	2305	270.5	251.2	19.3
6	2733.4	2348	385.4	232.3	153.1
7	2865.0	2377	488	205.3	282.7
8	2957.2	2381	576.2	197.1	397.1
9	2983.5	2381	602.5	0	602.5

Vegetable Project

The vegetable project consists of converting some 900 hectares of land from traditional crops to vegetables. The costs and returns for corn production are used as the "before project" comparison to determine the incremental increase in income resulting from the project.

As in the case of citrus, some processing facilities may be anticipated as an added stage of the project. When this occurs there will be additional streams of costs and benefits related to the processing activities. It may be assumed

that this will generate additional net benefits and that these will be further increased by the premium placed on foreign exchange. However, the costs and benefits of this next phase are not included in the project at this time.

No significant investment costs in plant and equipment are anticipated in this rehabilitation program.

TABLE 35. FINANCIAL COSTS AND REVENUES WITHOUT PROJECT
(In Dollars)

YEAR	COSTS			REVENUES	
	TOTAL	LABOR	MATERIALS	CROPS	NET
1	79,360	53,940	25,420	102,974	23,614
2	192,000	130,500	61,500	249,131	57,131
3	304,640	207,060	97,580	395,236	90,596
4	396,800	269,700	127,100	514,871	118,071
5	460,800	313,200	147,600	597,915	137,115
6	460,800	313,200	147,600	597,915	137,115

TABLE 36. CONVERSION TO ECONOMIC COSTS
(In Dollars)

YEARS	LABOR		MATERIALS		INDIRECT TAXES ON MATERIALS 3/	TOTAL ECONOMIC
	FINANCIAL	ECONOMIC 1/	FINANCIAL	ECONOMIC 2/		
	(1)	(2)	(3)	(4)	(5)	(2)+(4)-(5)
1	53,940	32,364	25,420	29,996	2,542	59,818
2	130,500	78,300	61,500	72,570	6,150	144,720
3	207,060	124,236	97,580	115,144	9,758	229,622
4	269,700	161,820	127,100	149,978	12,710	299,088
5	313,200	187,920	147,600	174,168	14,760	347,328
6	313,200	187,920	147,600	174,168	14,760	347,328

1/ Adjusted factor .6
2/ 60% adjusted by factor of 1.3 equivalent to combined factor of 1.18
3/ 10%

The net economic income without the project is shown in Table 37.

TABLE 37. NET ECONOMIC INCOME WITHOUT PROJECT
(In Dollars)

YEAR	INCOME	ECONOMIC COST	NET ECONOMIC INCOME
1	102,974	59,818	43,156
2	249,131	144,720	104,411
3	395,236	229,622	165,614
4	514,871	299,088	215,783
5	597,915	347,328	250,587
6	597,915	347,328	250,587

The costs and returns resulting from the project are presented in the following tables.

TABLE 38. FINANCIAL COSTS AND REVENUES WITH PROJECT
(In Dollars)

YEARS	COSTS			REVENUES
	TOTAL	LABOR	MATERIALS	
1	589,000	382,850	206,150	1,886,957
2	1,145,740	744,731	401,009	3,367,948
3	1,680,800	1,092,520	588,280	4,751,500
4	2,074,700	1,348,555	726,145	5,696,815
5	2,323,350	1,510,178	813,173	6,230,163
6	2,323,350	1,510,178	813,173	6,230,163

TABLE 39. CONVERSION TO ECONOMIC COSTS AND NET INCOME
(In Dollars)

YEARS	LABOR		MATERIALS		INDIRECT TAXES ON MATERIALS 3/	TOTAL ECONOMIC	REVENUES	NET INCOME
	FINANCIAL (1)	ECONOMIC 1/ (2)	FINANCIAL (3)	ECONOMIC 2/ (4)	(5)	(2) + (4)-(5)		
1	382,850	229,710	206,150	243,257	20,615	452,352	1,886,957	1,434,605
2	744,731	446,839	401,009	473,191	40,101	879,929	3,367,948	2,448,019
3	1,092,520	655,512	588,280	694,170	58,828	1,290,854	4,751,500	3,460,646
4	1,348,555	809,133	726,145	856,851	72,615	1,593,369	5,696,815	4,103,446
5	1,510,178	906,107	813,172	959,543	81,317	1,784,333	6,230,163	4,445,830
6	1,510,178	906,107	813,172	959,543	81,317	1,784,333	6,230,163	4,445,830

1/ Adjusted factor .6
2/ 60% adjusted by factor of 1.3 equivalent to combined factor of 1.18
3/ 10%

The incremental increase resulting from the project is shown in the following Table.

TABLE 40. NET ECONOMIC INCOME WITH AND WITHOUT THE PROJECT
(In Dollars)

YEAR	NET INCOME WITH THE PROJECT	NET INCOME WITHOUT THE PROJECT	PROJECT BENEFITS
1	1,434,605	43,156	1,391,449
2	2,488,019	104,411	2,383,608
3	3,460,646	165,614	3,295,032
4	4,103,446	215,783	3,887,663
5	4,445,830	250,587	4,195,243
6	4,445,830	250,587	4,195,243

Other Benefits

The benefits of the project will extend beyond the bounds of the three commodity systems. Research services, FEPROEXAH services and financing will reach many more farm enterprises than those included in the three commodity systems. The demonstration effect of the successful farms within the three commodity systems will act to motivate others to adapt the same practices, to increase their incomes also. It is impossible to estimate these effects with any certainty. The simple assumption is made that the net economic benefits resulting directly from the development of the three commodity systems in the project will be increased by about 20% as a result of the impact on other farmers throughout the economy.

TABLE 41
TOTAL NET BENEFITS IN AGRICULTURE RESULTING FROM THE PROJECT
($000)

	COCOA	CITRUS	VEGETABLES	SUB-TOTAL	ADDITIONAL BENEFITS 1/	TOTAL NET BENEFITS
1	(256.9)	(61.3)	1,391.4	1,072.9	214.6	1,285.5
2	(196.0)	(103.3)	2,383.6	2,084.3	416.9	2,501.2
3	(43.1)	(153.5)	3,295.0	3,098.4	619.7	3,718.1
4	155.0	(140.7)	3,887.7	3,902.0	780.4	4,682.4
5	644.2	19.3	4,195.2	4,858.7	971.7	5,830.4
6	801.3	153.1	4,195.2	5,149.6	1,029.9	6,179.5
7	886.1	282.7	"	5,364	1,072.8	6,436.8
8	886.1	397.1	"	5,478.4	1,095.7	6,574.1
9	886.1	602.5	"	5,683.8	1,136.7	6,820.6
10	873.1	602.5	"	5,670.8	1,134.2	6,805.0
11	873.1	"	"	"	"	"
12	873.1	"	"	"	"	"
13	873.1	"	"	"	"	"
14	886.1	"	"	5,683.8	1,136.8	6,820.6
15	"	"	"	"	"	"
16	"	"	"	"	"	"
17	"	"	"	"	"	"
18	"	"	"	"	"	"
19	"	"	"	"	"	"
20	"	"	"	"	"	"

1/ 20% of direct project benefits.

Economic rate of return for the Project

The investment costs of the project are, essentially, the external costs; the costs of industrial park construction; and the cost of finishing, machinery, equipment and furnishing of the companies operating in the industrial parks. The investment costs of the agricultural project where appropriate were included in the evaluation of each project, in the estimation of the benefit flow of the project.

In the benefit flows in the agricultural sector, "additional benefits" of 20% were added to the project benefits to take into account the export activity stimulated by the project, in addition to that already explicity included in the three commodity systems. The some assumption is to be made for the industrial sector, that benefits will be created from export activity

stimulated by the project outside of the IPFZs, equivalent to 20% of the benefits already explicity included in the estimate of benefit flows from the industries in the IPFZs.

The benefit flows are derived from the financial flows, converted to economic values by eliminating, where appropriate, depreciation and transfer payments and shadow pricing the cost of labor and foreign exchange. Table 42 summarizes these computations, which result in an economic rate of return of 41.7%.

Estimated costs may be higher than expected, and/or income flows may be less. These will be reflected in a reduction in the net benefit stream. Assuming a reduction of 50% in total project benefits lowers the economic rate of return to 16.7% substantially higher than the 12% figure generally used for the marginal efficiency of capital in Honduras. Two additional sensivity tests were tried. The investment costs, not including the "external" investment, were increased by 100% and the benefits held constant. The resulting IRR was 23.3%. These investment costs were then raised 25% and the benefits decreased by 50%. The resulting IRR was 13.3%

TABLE 42
TOTAL PROJECT COSTS AND BENEFITS, AND NET BENEFITS
($ 000,000)

YEAR	EXTERNAL COSTS	IND. PARK CONSTRUCTION	INVESTMENT IN IPFZ INDUSTRY	TOTAL INVESTMENT	PROJECT BENEFIT 1/ INDUSTRY	PROJECT BENEFIT 1/ AGRICULTURE	TOTAL	NET BENEFITS	BENEFITS REDUCED BY 50%
1	5.43	1.49	2.618	9.538	.398	1.286	1.684	(7.854)	(8.696)
2	4.38	2.23	4.289	10.889	2.304	2.501	4.805	(6.094)	(8.497)
3	3.98	2.23	4.170	10.38	5.081	3.718	8.799	(1.581)	(5.981)
4	4.08	2.23	4.170	10.48	7.697	4.682	12.379	1.899	(4.291)
5	3.87	2.23	4.170	10.27	10.424	5.830	16.254	5.984	(2.143)
6					12.469	6.180	18.649	18.649	9.325
7					12.469	6.437	18.906	18.906	9.453
8					12.469	6.574	19.043	19.043	9.522
9					12.469	6.821	19.29	19.29	9.645
10			2.618	2.618	12.469	6.805	19.274	16.656	7.019
11			4.289	4.289	12.469	6.805	19.274	14.985	5.348
12			4.170	4.170	12.469	6.805	19.274	15.104	5.467
13			4.170	4.170	12.469	6.805	19.274	15.104	5.467
14			4.170	4.170	12.469	6.805	19.274	15.104	5.467
15					12.469	6.805	19.274	19.274	9.637
16					12.469	6.805	19.274	19.274	9.637
17					12.469	6.805	19.274	19.274	9.637
18					12.469	6.805	19.274	19.274	9.637
19					12.469	6.805	19.274	19.274	9.637
20					12.469	6.805	19.274	19.274	9.637
							Economic IRR 41.7%		16.7%

1/ Total net (economic) income of industries in the IPFZs increased by 20% to account for export activities stimulated by the project, outside of the IPFZs

Effects of the Project on the Honduran Economy

The effects of the project on the Honduran economy are measured in terms of the increase in investment, in the value of exports, in value added and in employment. All values are in constant prices.

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In the industrial sector, by the end of the project period about $34 million will have been invested in plant and equipment, the value of exports will be increased by $40 million, there will be an increase in value added of $21 million 1/, and about 7,000 jobs will have been created, all as a result of the project.

ACTIVITY	INVESTMENT ($000,000)	VALUE OF EXPORTS ($000,000)	VALUE ADDED ($000,000)	EMPLOYMENT (Annual Equiv.)
Industrial Park Construction	11.2			
Apparel	6.6	12.0	7.6	2,574
Electric/Electronic	2.5	4.3	2.6	810
Wood Products	5.2	12.0	4.8	1,548
Unspecified	2.4	4.8	2.7	840
Outside of PF2s	5.6	6.6	3.5	1,154
Total	33.5	39.7	21.2	6,926

In the agricultural sector the economic analysis is based on three commodity production systems designed to increase production of cocoa, citrus and vegetables for export. The value of the product is taken at the farm gate. From 40 to 50 percent would be added to the farm gate price to arrive at the FOB Puerto Cortés price to include the "marketing margin", mainly export packing and processing. Private sector investment in the three commodity production systems is limited to $220,000 in cocoa fermentation centers. Additional investments in processing and other facilities will be made for citrus and vegetable exports, beyond the farmgate, but they are not yet detailed. They do not enter into the costs or benefits of this analysis or the rate of return calculations. They must of course be taken into consideration as costs when the benefits beyond the farmgate are measured.

The values are taken from the project analyses. A factor of 20% is added to take into account the increased export production of farmers with acreage outside of the acreage limited to the project analyses, who will be affected by the project.

In the agricultural sector, as a result of the project, at the end of the project period about $200,000 will have been invested, the annual equivalent of 3,500 jobs will have been created, and the value of exports at the farm gate will be increased by $11.9 million. The estimated FOB export value will be increased by $17 million.

1/ Value added as a percentage of production is relatively high because, in the assembly industries, production costs and export value do not include the temporarily imported materials that are assembled in Honduras. The U.S. manufacturer retains title of these goods and simply "lends" them to the Honduran manufacturer for assembly.

ACTIVITY	INVESTMENT ($000,000)	VALUE ADDED ($000,000)	EMPLOYMENT (ANNUAL EQUIV.)	FARMGATE EXPORT VALUE	ESTIMATED FOB EXPORT VALUE
Cocoa	.2	.907	331	1.32	1.85 1/
Citrus		1.21	720	3.09	4.64 2/
Vegetables		6.50	2,400	7.48	10.47 3/
	.2	8.6	3,451	11.89	16.96

1/ Farmgate export value plus 40%
2/ Farmgate export value plus 50%
3/ Farmgate export value plus 40%

The combined impact of the project in the two sectors is: increased investments of $34 million, value added of $30 million, employment of 10,000 and FOB export value of $57 million.

ACTIVITY	INVESTMENT ($000,000)	VALUE ADDED ($000,000)	EMPLOYMENT (Annual Equiv.)	FOB EXPORT VALUE ($000,000)
Industry	33.5	21.2	6,926	39.7
Agriculture	.2	8.6	3,451	17.0
	33.7	29.8	10,377	56.7

Technical Analyses

The Post-Harvest Institute for Perishables of the University of Idaho carried out the following technical analyses for the Project's agricultural activities. The findings of these analyses are summarized in the text of the Project Paper. This annex contains the original analyses done by PIP; for purposes of Project design, the proposed levels of the activities have been scaled down as appropriate to fit the scope and budget of the A.I.D. Project.

A. CACAO

Cacao is cultivated in Honduras in the North Atlantic Coast, from the Guatemalan border to the Aguan Valley. Climatic conditions of this area vary, but are adequate for cacao.

1. Number of Producers and Area Planted

Data provided by the Cacao Producers' Association indicated that in the Atlantic Zone, there are 726 independent cacao producers cultivating a total of 1,747 hectares. In addition, 23 cooperatives in Coral, La Masica, and Lean Valley have planted as of May 1984 a total of 388 hectares. Therefore, in Honduras there are currently 2,135 hectares of cacao with an age between 1 to 30 years, with 1-7 years the most common age.

2. Production

In 1970, Honduras produced only 83 tons of cacao. Beginning that year, production increased steadily. In 1983, production is estimated to have been 800 tons.

3. Yields

Cacao production at farm level varies according to farm management and age of trees. Yields were found between 65 and 1,306 kg/ha, with an average of 400 kg/ha. Most frequent yield is around 262 kg/ha.

4. Varieties

Between 1976 and 1983, the Centro Agronomico Tropical de Investigación y Ensenanza (CATIE) based in Turrialba, Costa Rica, exported to Honduras a total of 1,164,197 cacao seeds from improved clones and hybrids. The experimental station in La Masica, at San Juan Pueblo, Atlantida, Honduras, has started hybrid seed production from a small shipment of clones imported from CATIE. To date, there should be 1,000 hectares planted with improved seed. The other 1,135 hectares involve plants descended from hybrids that should not be planted and from various genetic materials collected in the zone by the farmers.

5. Cultural Practices

The plant population used by 90% of the growers of this zone is 852 trees/ha, although, CATIE recommends 1,111 trees/ha.

Weed control in the first three cropping years has been a problem for farmers especially because they do not use herbicides or the proper equipment. In some areas, cacao crops have been lost due to weeds.

Small producers with limited economic resources do not apply fertilizer, although soils are deficient in phosphorus (3 ppm of P205), have a low concentration of potassium (0.20 meq/100 of soil), and limited organic matter (3.0%).

In pruning, the farmer normally strips the tree of its shoots of suckers, but is careless in shape, maintenance and sanitary pruning. All of these must be practiced more frequently.

The terrain closest to the coast has common drainage problems when the rivers flood during the rainy season. This is detrimental due to greater relative humidity and disease incidence.

Disease control is not practiced by the farmers in this area, except a few (not more than 20) with more technified farms. The disease that causes most harm is the Phytophtora palmivoro, which affects 20% of the stems.

Harvest practices are very empirical (incomplete), no use of tools, bending the fruit. This destroys the stem (?) that cannot produce more flower (seed).

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6. Processing

The most common practice is to harvest the fruit, remove the seeds, and throw these on the pavement or elsewhere, for drying. Some farmers wash the seeds before drying; only 10% of the crop is fermented. The quality of the processed cacao seeds is very low and from the lots observed, they cannot be classified as exportable because:

1. 15-20% humidity
2. External and internal mold
3. High percentage of waste, 1-5%
4. Insects: adults externally and larvae internally
5. Deformation: "vanas", adhered and bruised
6. "Pizarrosas" (grayish color): 40-60% that belong to the classification of "badly fermented"

Some of the more technified farmers have fermented considerable amounts of cacao (300 qq lot) and have exported these successfully to the U.S. and Europe.

7. Storage

There are no special storage houses, in the farms observed, to keep the cacao produced. The majority of the producers sell the cacao before it is completely dry. Although the cacao cannot be stored in the farm more than 15-30 days, the farmer must provide a small warehouse to storage the product while the lot is completed or the buyer arrives.

8. Commerce

The cacao farmer sells the pods to the truckers that travel from farm to farm buying the fruit. The truckers bring the fruit to the city and sell it to the wholesalers, who export it mainly to El Salvador. Some growers with larger farms have produced lots (300 qq) and have exported these successfully to the U.S. and Europe. The current price paid to the producer is L1.40-1.50 per lb. The wholesaler pays the trucker L1.65-1.70 and exports it with a price around L2.0 per lb. Storage at regional level is scarce. The product is bought and immediately shipped for export. Adequate storage rooms have not been observed.

9. Financing

There has not been a defined credit policy towards cacao cultivation in Honduras. At the moment, the only funding source available is through the Central Bank-World Bank loan, which in has attracted 70 producers from the IHCAFE program and independent growers. This type of credit is provided under the following conditions:

--Amount per hectare: L3,000
--Yearly interest: 16%
--Period of grace: 4 years
--Mortgage period: 8 years
--Reimbursement plan: biannual interest fees
biannual mortgage fees

Under this credit plan, the producer receives ____% of the total production. This credit plan includes operational costs and can be complemented with an additional sum for investment and working capital.

10. Subproject Description

The purpose of this Project sub-component is to increase cacao exports from Honduras. The Project will establish a production network for cacao in the country of 5,000 additional hectares, integrating the productive process with technical assistance, credit, commercializing and exporting the product. The system components include:

a. Policy

In the current economic crisis of the country, it is imperative that immediate policies tending to increase foreign exchange be established. The cacao crop could have an important place among the export products of the country. A production of 6,000 T of cacao could generate L15 million each year for Honduras. The standard of living of producers would improve dramatically. The utilization of land and development of infrastructure works would contribute to the economic and social development of the country.

b. Organization

The project must have an administrative section, as well as technical, financial, and marketing sections. The administrative section will be geared towards physical resources and procedures and services necessary for the execution of the project, and will provide economic monitoring of it.

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The technical organization would provide technical services to the producers, as well as training to permit the producers to obtain high yields and a high quality final product. It would also play a part in the information services for the project. It would manage the hybrid seed production center of the project and coordinate the provision of the remaining seed.

The financial section should manage or coordinate the credit to the producers. It would operate directly with the technicians for the producer's complete advantage of this credit.

The marketing section will have the responsibility to provide up-to-date information on prices and quality of cacao in the principal world markets. It will be in charge of picking up the fruit in the farm and exporting it under the conditions and prices, also give feedback to the producer in coordinating with the technical section as to the quality of the product obtained.

c. Institutions Involved

The National Agrarian Institute (INA) has as its function to organize land tenure and actively participate in the organization of producer colonies that become involved in the project.

The National Coffee Institute (IHCAFE), through its Diversification Department, can contribute to the project its experience in the management of cacao nurseries and fermentation, drying, and marketing of pods.

The Honduran Cacao Growers Association (APROHCACAO), is interested in promoting cultivation of cacao and consolidating Honduras as a cacao producer. In addition, it will protect the interests of the cacao producers when this becomes necessary within the normal development of the crop activities. It will participate with the Federation of Agricultural Producers and Exporters of Honduras (FEPROEXAH) in the organization and development of product marketing.

d. Research

Research will generate data and information for the technical assistance of the project and enrich the information network.

The organisms in charge of research activities will first detect the problems and needs of the technical section of the project. If the problem can be resolved through information already available, an information package will be sent to the technician. The research process will be coordinated with the technician in conducting it and sharing the results.

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The North Atlantic Coast Regional University (CURLA) will support the research needs of the cacao project through the theses papers of its graduates.

The Tropical Agronomic Research and Training Center (CATIE) will investigate basic problems of the productive system and send the results to the technical section of the project. For example, CATIE works in the development of hybrid cacao, resistant or tolerant to Monilia roreri. Any pertinent results will be studied immediately by the technicians of the project. CATIE, through other means, will also resolve any basic problems related to research. A trial with hybrids will be conducted soon after project implementation begins.

IHCAFE will work on improving the fermenting and drying systems of product through new research activities.

e. Materials

The seed constitutes the most important input in the production system. The hybrid seed project in La Masica is being initiated. However, due to the scarcity of INA policies in such a delicate and technical field, the Association has requested that this project be transferred to it. To take advantage of the great opportunity that the seed has within the cacao production network will require well defined policies and accurate planning in all the productive labor. In addition, a specialized evaluation and supervision of the productive process of the center is frequently needed (every 3 months).

Current hybrid seed production is 300,000 per year. However, the project requires 1,500,000 per year. With an optimum management, the clonal nursery would produce at least 1,000,000 seeds in the first years, and within four years, it could produce 1.5 million per year.

IHCAFE owns another clonal nursery in Cuyamel, which will start producing in the next three years. In the last instance, CATIE could provide the rest.

The rest of the inputs and other requirements for the crop could be supplied by a Department of Specialized Inputs or by independent sellers. Specialized inputs are not necessary, except for fermenting boxes and dryers which could be supplied by APROCACAO.

The quantity of required inputs varies according to the age of the fruit. A cost table is attached.

f. Technical Assistance

Training the cacao producers is priority factor, due to the low yields and incrementation of the cacao production. Therefore, the technical assistance program must be outstanding.

For every 400 hectares of area planted, a dynamic and well trained extensionist with his own transportation is needed. This extensionist must visit the farm at last once a month and orient the producer as to practices or improvements to be conducted on the farm. The cost for extension service is estimated at L50/ha/year.

The technical assistance component will finance a specialized center for adequate technology for the region and offer training courses to technicians and students. This center could be the hybrid seed production center. It has a technical director specialist in cacao, with two assistants, a secretary and an accountant. The center will have 5.0 hectares of clones to pollenate 5 hectares of commercial hybrids, a demonstration nursery, fermenting prototypes, dryers and storage houses. This equipment and installation will serve for training and pre-fabricated commercial equipment will be sold to the producer.

The center will publish technical bulletins periodically, either written or through other communication approach. It will broadcast programs weekly and will be in constant communication with producers and extensionists. The budget estimated for the center is L200,000 per year. The center will obtain income from training course fees and sale of hybrid seeds, "yemas",and fermenting equipment. This could cover at least 50% of the budget.

g. Information Network

It is up to the technicians and cacao producers of the region to construct a technical information network center for cacao and other crops. This center will keep up-to-date information on world prices, quality, etc. The information processed will be centralized in the APROCACAO, or in the institution or enterprise that conducts the project. The center must be managed by a specialist in communications and data management. Information sources would consist of all the publications on the subject at a national and Central American level, the data from reports of periodical publications and market statistics. It would also serve as a documentation center for technicians, students, and producers. Its cost is estimated at L25,000/year.

h. Marketing

Cacao marketing is closely related to the quality grade of the product desired. If a good quality cacao is desired throughout the country, local centers for storage, fermentation, and drying of the cacao pods must be constructed and made functional. The problem of this storage would be transporting the humid pods to the processing center.

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When the _____ oozes, serious problems in transportation may occur with the risk of contaminating the pods. If the producers do not harvest at the same time and with the same method, some pods would be more fermented than others. Another problem would be the weight and deliverance of the pods in a truck, or tractor with a cart and its transport to the processing center (10-20km).

If the producers do the fermentation and drying on their own, a very heterogeneous final product would be expected and this is not advisable for the quality and prestige of the domestic cacao. Nonetheless, a training and orientation program for the producer would be effective and provide acceptable quality. The grower could be assisted by selling him fermenting equipment and dryers.

Another system would be to purchase the fruit from the grower. Payment would be made by unit and on the farm or on the road to the towns, which would attractive to the farmer because he would receive payment for his harvest from the same _____? Transportation for the fruit is more difficult but less risky, since there are no problems of the pod contamination and the processed fruit would be of high quality. One disadvantage of this type of collecting would be the probable presence of monilia, since the transportation of fruit allows its dissemination.

In view of the problems with the various types of fruit collection, it is suggested that the traditional system be maintained; the producer will ferment and dry and establish, by areas, system models for marketing in the areas of greater concentration on the farm. This model would allow the farmer to determine the economic indicators and expand the collecting system according to the acceptance of the growers, its economic efficiency, and its final product quality. The difference in the cost of both models would be the cost of transportation between the farm and the processing center.

With an estimate production of 1,000 kg/ha of fermented and dried pods, peak harvest would be 500 kg in eight weeks (63.5 kg/wk). This indicates that a storage center per 800 hectares would receive in peak harvest 50 t of dried cacao per week. From the storage center, cacao must be transported as soon as possible to the closest port of export or conditioned warehouses since it could rapidly lose its quality. These storage centers must have capacity for 25 tons of pods. Construction of this storage center for dry cacao would cost approximately L.10,000.

11. Cocoa--Harvesting and Preparing for Marketing

Harvesting generally occurs throughout the year in Central America with 2 definite peaks of 3 to 5 months duration. Length of time for maturation is determined by several factors with the major one being temperature. Average time is 6 months with cooler weather slowing growth. Harvesting should be done at 2 week intervals and is frequently lengthened to 3 or 4 weeks ar the beginning or end of "seasons" when crop volume is lower.

Pods may be stored up to 1 week without problem if they are disease free and not damaged by birds and animals. If there are usable seeds from these categories they should be removed at once and possibly handled separately.

Pods may be opened in any economical manner which does not damage the seed; separation of seeds from pods should be complete. While small pieces of broken pods in the fermentating and drying process do not seems to damage flavor they are better removed before fermentation. A mechanical process for opening the pod and seed separation has been developed and is being used in Brazil and Belize. Although normally used at a processing Center, it could be portable.

Fermentation is a 5-7 day process with 2 to 3 turnings (or transfers from one box to another) in the box system. Shallow trays are used on many smaller farms and "heap" fermentation is common in (lower case). In any system, it is important to get good drainage of the "sweatings" and to experiment to get optimal results.

Drying can be done in the sun, but in many areas it is too risky to have delays that could cause moldy beans that cannot be marketed. Again as in opening and fermenting, there are several systems to choose from. A "fixed bed" dryer is widely used. This is a platform with the floor usually perforated to permit warm air to circulate upward through the cocoa beans. With this system, the total drying time is 24 to 36 hours. Moisture should be 6 1/2% to 7 1/2% maximum.

With a final screening to remove foreign material and broken beans, the product is ready for packing in properly marked new bags . During storage before shipment, it should be protected from rodents, insects, high humidity and contamination from dust and odors. The cocoa beans contain approximately 50% cocoa butter which picks up odors readily.

Finally, all of the above actions must be done well or economic loss may be great. A system of using a central plant for fermenting, drying and preparing for market has definite advantages. A few well trained people can operate at one location these rather demanding tasks. Total capital costs may well be lower as well. Balanced against this is the cost of collecting wet seeds (or even pods). Use of pods for cattle feeding is becoming another income producer which can be used when pods are easily collected.

The Jamaican Cocoa Board has several central fermentation/drying stations which have been in operation for 10 or more years. In both Malaysia and Belize, cocoa pods are brought to a central location on fairly large plantings. One has the pods to feed to beef cattle at the site.

B. CITRUS

Citrus production and export from Honduras is, and continues to be, a very profitable endeavor. Orange juice concentrate production presents an excellent opportunity for the expansion of exports. The new orange juice concentrate industry will give Honduras citrus producers the means of penetrating a completely new market. Cost of production, closeness to the U.S. market, and incentives through the policies of the Caribbean Basin Incentive give Honduras a substantial advantage over Brazil, the largest supplier of concentrate orange juice.

Fresh fruit markets can be increased, but not proportionally to the orange juice market. The quality of Honduras fruit, improved cultivation practice, and availability of product when there is little competition in the market-place support this evaluation.

Honduran citrus farmers are interested in export markets and are willing to commit to join both ANACIHO and FEPROEXAH. New growers are interested in participating in the organized industry.

One U.S. firm has invested substantially in assisting producers export Persian limes and in improving cultural practices in the Aguan Valley to export grapefruit to Europe. An abandoned juice plant in San Pedro Sula is being renovated to produce concentrate juice this year. Other investors are contacting the president of ANACIHO frequently.

The citrus industry is labor intensive. Fertilizing, weeding, harvesting, packing, transportation and other activities will provide employment to many persons. Employment generation from citrus production is estimated ____ at jobs per hectare of production. Improved economic conditions will result in better standards of living for the smaller producers, especially those members of cooperatives. New plantings will give small farmers with available land an opportunity to develop their property.

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Although not enough, there are many qualified people in Honduras in the citrus industry including professional, semi-professional, and practical growers with a sound knowledge of the citrus industry. Persons with a sincere desire to see the citrus industry of Honduras become one of the best in the world have provided the spark to ignite the motivation of existing and new producers to improve their operations. Examples are the group that organized ANACIHO and groups that created FEPROEXAH.

Past experiences in agricultural programs, such as grapefuit production in Atlântida and Aguân, and previous attempts to develop a juice industry provide experience to simulate or avoid in the revitalization of the citrus industry in Honduras.

Citrus and cacao have similar characteristics. Crop requirements, infrastructure needed, export opportunities, and potential for growth and development are quite similar. The multiplier effect from increased purchasing power of a labor-intensive industry, the increased demand for input, the increased activity in transportation and shipping are among many of the areas in which an increased effort in citrus production will have a very significant effect on the economy of Honduras.

1. INTRODUCTION

Citrus has been grown commercially in Honduras since the early 1940s. It was first established in the Choloma area between San Pedro Sula and Puerto Cortes. The industry remained small until the decade of the sixties, when the industry increased significantly. The last large development occurred in the Aguan Valley, where over 1,800 hectares of grapefruit were planted and distributed among members of cooperatives by the National Agrarian Institute. Other important expansions occurred at Atlântida (Standard Fruit) and El Progreso.

Citrus trade in Honduras is done mainly in two ways: the sale of fruit, mostly oranges, in the national market and to El Salvador; and the export of oranges and grapefruit to Europe and Persian limes to the United States. The citrus industry in Honduras has a definite advantage in marketing its fruit in Europe. At the time that fruit is shipped from Honduras, July through October, very little fruit is available from other sources. The fruit that is shipped meets all the standards that are required by the European market. Fruit that is not exported is sold in locally and El Salvador, markets which do not impose the restrictions of the overseas markets.

Cultural practices vary considerably from farm to farm. Many farms, particularly those of smaller farmers do not fertilize at all, even though the soils are deficient in nitrogen, phosphorus and potash. Weed control is done mainly by hand. Herbicides are used by only a few farmers.

Larger farms usually make a serious effort to control weeds. Pest control also varies; growers planning to export, such as Standard Fruit, maintain their orchards under an intensive program to ensure high quality fruit.

The citrus market has changed significantly since last December. Because of a severe freeze, crops in Florida and Texas were reduced drastically, as much as 75% in Texas. Many of the trees were also affected, many of them dying. Tree population in Texas is expected to be reduced by as much as 20%, it is not known at present how many of these trees will be replaced.

Honduras prospects in the citrus market are considered to be very good in the immediate future. The fresh markets in Europe will continue to remain strong for Honduras citrus. However, the best opportunity for Honduras to expand their export market right now is in concentrate juice. Fresh markets in the United States are difficult, because of quarantine regulations dealing with grapefruit and oranges. Only limes can be shipped to the United States without strict regulations. Juice, on the other hand, has none of these drawbacks.

An important supplier of concentrate juice to the United States is Brazil. However, because of greater distances to the United States and the lack of preferrential treatment on import tariffs, (since Brazil does not participate in the Caribbean Basin Initiative Program), costs are higher in Brazil. This provides a clear advantage to juice originating in Honduras.

For the foregoing reasons, an expansion of up to 15,000 hectares in Honduran citrus plantings is considered economically feasible. Of this amount, 13,500 hectares should be in oranges, 95% intended for juice production and the balance to be sold in fresh markets, both overseas and in Honduras and El Salvador. The balance of the expansion should be in grapefruit, intended for fresh markets.

The Project will:

--Increase citrus production in Honduras by rehabilitating orchards not producing at top capacity and by establishing an additional 15,000 hectares of new plantings. Most of the of the new hectarage would be planted to oranges, particularly in higher areas.

--Improve the quality of the fruit in order to increase the percentage of exportable fruit and improve yields of established orchards by improving cultural practices and improving harvesting and packing practices.

--Develop new markets for citrus, by producing orange juice for export to Europe and the United States.

--Develop support systems for the expansion program that will take place in the citrus industry in order to promote support service to the industry and promote citrus grower association leadership.

Technical assistance will be provided to locate suitable expansion areas in Atlántida - Masica - La Ceiba; Colon - Aguan Valley; Comayagua; Cortés; Copán; and Yoro. One plant material resource person will provide six months assistance (six visits) to index sources of budwood existing in Honduras, investigate new sources, and establish the research program. A marketing resourse person will provide six months assistance to examine and define the fresh fruit markets locally and in Europe and the United States.

The Project will train 11 extension persons to assist producers with new plantings and to increase yield and quality of fruit in existing ones. (Atlântida, 2 persons; Colon, 2 persons; Comayagua, 1; Cortés, 3; Copán, 1; Yoro, 2.) It will also train 4 persons in the association to coordinate and supervise trainers and trainees in cultural practices (1 person), packing and shipping (1 person), marketing (1 person), and association operational system (1 person).

The Project strategy is to expand citrus production in Honduras by increasing production of exportable fruit of existing orchards by increasing yields and quality. Production from this effort will be distributed approximately as follows: 90% oranges, mostly of the Valencia but also of pineapple varieties, located preferably in higher areas suitable for citrus culture to be identified by a specialist, 10% grapefruit of the Ruby-red and Henderson varieties, mostly in the Aguan Valley and Atlântida areas.

The improvement of yield and quality of existing orchards will be accomplished by 1) improving cultural practices, such as fertilization, pruning, and pest control under supervision of a technical assistant and extensionist and 2) improving harvesting and packing facilities, such as field boxes, packing houses, shipping boxes, and proper use of packing chemicals. These activities will be coordinated by the technical assistance specialist and a person from the association who will be trained by the resource person.

The development of new markets will be accomplished by emphasizing the production of concentrate juice and by exploring the possibility of opening new markets in Europe, the United States and the Caribbean.

Increasing exports by increasing production of orange juice will be accomplished by the installation of a new plant now being renovated in San Pedro Sula. In addition, the feasibility of building an additional plant in the Aguan Valley will be studied. Oranges for these plants will be obtained from existing orchards and from the additional plantings which occur as a concurrent activity to the A.I.D. Project over the next five years. Preferred markets will be the United States, Europe and the Caribbean areas. National and Central American markets will also be explored.

Technical support for these activities will be accomplished by trained persons in the areas of cultural practices and marketing. Cultural practices will include: location of new areas in the major producing areas, proper planting techniques, proper maintenance of new plantings and proper harvesting, grading and packing. Also, the identification of healthy budwood by indexing and the proper establishment of nurseries, emphasizing phytosanitary techniques will be necessary.

The marketing strategy will involve locating new markets and resolving the constraints caused by quarantine regulations in the United States which affect imports of fresh fruit from Honduras.

The training of extension workers and association personnel is needed to assure that the expansion program will be done in an orderly and feasible manner when the technical assistance personnel are not on location. Extension people need to be in regular contact with the producers; association representatives in the different areas need to supervise and coordinate the activities of the extension group.

2. AREAS OF PRODUCTION

Actual Conditions in Honduras

Commercial citrus production in Honduras is presently located on the northern Altantic coastal area. This area is well suited for overall citrus production, particularly grapefruit. The location may be less suitable for orange production, especially for export.

The low areas, with warm nights, result in fruit of lower acid content and external coloration that it less desirable for overseas markets. This is not the case for fruit destined to the national and Central American market where a sweeter orange is preferred. The availability of both types of oranges would be desirable for the concentrate juice market, since blending of the juice can be done at the concentrate plant. However, new plantings of oranges should be encouraged in areas of higher elevation, where feasible.

Rainfall in the area where most of the citrus is presently grown is adequate for citrus. Approximately 5% of the planted areas require supplemental irrigation. Sufficient rainfall is considered a definite advantage for Honduras. Other citrus producing areas in Central America are located in zones with less rainfall than the majority of the areas in Honduras.

The overall infrastructure in this area is better developed than any other citrus-producing areas in Central America, Belize, and Panama. Highways and feeder roads are available to move equipment, inputs and harvested fruit. This factor should be kept in mind in the establishment of new plantings.

The majority of the citrus area is served by a variety of ports with good facilities. Ports in Cortés, Tela, and the new facilities at Puerto Castilla offer a variety of choices seldom seen in other countries. The port of La Ceiba, although at present unable to handle containers, could be improved to do so later.

These ports are close to the United States only 2 1/2 days away, resulting in a definite advantage for the export of citrus products to a large market.

A significant advantage of this area is the absence of serious diseases, such as "Tristeza", which has caused considerable damage in other areas. The presence of certain insects, however, has resulted in stringent quarantine requirements for exporting fresh fruit to the United States, thus forcing much of the exporting activities to European markets. These limitations, however, will apply neither to concentrate nor to Persian limes.

Honduras has the largest and best organized citrus industry in the C.A. region. Although the figures vary from source to source, there area approximately 6,000 hectares of citrus planted in Honduras. The potential to expand many-fold exist given the availability of areas well suited for citrus productiin.

Optimal Conditions for Honduras

The areas where citrus are presently grown in Honduras are well suited for the crop. If and when the industry is expanded, oranges should be planted mainly in higher areas where internal quality produced and color would be more like those demanded by overseas exports and for better quality concentrate juice. Areas to be considered are the Sula Valley, when a project to reclaim areas subject to flooding is implemented; Copán, Comayagua Valley, Zamorano and Siguatepeque for oranges at higher elevations; and areas in Yoro and Negrito for the same reason.

Development Activities

It is estimated that the citrus industry in Honduras could be expanded by 15,000 hectares over a 5-year period. This figure could increased the world market for citrus products continues to show a strong demand.

The expansion program would consist of approximately 13,500 hectares of oranges, intended mainly for juice processing, and 1,500 hectares of grapefruit for fresh market. For ease of calculation, projected costs and returns were based on 15,000 hectares of oranges only.

Oranges will consist mainly of Valencia, established at higher altitudes wherever soil conditions are favorable. Grapefruit will consist of red-colored varieties such as Henderson and Ruby-red, established in the Aguan Valley.

AREAS PLANTED TO CITRUS IN HONDURAS IN HECTARES,
BY DEPARTMENTS OF STATES AND BY TYPE OF FRUIT,
INCLUDING YOU PLANTINGS AND NON-PRODUCTIVE AREAS IN AGUAN

DEPARTMENT	Type of Fruit Orange	Grapefruit	Lime	TOTAL
ATLANTIDA	410	550	25	985
COLON	915	915	20	1,850
COMAYAGUA	70	--	50	120
CORTES	1,760	--	70	1,820
EL PARAISO *	80	--	--	80
YORO	1,050	75	85	1,210
TOTAL	4,275	1,540	250	6,065

* Includes small plantings in Güinope, Zamorano & El Paraiso.

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ORANGE AREAS IN HONDURAS

IN HECTARES

DEPARTMENT	YOUNG TREES	MATURE TREES	TOTAL
ATLANTIDA	0	410	410
COLON	490	425	915
COMAYAGUA	0	70	70
CORTES	350	1,400	1,750
EL PARAISO	0	80	80
YORO	350	700	1,050
TOTAL	1,190	3,085	4,275

GRAPEFRUIT AREAS IN HONDURAS

IN HECTARES

DEPARTMENT	YOUNG TREES	MATURE TREES	TOTAL
ATLANTIDA	30	520	550
COLON	20	895*	915
YORO	--	75	75
TOTAL	50	1,490	1,540

* Includes 480 hectares of trees considered to be non-productive because of lack of care for several years. Only 415 hectares in the Aguan Valley are considered productive, with approximately 130 hectares needing to be rehabilitated.

LIME AREAS IN HONDURAS

IN HECTARES

DEPARTMENT	YOUNG TREES	MATURE TREES	TOTAL
ATLANTIDA	0	25	25
COLON	0	20	20
COMAYAGUA	0	50	50
CORTES	0	70	70
YORO	35	50	85
TOTAL	35	215	250

3. SOILS

Actual Conditions in Honduras

Most citrus plantings in Honduras are located on soils considered to be adequate for citrus production. The areas where citrus are grown in the northern part of the country are sandy loams, with adequate drainage, although finer textured soils are also known to occur. The soils in Atlântida, Colôn, and Comayagua are mostly sandy loams, with some clays. Soils in new areas that can be considered for expansion such as those in Colôn, Comayagua, and Copán are clay loams and clays, but usually with good internal drainage. There are cases where soils are inadequate, mainly because of the presence of high water tables which hinder the development of root systems. Estimates of established areas not optimum for citrus production are as high as 20-25 percent, particularly in the Aguan Valley, where many hectares were lost because of poor drainage. Drainage also becomes important in the few irrigated areas where improper drainage usually results in a high salt concentration in the root zone.

Most soils have adequate pH levels for citrus production, ranging between 4.5 to 6.5 and a few above 7. Because of the high pH, some soils require the addition of lime in order to obtain adequate yields. Where very low pH are found, minor element deficiencies are commonly present.

Nutrient levels vary widely from area to area. Nitrogen, phosphorus and potassium are deficient in many soils, requiring the use of fertilizer to supplement the needs of the plant. Many small producers do not use any fertilizer at all; however, larger farms always include fertilization in their cultural programs.

Optimal Conditions for Honduras

Where citrus is now established, the most important soil-related practices needed to improve the quality of soils are proper fertilization and the improvement of internal drainage in areas where it is required. Soil and foliar analysis are needed to determine the proper levels of fertilization. Areas producing poorly should be examined in order to determine if high water levels are responsible for low production. Soils in areas considered for new planting should be critically evaluated according to the following soil criteria:

a) good internal drainage
b) adequate pH (5.5 - 6.5)
c) proper fertility levels
d) low water tables
e) available water if irrigation is needed.

Development Activities

In order to determine the proper levels of fertilization, farmers should be encouraged to initiate a soil and foliar analysis program that will assist them in implementing the fertility program appropriate for their farms. For this purpose, the laboratory formerly known as SIATSA, which now will be available to members of ANACIHO, should be used.

Citrus farmers should also be encouraged to examine the water table levels in their farms. ANACIHO extension workers should be trained to evaluate water table levels on farms and to counsel farmers on the qualities of soils needed for citrus.

The laboratory at La Lima is presently well equipped to run soil and foliar analysis. The cost to equip it to run soil analysis for the citrus industry should be minimal, if any. The cost to train the personnel that will serve as extension agents for members of ANACIHO will be discussed below .

Where drainage needs to be improved, cost per hectare is difficult to ascertain. Preliminary estimates indicate that where a major problem exists, cots may be as high as $350 per hectare.

Where only surface drainage is needed, the cost may be as low as $100-150 per hectare. Total costs, assuming that 70% of the affected areas need only surface drainage and the rest a more elaborate system, would amount to approximately $325,000.

A program of soil and foliar analysis should be implemented as soon as possible. A total of 40-50 samples per month should be a feasible goal, at a cost of approximately $15,000 per year.

4. CLIMATE

Actual Conditions in Honduras

The areas where citrus production has been established have an adequate climate for the proper development of citrus and especially grapefruit production. Temperature, rainfall, and wind conditions present little problem to the economic production of citrus, except of course where extremes may occur. Temperature is critical to the internal quality of citrus fruit, especially to oranges. The absence of extreme cold temperatures is an important asset to the industry in Honduras. Warm weather encourages the fast development of the trees, resulting in large trees with the potential capacity for high yields if proper care is given to the plantations.

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Average rainfall varies from 35 to 120 inches annually, the lowest occurring in Comayagua, the highest in the Tela area. The rainy season consists of approximately nine months, from June to February and a dry season from March to May. It is during these months that irrigation may become critical, particularly for areas with lower rainfall.

Rainfall in the range of 60-80 inches is appropriate for citrus. Therefore, rainfall is considered to be adequate in the areas where citrus is grown. Certain valleys, particularly in higher elevations, may receive less than suitable amounts of rainfall. There are areas where supplemental irrigation is needed, for example in the Comayagua Valley and certain areas in the Sula Valley.

Wind conditions are not generally considered to be a problem for citrus production in Honduras. However, high winds accompanying hurricanes and unusually high dry winds that may occur during the time of flowering, as it occurred recently in certain areas of the country, may be a problem.

Development Activities

New production of citrus, particularly oranges, should emphasize improvement the quality of fruit for export. New plantings of oranges should be at higher elevations 1,000 feet and above. The Valencia variety should be used since it can attain desirable characteristics of higher acid content and better coloration even when planted at lower elevations.

There should not be any additional costs in following these recommendations, except of course, if supplemental irrigation is needed if areas chosen happen to be those where rainfall may be less than 50 to 70 inches per year, or if the dry season is too long and severe.

5. WATER

Actual Conditions in Honduras

The effect of water availability and drainage-related problems have been considered in the sections of climate, soil and areas of production. The effects of insufficient rainfall, improper drainage, both surface and internal, and high water tables were discussed as they relate to site location, irrigation and drainage. It should suffice to emphasize that water is an important component in the overall citrus production program, and it should be considered carefully when making management decisions pertaining to the production of citrus in Honduras.

With the suggestions made in each of the pertinent sections, water related problems should present little difficulty to the culture of citrus.

6. PLANT MATERIALS

Actual Conditions in Honduras

All commercial citrus plants are budded on an appropriate rootstock for optimum production. The majority of the trees in Honduras are budded on sour orange, the percentage estimated to be as hgh as 90%. Other rootstocks used are Cleopatra mandarin, Carrizo citrange, Volk-americana and native grapefruit. Sour orange is an excellent rootstock, but its main drawback is its susceptibility to Tristeza, a virus disease that has caused great economic damage to many citrus production areas in the world. Fortunately, the disease and its vector have not been found in Honduras. No rootstock is ideal, but emphasis should be placed on using those that have the greater number of advantages.

Orange varieties are mainly pineapple, Valencia, Victoria and Washington navel. Grapefruit varieties are Marsh seedless (white),Thompson pink, and Ruby red. Lemon varieties are Persian limes and Eureka.

There have been several virus diseases identified in Honduras that can trace their origin to the use of infected budwood. Once trees are infected, little can be done to save them, and removal and replacement are the only alternatives for the producer.

At present, there is not a source of certified rootstock and budwood in Honduas. Moreover, there is not an established system for indexing trees that may be suspected of being infected with viral diseases. Therefore, it is not possible to certify trees intended to be used as sources of budwood as being disease free.

Optimal Conditions for Honduras

It is imperative that a program be implemented right away for certifying plant material intended to be used in the renovation of producing orchards and in the establishment of new ones. Precautions should be taken to assure that any new plant material brought into the country is done so only under the strict supervision of competent personnel. Producers should be encouraged not to buy trees of unknown origin and never to attempt to bring any plant material on their own. The devastating effects that a disease such as Tristeza can have to citrus production in Honduras should be enough deterrent to keep anyone from introducing any citrus plant material without going through the proper authorities.

The Escuela Agrícola Panamericana at El Zamorano has an experimental orchard of different varietes, including hybrids. There has also been refecence to budwood sources of Valencia orange in the area of San Pedro Sula. These programs should be examined to determine if any use can be made of existing material. Technical assistance can be given in making this evaluation by personnel described below.

Development Activities

Examine the program at El Zamorano to determine if the experimental material can be used in the expansion program in Honduras.

Establish new facilities at La Lima to index and certify plant materials. The cost of examining material at El Zamorano should be minimal. Establishing a new program at La Lima would require an experienced person and the budget to support such a program. This program should be coordinated with universities in Florida and Texas, and should be implemented right away.

7. CULTURAL PRACTICES

Actual Conditions in Honduras

There are many reasons why citrus cultural practices leave something to be desired in Honduras. High production costs, lack of credit, high costs and difficulty in obtaining the necessary inputs, uncertainty of markets, unknown prices to be obtained from the sale of the crop, the lack of adequate information and proper training among many of the small producers and their workers are some of the most obvious problems.

It is estimated that only 20% of the orchards are maintained under an adequate program of fertilization and pest control. Although mechanical control of weeds is practiced in the majority of the orchards, the use of chemical weed control is less common. Mechanical weed control and improper pruning and topping result in many wounds that weaken trees and serve as avenues of entrance of disease organisms and pests. There has been little incentive for producers to improve their cultural practices. As a decreased resulting of undertain markets in the quality of the fruit has descreased. Getting rid of the fruit in the less demanding national and Central American markets, even though at a lower price that what it would bring in the export and juice markets, has reduced the pressure on many producers, especially the smaller ones, to produce better quality fruit.

Optimal Conditions for Honduras

Motivation of the producers, particularly the smaller ones, to produce more and better quality fruit can be achieved by providing more stable markets that will increase the probabilities obtaining favorable economic returns. Producers' and workers' access to much-needed technical assistance will enable them to conduct proper maintenance program year-round, including all necessary cultural practices.

Development of a market information service which enables producers to know the forecasted demand and prices to be expected for their crop also will strengthen providing incentives to care and maintain the orchards properly.

Development Activities

Without the economic incentives of market outlets and higher probabilities of favorable prices, little can be done to motivate most produers to improve their cultural practices. All the technical assistance that could be provided to them will likely be ignored if the outlook for profits is unfavorable. If and when the situation changes, the technical assistance program should be in place and improved access to inputs should be a reality. Continued encouragement from ANACIHO and buyers to follow recommended cultural practices should be maintained through a regular information service in the form of a newsletter or similar device. The cost of these activities will be discussed under marketing inputs and technical assistance.

8. AGRICULTURAL INPUTS

Actual Conditions in Honduras

Availability and high costs of agricultural inputs is considered by many producers as one of the most serious constraints to the industry, probably second only to markets and prices. Many of the products needed can be obtained locally, but at prices that can be as high as 80%, 100% or even 400% above the retail price in the country of origin.

Import duties, freight, taxes and local mark-ups are the reasons for the higher prices. Even when a producer is willing to pay the higher prices, difficulties in importing the inputs, and bureaucratic entanglements in obtaining their release after they have arrived in the country make the procurement of inputs an exasperating experience.

A case in point is an incident observed during a visit to one of the citrus farms. The producer was aware of a disease killing orange seedlings intended for rootstock. He recognized the disease, knew what product was needed from past experience, and had ordered it ahead of time.

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The fungicide had arrived in the country some time ago, but he had been unable to get it out of customs and apply corrective measures. Fortunately, he was informed then of another product that was equivalent to the one he had ordered and was able to use it with satifactory results.

Many of the larger producers are able to predict these needs, and although short of foreign exchange, are able to secure the inputs. However, the situation is quite different for the smaller producers, who are unable to initiate import transactions on their own.

Optimal Situation for Honduras

Ideally, there should be a greater availability of less expensive products needed for the growing, harvesting, and packing of the crop. However, it is realized that the cost of inputs, by necessity, will be higher than in the country of origin. Even then, efforts should be made to facilitate their procurement, particularly if purchased or ordered in large amounts by either FEPROEXAH or ANACIHO to serve the needs of members.

Development Activities

Encourage the GOH to eliminate, or at least to lower considerably, the import duties now applied to agricultural inputs brought into the country. The Caribbean Basin Initiative Program, recently initiated by the United States, has eliminated import tariffs of many agricultural products exported to the United States. It is unreasonable to expect similar action from the GOH, particularly when its implementation would enourage the production of export items that would bring much needed foreign exchange into the country.

Allow the exporters of agricultural commodities to keep a percentage of the foreign exchange obtained through the sales of their crops to be used to secure inputs needed in the production and processing of future citrus crops.

Allow the import of agricultural inputs in large quantities by FEPROEXAH and ANACIHO to assure their availability and the continued supply to the producing members at prices lower than could be obtained if each grower needed to negotiate their procurement on their own. A special section should be established in the GOH to facilitate negotiations and release of the products once they arrive in Honduras. The cost of this activity should be nil. It would require FEPROEXAH and ANACIHO members to encourage the GOH to accept their proposal.

This activity should be attempted as soon as possible. It would result not only in economic benefit to citrus producers, but to all producers of agricultural products.

9. HARVESTING

Actual Conditions in Honduras

Even though much progress has been made in the last two years in the harvesting operations as a result of ANACIHO, encouraging better quality fruit for export, much remains to be done in educating and training producers and field personnel. Oranges, grapefruit, and limes are susceptible to damage while picking. This results in higher percentages of culls and possible deteriorations during shipping.

Injury to the fruit due to improper picking, bruising, abrasion, or picking under very humid conditions needs to be minimized. There is no standardized method for picking, resulting in many systems of harvest.

Some growers use harvest bags and adders. Other drop the fruit on the ground, where it is piled to be carried away later. More advanced producers use field boxes and larger bins hoisted with forklifts. Fruit sold in the local market is picked by the former methods, while fruit to be exported uses the latter ones to avoid excess damage to the fruit.

Grapefruit and oranges usually take six months from flowering to harvest, while lime takes only three to four months. Readiness of the fruit for harvest is usually determined by small, age of fruit, market demand and prices. There is a lack of standard paractices to determine maturity and proper time for harvesting.

Many of the orchards have been established without proper planning to facilitate harvest operations. The use of mechanical harvest aids is nearly impossible because of terrain, lack of proper roads, and excessive tree population.

Local buyers buy the fruit according to their particular needs, resulting in lack of uniformity in the quality they demand. This in turn makes the standardization of quality parameters more difficult to establish.

Fruit for export, however, must be harvested according to stricter requirements. Producers selling their fruit overseas must supervise the harvesting operation closely to avoid excessive culling at the packing shed.

Optimal Conditions for Honduras

The harvesting operation, although not necessarily considered to be a major constraint to the industry, should be improved in order to increase the amount of fruit suitable for export. Better understanding of the importance of care and proper handling of the fruit is needed, particularly among smaller producers and their workers. The standardization of harvest criteria and the dissemination of this information is much needed.

Development Activities

Develop criteria for the harvest of fruit with proper standards of maturity and quality for export market. Even though less demanding, the standards for the local and Central American markets should be raised and consolidated.

Improve training of smaller producers and their workers to increase the amount of fruit suitable for export.

Improve availability of materials and equipment needed for a better harvest operation, such as field boxes, padded bins, transfer equipment, etc.

Since most of these activities deal with training, costs are a part of the technical assistance and training components.

10. ASSEMBLY AREAS: PACKING

Actual Conditions in Honduras

As with the harvest, there is not a standard way in which to assemble the fruit. Producers that export usually carry the fruit immediately to their packing shed, where it is selected, graded, waxed and boxed according to market needs. Oranges are packed in boxes of 17 kg, grapefruit in boxes of 17.5 kg and limes in boxes of 4.5 kg.

Oranges for the local market are usually sold in bulk directly to truckers or taken to local markets. Most of the fresh fruit sold in Central America goes in bulk to El Salvador. Nicaragua, Costa Rica and Guatemala have only infrequently been Honduran markets. Some oranges have been sold to juice processing plants but this activity has been reduced considerably. However, there is a significant renewed interest in producing fruit for the juice market due to the renovation of an abandoned juice plant in San Pedro Sula. Facilities should be developed to assemble fruit going to the plant, particularly in remote areas such as Sonaguera, in Colón. Assembly points are also needed in areas where several small producers may be located in order to lower transportation costs.

Presently, there are 13 packing facilities in Honduras. Of these, five are fairly complete, with degreening rooms and cold storage. A few have installed limited mechanization, while the rest are manual.

All of these pack fruit for export to Europe, in the case of oranges and grapefruit, and to the United States in the case of Persian limes. Even then, the percentage of the total production of citrus exported overseas is relatively small. Although opinions vary, it is estimated that only 5% of the oranges are exported to Europe.

Grapefruit production, which from the begining has been earmarked for overseas markets, amounts to only 60% export, the rest being lost or consumed locally. Approximately 40% of the lime producton is exported overseas. The most popular brands from Honduras are Dole, Mayita Brand, Mary Lou Brand, Toronjita Aguan and Trophy.

Optimal Conditions for Honduras

Packing facilities in Honduras should be enlarged and improved in order to handle the increased production and export activities. Some of the smaller packing sheds are currently being upgraded, such as the Aguan, Mary Lou, and Comayagua. Cold storage and degreening rooms should also be added to improve external quality and promote a smoother flow of the fruit. Availability of refrigerated containers is also important, although with proper planning, containers are usually available when needed. Availability of wax, products for treating the fruit, and boxes can at time be a problem. The quality of boxes available in the country is inferior than those produced in the United States.

Development Activities

The procurement of input items needed in the packing operation can be resolved if the recommendations under the agricultural inputs section dealing with negotiations with the GOH are implemented.

The expansion and improvement of packing facilities is a necessity to handle the increased production of exportable fruit. Presently, packing facilities at Aguan are being improved to increase capacity to 10,000 boxes per day at a cost of $75,000. Griffin and Brand, of McAllen, Texas, is making these facilities available to be paid over a five-year period from proceeds from sales. The packing facilities at Comayagua are also being improved for packing limes in that area, with resources originating from the exports of limes this past year through Griffin and Brand.

A new facility has to be installed at La Masica using the old equipment being removed from the Aguan Valley. Additional facilities to make the installation operational for the 1985 harvest are estimated to cost $25,000 for 1985 harvest. The improvement of other facilities currently packing fruit is estimated to cost $75,000.

The establishment of packing standards will protect the reputation of fruit from Honduras. This is to be done with the assistance of personnel mentioned in the Technical Assistance section. The establishment of local markets will be supervised by ANACIHO and FEPROEXAH for sale of non-exportable fruit in local markets.

The cost of these activities will vary according to the size and number of packing facilities installed. Improvement of exisiting packing facilities such as the one in Aguan can cost as much as $100,000. New facilities of that size would cost significatly more.

The necessary technical assistance to producers to improve packing activities, as well as to provide information on the grades and standards needed in export markets, should be made available to producers as soon as possible.

11. TRANSPORT

Actual Conditions in Honduras

Internal transport in Honduras is considered adequate for the citrus industry. There is a fair supply of equipment for moving the crop from assembly points to the ports. Also, equipment used for other seasonal industries can be used during their off season. An example is highway transport equipment used in the sugar cane industry. The equipment is used during the harvest season, beginning in December and lasting through May. During the off season, the equipment can be available for citrus transport, beginning in July and lasting through October. Since a high percentage of the sugar cane industry is located in the north coast, where much of the citrus is grown, the overlap is ideal.

Transportation charges are considered high, as noted in the addendum, varying from $200 per container from farm to port in the Choloma area to $900 per container in the Aguan Valley. Transportation costs from Aguan will be reduced significantly when Puerto Castilla becomes operational.

Road conditions in the northern area are adequate between major towns. Other major roads, although not paved, are adequate. Conditions in the Aguan Valley should improve greatly when the highways are paved which is planned for next year.

Feeder roads, on the other hand, are not adequate. Roads from towns to farms become very difficult to use during the citrus harvest, which coincides with the rainy season.

Optimal Conditions in Honduras

An expansion program of the citrus industry would be benefitted greatly if secondary roads and farm to town roads were improved. Improvements of the feeder roads network is assumed to be the responsibility of the Department of Communications, Public Works, and Transport (SECOPT). ANACIHO should prepare

a status report on condition of roads in the main citrus producing areas and submit it to SECOPT with their recommendations for improvements, and a timetable for repairing those with the highest priorities.

Transportation charges could be reduced if ANACIHO, acting on behalf of all producers, could negotiate lower charges by guaranteeing an increased use of the equipment at a time when there is less demand for their use.

12. SHIPPING

Actual Conditions in Honduras

Although insufficient, Honduras shipping facilities are probably the best in the region. The cost of shipping containers is approximately $2,400 to the United States and $4,200 to Europe. There is little bargaining power now, since producers ship independently of each other. An increase of about 7% in freight is expected soon.

Schedules are usually adequate under present conditions. There is service to the United States every 10 days, taking 2 1/2 days for the shipment to arrive. Service to Europe is every 13 to 14 days, taking 12-15 days for shipments to arrive. Concore Seaborg, Sealand, and CCT serve the United States; Carol Lines serves Europe.

Telex charges for handling shipping activities can be a significant as much as $15,000 annually. At present, ANACIHO bears the cost of this service, often supplemented by its staff. U.S. Lines include the cost of telex in their charges; telex charges to Europe have to be paid by the association.

Optimal Conditions for Honduras

Lower freight charges would be very beneficial for the exporters. Consolidation of all shipments, not only of citrus but of all members of FEPROEXAH, would improve bargaining power.

One reason quoted by shipping lines for the higher rates in Honduras, sometimes as much as $700 per container higher than Costa Rica, is the higher charges they have to pay to Honduran port authorities for the use of the facilities. Lower charges to the shipping companies would allow lower freight charges for the exporters.

Improved schedules, especially to Europe, would be a definite asset. Service once a week would be ideal during the export season to Europe, lasting from July to October.

Development Activities

Negotiate with shipping companies for lower rates. Coordinate and consolidate all shipment of associate members through FEPROEXAH. Consider chartering ships, if feasible, to handle shipments of FEPROEXAH members. This activity should to reduce freight to the United States from $2,400 to $1,500 per container, and from $4,200 to $2,730 to Europe. Considering that last year approximately 400 containers were shipped to Europe and 92 containers where shipped to the United States with citrus products alone, the savings to FEPROEXAH members could be very substantial. This activity should have a minimal direct cost, since it involves mainly negotiations with the shipping lines and consolidation of shipments among members. It should begin in time for the next export season, which begins in July.

Improve the flow of containers to maintain the quality of fruit. Install cooling facilities at port to satisfy quarantine requirements established for fruit to be shipped overseas and to maintain quality of fruit. New installations would cost approximately $65,000. It should take one to two years to complete these facilities.

Negotiate for payment of telex charges to Europe by the shipping companies. Again, costs should be minimal.

Request that shipment schedules to Europe and the United States be improved . Again, these negotiations can be done by personnel from ANACIHO and FEPROEXAH at minimal costs.

13. NATIONAL AND CENTRAL AMERICAN MARKETS

Actual Conditions in Honduras

Fruit that is not exported overseas is sold locally or is exported to El Salvador. Nicaragua once was a good market for Honduras fruit, but since their currency cannot be converted, fruit is no longer exported there. Costa Rica exports have also stopped because of Nicaragua.

El Salvador offers a good market for local fruit at attractive prices. However, since this market does not insist on quality similar to that of overseas exports, many producers do not intensify their quality control practices such as pest control. Knowing that there is an outlet for lower quality fruit, they market their fruit on their own.

Fruit sold in the local market is handled mostly by middlemen (coyotes). According to a report written by the Citrus National Program in 1977, 70% of the oranges, 30% of the grapefruit, and 25% percent of the limes were bought by them. The second largest volume of sales is made to local markets by the growers, amounting to 25%, 39% and 25%, respectively.

At the time of the report, 9% of the grapefruit and 13% of the limes were sold to processing plants. The rest of the crop was used for personal consumption or exported.

Thus, 95% of the oranges, 78% of the grapefruit and 50% of the limes were sold to middlemen and local markets where growers get the lowest prices. Sales to El Salvador are handled by the middlemen, unless a grower is big enough to be able to make his own arrangements for transportation and marketing.

Optimal Conditions for Honduras

Now that citrus producers have organized through the efforts of ANACIHO, there is an excellent opportunity to consolidate efforts and market their fruit through the association rather than depend on middlemen and local markets. ANACIHO will only be successful if members agree to coorodinate their sales through the association. This will be difficult with the present system of communication, for it would be impossible for producers to maintain a price if they are not aware of what prices other members are asking for their fruit.

Development Activities

Improve communication between the association and its members. This can be done through a bi-weekly newsletter informing members of prices being received by other producers. Export prices and other pertinent information would also be included. The two-way radio system recommended in another section would further enhance comunications .

Establish local markets in larger towns in each of the producing areas. Encourage farmers to deliver their fruit to these markets rather than selling to middlemen. These markets should be fairly close to producers or they will not use them because of transportation problems and expenses.

Establish market channels in El Salvador to capture some of that market. If it becomes possible to convince members to sell fruit to local markets, these in turn could proportion the sales between local use and exports to El Salvador.

14. MARKETING OVERSEAS

Actual Conditions in Honduras

Marketing overseas has been done actively for the past five years, mainly to Holland, Germany, England, France and the United States, with very positive results. Honduras has many advantages for marketing its citrus products overseas.

Fruit is available in July when other producing countries are not able to ship fruit. The best months are from July 15 to October 15, when there is little competition from Israel, Brazil, Cuba or Spain. ANACIHO has been successful in bringing about the acceptance of Honduras grapefruit and oranges in European markets. Pink varieties of grapefruits are in high demand at this time, with net profit of as much as $9.35 per box after freight and other expenses. White grapefruit do not fare as well, with profits of $4.00 per box, still a fair return. Internal quality of oranges is acceptable, but the lack of color is a problem. Profits per box can vary from $4.00 to $5.00 per box sold mainly in Holland and England. Orange producers are also exploring and developing the Canadian market.

Limes have been shipped principally to the United States at a time when there is little conflict with American producers. In Europe, Persian limes are not as well known. Many countries prefer an external yellow color while the United States accepts the green fruit.

A serious difficulty in shipping to Europe is that all shipment must be made on free consignment, with the associated risks, particularly when dealing with unscrupulous buyers. All shipments must be made FOB or with letter of credits or only to reliable buyers. Shipments this year to the United States, to the firm of Griffin & Brand, have been very satisfactory. Juice shipments principally to the United States, are expected to begin this year.

All these activities are done by ANACIHO charging only $0.05 per box. They handle the paperwork, telex, phone, and coordination associated with shipment. Producers pay taxes on exports. The Association plans to analyze all the costs of exporting fruits in order to attempt to convince the GOH to implement a law that would encourage exports of agricultural products.

Optimal Conditions for Honduras

Packing and handling conditions should be improved to assure a better quality fruit that will maintain the demand for Honduras fruit.

Better insurance terms would be desirable to guarantee that losses occurring in marketing fruit overseas would be paid promptly. Also, channels of communications between seller, shipper and buyers need to be improved.

There is a need for better coordination between producers and the Association. Radio communication would make coordination easier and faster. Each major packing area should be in radio contact with the offices of ANACIHO or FEPROEXAH during the shipping season.

Telex services should be installed at the ANACIHO office to improve communication with shippers, buyers, and the market centers.

Ryan recorders to guarantee shipping conditions in the containers should be available to minimize conflicts over damages that may occur from time of shipping to arrival of the fruit at terminal markets.

Currently, local commercial banks assist exporters with some of the financial documents relaing with the shipment of exported fruit. Once this is done, banks will advance up to 80% of the value, with the grower paying interest until the money is received from the buyer. Banks should be encouraged to continue and expand this practice and to consider giving preferential interest rates to the exporters.

Development Activities

Establish internal radio communication between offices of ANACIHO and/or FEPROEXAH and producers. The cost of a system linking the office with the zones of Sonaguera, Masica, Progreso, Cuymel, Yojoa, Choloma, Puerto Cortés and the new port at Puerto Castilla is estimated at $22,000. This should be in place for the coming export season to facilitate the coordination of shipments going overseas.

Install telex facilities at the offices of ANACIHO to handle communication with shipping companies, buyers, and market centers. The cost of $700 for initial deposit plus use fees would amount to $4,200 to $4,500 annually.

Purchase 100 Ryan recorders for monitoring shipping conditions inside containers at a cost of $38 to $40 each.

Establish a seasonal office at location of arrival to handle receiving business and for insurance settlement. The cost would be $3,000 per month, or approximately $10,000 per season. Expenses would be paid by sellers with a charge of one cent per box.

Request a Honduras Embassy attachee or agent to represent the interests of the citrus industry and to assist the Federation officer at the European offices preferably, located at Hamburg or Rotterdam. Cost would be approximately $1,000 monthly.

Improve packing and shipping facilities in the main areas where fruit are loaded for export. See specific recommendation in the packing section.

15. GOVERNMENT POLICY

Actual Conditions in Honduras

The GOH has not established a citrus production policy, particularly in relation to the export of citrus products by the private sector. Most of the activities related to citrus have been carried out by the Ministry of Natural Resources and by the National Agrarian Institute (INA).

Several thousands hectares of citrus were planted, mainly in the Aguan Valley. There have been other attempts made to revitalize and consolidate the citrus industry, such as the creation of the National Citroculture Commission in 1975. However, this organism was short lived. The commission conducted a survey and diagnosis of the citrus industry and published the results in a report which as been used extensively in obtaining information for the preparation of the citrus commodity system. Another program on citrus was initiated later resulting in the establishment of a citrus nursery at El Progreso. The Aguan Valley project was initiated in 1971 with assistance from the International Development Bank (BID). Of a total of 3,200 hectares of citrus planned for this area, only 1,800 were actually established. Of these, 915 are left, but only 415 are considered productive with approximately 130 needing rehabilitation. Griffin and Brand has cooperated with eight Agrarian Reform Cooperatives that own the orchards in the rehabilitation of this area by offering technical and marketing assistance for a period of five years.

In 1982, the GOH participated in an international agreement for the control of the Mediterranean fruit fly. Currently, the GOH and ANACIHO are conducting a preventive program on this pest.

The current policies still need to be well defined. It is believed that instead of defining a policy soon, the GOH will react as needed to the needs of the producers. Citrus producers have requested that the GOH re-establish of the National Citroculture Commission, but no decision has been made to date.

Producers feel that government offices delay excessively in responding to their needs. Also, duplication and incompletion of certain activities are believed to be common.

Optimal Conditions for Honduras

There is a real need for an integrated organism made up of members from the public and private sectors, not only to avoid duplication of efforts, but also to utilize to the fullest the resources available from both groups. Of particular interest is the incorporation into the citrus program of those professionals in the public sector that have studied at home and abroad and are well qualified in citrus culture but are presently performing duties not related to this industry.

Citrus producers need to feel secure about the ownership of their land in order to make the significant investments that will take to develop and increase their industry. The question of titles to the land is very important, since the GOH has passed a law that protects land planted to citrus from being distributed to others by the Agrarian Reform. This will also improve the credit situation for producers.

Private banks will be more receptive to loaning them money for expansion and improvement of the crop since they demand collateral such as a clear title to the property and protection against the land being taken for other uses.

Producers should negotiate with the Central Bank the ability to secure loans using crops and exports as collateral.

It would be beneficial for the producers to have a more sympathetic attitude from the GOH in the procurement of inputs that they need both for production and shipping of export fruit. It is recommended that the association or federation buy all the need inputs for the members saving both on the cost and on the import taxes(if these were waived or reduced by the GOH.

Producers should be allowed to bring into the country without paying taxes items that will be used in carrying the product out of the country without being changed or modified such as packing boxes ("draw-back" policy).

The GOH should consider the implementation of a parallel exchange market for the currency that would facilitate the importation of inputs and equipment for expoters of non-traditional products that bring foreign exchange into the country.

Development Activities

Establish negotiation with the GOH for discussion and possible implementation of policies mentioned above. It is difficult to suggest a cost for these activities, since they involve mainly negotiation. The association and federation could include the cost of travel, meeting, etc., in their cost of operation.

16. TECHNICAL ASSISTANCE

Actual Conditions in Honduras

Technical assistance for citrus producers has been very limited. Growers have had to do many things on their own, learning as they developed the industry to current standards.

There are some trained personnel that have citrus experience. However, these people are not in positions where they can assist the growers. The assistance available to producers is often the more advanced and experienced growers sharing their knowlege with them.

Another source of information for the producers has been representatives of agricultural chemical companies while promoting their products.

There are no training sessions available to producers on a regular basis, either from government or private sectors, with the exception of the Aguan Valley where INA maintains an office to assist cooperatives in the area.

Optimal Conditions for Honduras

The citrus association, ANACIHO, has requested assistance in several areas from other sources, such as FAO, ONUDI, and the Federal Government of Germany. The industry was visited by a packing and shipping technician, and are awaiting three others on marketin and production. Therefore, it is suggested that these activities be continued and also, obtaining a resource person to train and assist members in marketing.

There is a need to establish a continuous exchange with major universities and other sources of technical information in the U.S. to maintain a uniform transfer of technology.

ANACIHO and FEPROEXAH are in need of training in the areas of internal office management, records of activities of associate members, shipping documentation, production records, and other activities.

Technical assistance should be given to the industry when new areas are planted, to locate proper areas and to assist producers with the planting operations, as well as in the certification of sources of healthy budwood and in research for new varieties and rootstocks. A resource person should be provided to implement an extension program. The resource person should design and develop an extension program designed to provide assistance on a continuing basis to citrus producers. This person should also provide the necessary training needed to develop the skills of the extension workers, estimated to be eleven, so that they are able to personally assist producers and disseminate technical information through other conventional extension techniques.

Development Activities

Assign one trained person to the industry for a period of six months to assist and train local personnel in the location of new areas, establishment of nurseries, planting operations, and other cultural practices.

Develop a variety research program at La Lima, research station and expand the one presently at El Zamorano. Train two persons, one at each location, to continue and maintain this new variety program.

One trained person should spend a period of six months working with the persons that will do the work. The cost of these activities will be:

Salary and support expenses for one trained person for a period of one year.
Salary and support expenses for one trained person for a period of six months.

17. TRAINING

Actual Conditions in Honduras

Training for citrus producers in Honduras has not been adequate. Producers have not had available to them the services of a qualified extension service to provide needed information. Although several professionals have been trained in Honduras and overseas, their knowledge has not been distributed equitably.

The school at El Zamorano offers a course in fruit production, of which citrus is the main crop covered. However, it does not afford students the opportunity to be trained in citrus culture well enough to enable them to assist citrus producers. Most of the experience that citrus producers gained in citrus culture has been "learning by doing" and observing what other producers are doing.

Optimal Conditions for Honduras

More persons need to be trained on the latest techniques of citrus production, including both producers and extension workers.

Intensive training sessions should be held on fertilization, pruning, pest identification and control, establishment of nurseries, etc.

Personnel at ANACIHO and members of the association require better training on packing, shipping and marketing.

Extension workers need to be trained to assist producers, both old and new ones, in the expansion program that is planned for Honduras. New producers, as well as old ones, need to be motivated with appropriate training sessions and financial advice. Extension workers could identify workers that could qualify for training at places such as El Zamorano. Some could be sent to the U.S. to learn the latest techniques. In those cases where workers are unable to read or write, programs should be established to help them become literate.

Development Activities

Conduct an intensive workshop program to cover all aspects of citrus culture. ANACIHO is already planning to conduct such a program.

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Train producers through the use of method demonstration on the proper techniques of budding, grafting, and pest identification. Also, proper site selection and planting. These activities to be conducted by technical assistance personnel. The cost is included in the summary of actions and suggestions.

The establishment of an extension network to assist farmers is needed. The expansion program will result in many thousands of hectares of citrus distributed among five major areas. Five exension workers should be trained on the job, with assistance from the more advanced producers and the technical assistance resource personnel. After two years, and as the expansion program continues, six additional extension workers should be added to provide assistance to producers. The costs of these activities are also included in the summary.

18. FINANCING

Actual Conditions in Honduras

Financing for the existing citrus industry of Honduras has been very difficult. Many growers are discouraged and hesitant about investing additional capital.

Private banks require large collateral. Growers have to mortgage their property for as high as 300 percent of the amount borrowed.

Loans originating from international organizations are channeled through the Central Bank and private banks; the loans made to producers carry interest of 16 to 19 percent, payable an very short terms (6 months to 2 years). The production cannot be used as collateral, with the exception of coffee which is considered a traditional commodity.

There is very little financing available for the purchase of inputs needed in the production and marketing of the crop.

The Central Bank keeps all the foreign exchange resulting from the export activities, leaving no foreign exchange that producers can use to purchase inputs, travel for business purposes, or other needs.

Optimal Conditions for Honduras

Joint business ventures with foreign companies that are in a position to provide part of the financing would be very beneficial to the industry. It will also result in a more stable industry, since the foreign investors will have an active participation in the program. This has not been the case in the past where foreign entities have been interested mainly in buying the commodity or receiving it on consignment.

Development programs carried out by INA have been financed directly with loans from the International Development Bank. Money being made available to Honduras from activities of the Caribbean Basin Initiative Programs and/or any other international organization should be channeled directly to the producers' associations at lower interest rates that those presently being made to producers.

Development Activities

Encourage joint ventures between foreign companies and local producers to obtain partial financing from them and involve them in the business in a manner that will increase the probabilities of success.

Create a system that will allow international lending organisms to make loans available directly to producers' associations, at lower interest rates and with longer terms. ANACIHO has already contacted the Commerce Department and requested a special section at their office and Central Bank that will handle these types of transactions.

Secure financing for the expansion of the citrus industry to produce concentrate orange juice and to increase amounts of exports. Capital investment will be needed to improve existing packing facilities, a total of 11, of which five are highly mechanized and six are manual. New plants for processing citrus fruit should be esablished at Progreso, Sonaguera, Lake Yojoa and Copán. The equipment from Aguan will provide a new facility at La Masica.

Secure financing for a new juice plant to be built at the Aguan Valley to process grapefruit and orange juice, citrus oil, cattle feed, and grapefruit section.

The costs and time schedule for these development programs are included in the summary section covering all activities and actions resulting from this expansion.

19. SUMMARY ANALYSIS OF VARIETIES, GROWING AREAS, AND MARKETS

Varieties

Oranges - Valencia and pineapple
Grapefruit - Henderson, Ruby-red
Lime - Persian Lime

Potential growing area

Oranges - Copan area
Lake Yojoa
Sula Valley
Right bank of the Aguan Valley, in the Saba and Olanchito vicinities
Left bank of the Aguan Valley, in the vecinity of Sonaguera
Grapefruit - The Aguan Valley

Potential markets and time periods

Orange juice - United States, Europe, the Antillas
Oranges - Europe the Antillas, Central
Grapefruit - Europe

Time period - Fresh fruit during July through October
Persian lime - winter and spring
Juice - whenever available

C. VEGETABLES

1. Introduction

Honduras contains several large land areas with climate, soils, and water conditions favorable for producing many different vegetable crops throughout the year. Vegetables have been traditionally grown in Honduras for domestic consumption, mainly by the middle and upper income population, and they serve as an important cash crop for small farmers. While some tomatoes are processed and a few other vegetables are pickled, no major industries have been developed for preserving vegetables in Honduras. Furthermore, production of fresh vegetables for export to North American markets is limited to cucumbers and melons in Comayagua and Choluteca, respectively. A few vegetables are exported to El Salvador and Guatemala; however, these markets as well as the domestic Honduran markets are unpredictable. The lack of suitable market and market information for vegetables undoubtedly discourages production and accounts for the necessity of importation to fill domestic needs. Fresh vegetables imported from the USA and Guatemala increased from 110 metric tons (T) in 1975 to 1400T in 1980, while in 1980-82, imports of onions alone from Guatemala averaged 892T.

Honduras has sufficient capacity to provide its own domestic requirements for vegetables and to develop vegetable exports as a major industry. By developing the infrastructure required for export marketing, the domestic conditions for vegetable markets will be concomitantly improved. The development of vegetable exports is particularly timely for Honduras since vegetable production and handling is labor intensive and extensive, and it will create many employment opportunities for the presently unemployed skilled and unskilled labor force. The traditional agricultural export industries consisting of bananas, sugar, coffee and wood have been declining in recent years in economic importance while substantially reducing their labor requirements.

In addition to under-employment of the labor force, land in Honduras is inefficiently utilized. The abundant fertile valleys with sufficient water for extensive irrigation in Honduras are primarily used for producing pastures or sugar cane, or have no agricultural production at all. These lands could be rapidly developed for intensive production of vegetable crops.

In contrast to production of fruits from tree crops which usually require several years prior to becoming productive, vegetable crops can be produced within only a few months and do not usually involve long-term investment. Thus, with availability of land and labor, vegetable exports can have an immediate economic impact.

Vegetable crops are characteristically highly perishable and require rapid and careful handling to maintain marketable quality. The lack of existing facilities as well as technical personnel trained for adequate post harvest management of vegetables are presently major constraints to immediate implementation of vegetables for export. In addition, personnel knowledgeable and skilled in aggressive production and marketing of high quality vegetables to external markets are lacking. While many opportunities exist for profitable export of vegetable crops especially to North America, few can be exploited without all the necessary components synchronized for production and preservation of quality and efficient, aggressive marketing.

The market windows in North America generally believed to provide the greatest opportunities for fresh vegetable exports from Honduras are during the winter months (Nov.-Mar.). These markets should be the immediate goals. However, with efficient operations and skilled marketing, it is reasonable to expect that windows could be opened to allow for exports of certain vegetables throughout the year. The development of preserved vegetables either as traditional or creatively developed products also could provide profitable opportunities especially for crops and products that require substantial hand labor.

While many potential opportunities are available for initiating and developing fresh and preserved vegetable exports, none will become reality without strengthening areas that are deficient within the total system. The major objectives of this sub-project component are to provide an analysis of the requirements necessary to increase vegetable exports and to design methods and mechanisms for strengthening the present deficiencies. To accomplish these goals, the commodity systems approach will be used for the independent and integrated requirements. The selected strategy followed five points of reference:

1. Identify specific vegetables compatible with production in Honduras and export markets.
2. Identify locations for development activities.
3. Analyze present conditions and constraints in production, postharvest infrastructures, support activities and systems that need assistance for developing and increasing vegetable exports.
4. Develop methods to diminish or eliminate present constraints in order to streamline implementation of and expansion of vegetable exports.
5. Design schedules for development activities and criteria for developing new commodities for export.

Vegetable Export Sub-project Goals Within 5 Years

Location and Commodity	Hectares	Estimated Exports Tons (M)	Estimated Exports Value (US$1000)
1. Comayagua			
Cucumbers (fresh)	300	7500	4620
Onions (dry)	200	5454	1400
Okra (fresh)	100	1127	1240
2. Siguatepeque			
Cucumbers (fresh)	75	1875	1155
Onions (dry)	100	2727	700
3. Quimistan			
Cucumbers (fresh)	50	1275	770
" (pickling)	75	475	784
Okra (fresh)	75	845	930
" (pickling)	100	845	930
	1075	22,098	12,529

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2. Present Vegetable Export Activities

Cucumbers

Cucumbers are presently being commercially exported from Honduras to the USA during the winter months. The cucumber project, located in Comayagua, was initiated in 1976 by the GOH and financed by USAID with the Standard Fruit Company contracted to provide technical assistance. Production has steadily grown from the initiation of the project, but is is still relatively small: 65 hectares and 25 growers and having a production of 79,500 boxes (25 kg/box) during the 1983/84 season. For the 1984/85 season, plans are being formulated to double production to 130 hectares with 50 growers. The Fruta del Sol Cooperative manages the packing facilities, marketing, growers contracts and provides credit, supplies and technical assistance. The cucumbers are sold on consignment through a broker located in Florida. This project is a viable operation as viewed by its continuous improvement and aggressive projections. Several reports have been written that critically analyze cucumber production of this project, the most recent being a University of Florida thesis by Mr. E. Belibasis (now at MNR, Tegucigalpa) and a final report of 1981-82 results by Don Braden, Standard Fruit Co. The first study concluded that production could be substantially increased when sold from December to April to the U.S. without affecting per unit prices received.

Furthermore, cucumber production and harvesting utilized about 822 man days per hectare, and the project generated over million dollars in foreign exchange. Fruta del Sol has packing and cold storage facilities capable of handling larger volumes of cucumbers. Presently, the cooperative is investigating methods to be used for pre-cooling which is an essential technique for reducing water loss and improving market-life during storage and handling. In addition, they are examining other crops that may be exported.

A diversification program is urgently needed, not only for maximizing facility and management usage, but more importantly for providing crops for the growers to rotate with cucumbers. Presently, because of small farm size and the lack of alternative vegetables for export, cucumbers are usually grown every year on the same land. This monoculture system will eventually lead to serious disease and nematode problems that could destroy cucumber production for several years. The problems of monoculture have not been obvious since production areas have been increasing annually although problems may be surfacing since nematodes and viruses were particularly troublesome during the 1983/84 season.

The Fruta del Sol Cooperative, after many lessons learned, has become a relatively successful model from which future expansion and diversification can develop. Support activities should continue so that further development can be achieved. The lessons learned by Fruta del Sol should also be used to establish new models in other regions of the country. Specific support activities will be addressed in Vegetable Commodity System Requirements.

Melons

After several financially unsuccessful attempts to export melons from the Choluteca area to the US during the 1960s and early 1970s, PATSA, a subsidiary of United Brands Co., and the GOH in 1976-75 established a consistent melon export business. Through this organization, BANADESA provides credit for farmer inputs, MNR provides technical assistance, INA organizes campesinos to produce melons, CREHSUL serves as the cooperative and melon growers association and PATSA provides technical assistance, packing facilities and marketing. Melon production has grown from 240 hectares in 1976/77 to about 980 hectares in 1983/84. During the 1982/83 season, approximately 2375T of cantaloupes and 790T of honey dew melons were shipped in 165 loads to North America and marketed through Sun World located in Florida. About 145T of watermelons were produced for domestic consumption. PATSA operates four receiving stations around the Choluteca area. More than 150 growers have been involved in melon production which provides employment for several times this number of workers and more than $1.5 million in foreign exchange. PATSA has acquired a hydrocooling unit for pre-cooling cantaloupes as well as some other vegetables. The company plans to increase production and diversify with other commodities.

As with cucumbers, melons are grown as a monoculture which makes diversification highly important. Dealing with a large number of small growers monitoring crop rotation practices is difficult. But these rotations should be strongly encouraged to avoid severe losses from the accumulation of pests. Major problems of melons produced around Choluteca are small size and poor quality, both caused by poor cultural practices such as inadequate rotations, fertility, pest control and irrigation. This results in lower prices received by farmers and fewer marketable units.

Programs are critically needed to support activities involving diversification; train farmers improved techniques of crop production, develop educational programs on quality characteristics; and the appreciation of market requirements in North America .

3. Other Activities Related to Vegetable Exports

SIATSA, the research division of United Brands Co., located at La Lima has in the past been the major research agency available for public information and soil and crop analysis in Honduras. It has provided excellent technical training for many Hondurans. Through this organization, Le Da Ton published Vegetable Growing: Guide for the North Cost of Honduras (May, 1982 Bulletin No. 9). This guide is essentially the only published material on vegetables available for distribution. SIATSA has phased out of its research activities leaving only the banana breeding program (currently supported by FAO through 1985). The facility, equipment and library have been donated for the new

Honduran Agricultural Research Foundation (FHIA) which will be supported by various donor agencies and private institutions. FHIA is presently being organized and seeking definition of its role and objectives in conducting research in Honduras. Its main emphasis will be to conduct research and provide technical support activities for agricultural products destined for export and to assist with technical training.

The Ministry of Natural Resources (MNR) has a program on agricultural diversification, with vegetables and fruit for export receiving support for feasbility studies. Emphasis is placed on promotion of exports and technical assistance. Linkages between the MNR and various activities within the sub-project will assist with the accomplishment of the sub-project's goals.

Central Bank of Honduras has a Department of Industrial Research that conducts studies for potential agricultural production and marketing projects. These studies are available by request from interested investors. Overall, the studies are only descriptive on methods of product preservation and processing and lack depth and financial requirements.

The Cooperative COHORSIL, located at Siguatepeque has conducted trials on growing snowpeas for export. They will be growing 4 hectares during 1984 and have plans to increase to 32 hectares in order to provide one shipping container (about 20T) during production. The Siguatepeque area (altitude 850 meters) grows a wide variety of vegetables throughout the year mainly for domestic consumption. A receiving station is being used for accumulating excess production for export to El Salvador and Guatemala. Cold storage, packing and grading facilities are needed to assist with quality maintenance and expansion of vegetables for export.

Escuela Agricola Panamericana (EAP) is a private agricultural training institution dedicated to training Latin American students general agriculture. The school has faculty, library, field and laboratory facilities which could be interlinked to various training activities required for the vegetable export sub-project.

Agricultural Cooperative Development International (ACDI) is conducting experimental trials on diversified vegetable production with four cooperatives located at Comayagua, Choluteca, Morazan and La Entrada. The information that is obtained from these demonstration studies will provide valuable knowledge on the potential for production of vegetables with exportable quality.

4. Identification of Vegetables for Export and Rationale

A wide variety of vegetable crops are adaptable to the various soil and climatic conditions existing in Honduras. Rather than selecting a single vegetable for the commodity system, multiple crops should be considered since production on the same land based on monoculture would be extremely risky and would eventually destroy future production capabilities. Multiple cropping systems will also allow for altering market targets as shifts in pricing and demand develop. Characteristically, Honduran farmers prefer to grow only a few crops that they know, and very few farmers grow vegetables. Thus, by providing diversified markets for diversified crops more flexibility in production will develop.

The selection of vegetable commodity systems for export are complicated by the legal limitations of admissible fruits and vegetable that can enter the US from Honduras (see Annex____). Fresh vegetables admissible into the USA with a USDA import permit are onions, garlic, asparagus, beets, Brassica oleracea (cabbage, cauliflower, brussel sprouts, broccoli, collards, kale, kohlrabi) carrots, celery, sweet corn, cucurbits (cucumber, melon, squash) daskeen, palar heart, ginger, lettuce, okra, peas (snow peas), rutabaga, salsify, spinach, swiss chard, turnip, watercrest, yam and waterchestnut. Husk tomato, tomatoes, chickpea, artichokes and sorrel are admissible only in North Atlantic ports. Chayote is admissible into South Atlantic Gulf ports. Many of the crops that are admissible would not be suitable for export from Honduras since they could not compete with USA domestic production or they have very narrow, specialized markets. In addition, several vegetables are cool-season crops which require climates with cool temperatures for developing exportable quality. With the exception of a few vareties, production of these crops is limited to the high altitude regions of Honduras. Important fresh vegetables that could be potentially valuable but are not listed are eggplant, green beans, and peppers (sweet, hot and bell) which grow well in warm/hot climates.

Other important constraints placed on selection of vegetables for export is the lack of sufficient production experience, research trials, published information and the lack of emphasis given to quality. Due to these constraints, production of existing crops cannot simply be scaled up to enter export markets. Presently, only cucumbers and melons have established on-going expertise and without additional efforts, are the only ones which could be potentially increased for greater exports. However, diversification is necessary in order to reduce the high risks involved with monoculture.

Working within these parameters, three vegetable crops, cucumbers (Cucumis sativus), onions (Allium cepa), and okra (Abelmoschus esculentis) have been selected as the commodities selected to initiate export development. Trials conducted by United Brands Co. and Standard Fruit Co. concluded that these crops can be grown with excellent quality and high yields in Honduras. Cucumbers have demonstrated export feasibility while onions and okra have export potential. Therefore, cucumbers represent a commodity suitable for improvement and expansion of existing exports, and onions and okra represent the initiation of new exports. Onions are used as an example since they are commonly grown and consumed in Honduras and they can be cured and stored until suitable market opportunities develop. In addition, Honduras is a net importer of onions and development of export industries will assist in eliminating further imports as well as assisting with domestic supplies. Okra is highly productive in tropical climates and it may be exported fresh or as pickled preserved products. Both pickled okra and small sized cucumbers would have markets in North America throughout the year. The three crops selected have been proven productive in Honduras and all are approved for entry into the USA. Furthermore, the USA annually imports a significant proportion of cucumbers (38%), okra (86%) and dry onions (5%).

While some requirements for producing these crops are similar, there are distinct differences which will be pointed out in the section on vegetable commodity system analysis. Many of the requirements for handling and marketing are different. Strengthening the skills and infrastructure for producing and exporting these crops will greatly assist with the adaptation and conversion to other vegetables for export as market situations change.

5. Identification of Locations for Sub-project Activities and Rationale

There are numerous locations within Honduras that provide the essential requirements of soil, topography, drainage, water supply, labor and accessible transport. To assist all the potential areas capable for developing vegetable exports is beyond the scope of this sub-project. Therefore, three areas are identified for project activities. The first area is Comayagua which is exporting cucumbers and it has the foundation for expanding and diversifying through the cooperative Fruta del Sol. The second area is Siguatepeque which has an existing cooperative of vegetable growers (COHORSIL) composed of farmers familiar with vegetable crops and a demonstrated enthusiasm for exporting various crops. This area requires assistance primarily with training, developing the infrastructure of handling and marketing as well as developing export markets. The third area is Quimistan Valley which has very limited experience with vegetables, no established cooperative or association involved with vegetables and no existing facilities. The adjacent La Entrada-Florida area also consists of fertile land and labor supply sufficient to allow vegetable crop development for preparation for export in the Quimistan area.

The strategy in the selection of these locations will provide for accelerated expansion and diversification of vegetable exports from Comayagua, which should have an immediate economic impact; intermediate development of vegetable exports from Siguatepeque; and a gradual but important new development of vegetable exports from Quimistan Valley. A major element of flexibility should be maintained within this subproject so that support activities can be directed rapidly to assist with new opportunities and areas as they are needed.

6. Producer and Organization Characteristics

Actual Conditions

a. Comayagua, Fruta del Sol

Fruta del Sol is a cooperative consisting of 120 members as a mixture of campesino and independent farmers. Generally, the campesinos live at their farms while the independent landowners reside in the cities. Of the 120 members, 78 have less than 10 hectares 15 have from 10 to 20 hectares, 15 have from 20 to 50 hectares, and 12 have more than 50 hectares. A total of 2,000 hectares is controlled by the members, although only 65 hectares are used for growing cucumbers by 25 of the members. The cooperative has an open membership policy but concentrates its services to cucumber producers such as providing credit, technical assistance, land preparation, materials, packing and marketing. The cost of the agricultural inputs are deducted from the members gross return when the products are sold.

b. Siguatepeque

This cooperative consists of 50 members that grow many different vegetables on about 210 hectares. Land titles are held by 46 of the members. Of the 50 members, 10 have 1 to 5 hectares, 15 have 10 to 20 hectares, 5 have 20 to 50 hectares, and 20 have more than 50 hectares. Most of their vegetables (80%) are consolidated for shipment to the larger cities throughout Honduras. The members are highly receptive to new developments in producing vegetables and they are interested in growing vegetables for export markets. The cooperative pruchases agricultural inputs in bulk for its members. It also assists with finding markets and negotiating prices.

c. Quimistán Valley

This area has about 6 cooperatives of campesinos although none are specifically involved with growing vegetables. Farms in the valley are mostly fairly large (50 or more has) and used for growing cattle or sugar cane.

Optimal Conditions

Farmers should be experienced in growing high quality vegetable crops and have access to benefit provided by well organized and efficiently operated cooperatives or associations. Usually farmers with title to their lands will work towards inceasing fertility and making long-term improvements.

Development Activities

The cooperatives in Comayagua and Siguatepeque are experienced and well developed; however, the members of COHORSI will need training to produce vegetable for export.

In Quimistán, a cooperative producers associations or a US/Honduran joint venture should be promoted to concentrate on vegetable production and export marketing.

7. Vegetable Commodity System Analyses

Climate, Soils and Water

Present Conditions: Honduras has many valleys and plateaus with climate, soil and water conditions favorable for vegetable production. To stay within the scope of this project only, the conditions in Comayagua, Siguatepeque and Quimistan will be described . Climate water and soil classification data are readily available from MNR.

Comayagua: This valley is located 100 km from Tegucigalpa and 250 km from Puerto Cortés with an altitude of 625 m. It is characterized by distinct wet and dry seasons, with the dry season extending from November through April (Table No. F.1). During these months humidity is fairly low (55-20% R-H); temperatures are mild. Minimum temperatures occur in February (14 degrees C) which maximum temperatures occur during April and May (35 degrees C). During the wet season, May through October, rainfall is often intensive and erratic and evaporation is excessive which creates the necessity for irrigation almost every month of the year for optimum plant growth. Wind velocity during the spring is often a problem unless windbreaks are used or wind-resistant crops are grown.

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Comayagua is actually composed of four agricultural zones each having somewhat different climatic, soil, and water characteristics. The western zone (8,300 ha) has fertile soils and irrigation is relatively well developed. Roads are established and accessible throughout the year. This zone also has the most concentrated population. Most farms are small, agrarian reform developed. The eastern zone (13,000 ha) has intermediate soil fertility with a high proportion of the soils poorly drained. The best lands in this area are owned by only a few large landowners. The southern zone (13,500 ha) has poor soil, heavy erosion and poor drainage. It is sparsely populated and transportation is difficult during the wet season. The fourth zone (600 ha) is the area along the Humuya River which is subject to annual flooding. The soils are fertile (recent alluvials) and intensively cultivated throughout the year; water is pumped from the river for irrigation.

In general, the soils of Comayagua valley are fine textured with a clay subsoil which restricts water permeability and drainage systems are often required during the wet season. Several areas are deficient in phosphate. During the dry season which coincides with the winter vegetable production period, there are fewer problems with diseases, insects, transportation, wind and water drainage.

Siguatepeque: This production area (6500 ha) is located about 175 km from Puerto Cortés with an altitude of 1078 m. Most farms are 1 to 10 hectares. Many vegetables crops (warm and cool season crops) are grown in this area for domestic markets and they are recognized for their quality. The climate conditions along create fewer disease and insect problems than many other areas. The production seasons are divided between wet (May to October) and dry (November to April) with humidity being the lowest during the dry season. Minimum temperatures of 9 degree C occur during December and January while temperatures of 26.5 degree C are reached during May (Table No. F.2). Nights are usually cool and days are warm, which is ideal for growing many cool season crops. Irrigation is used during the dry season by diverting water from streams or pumping surface or underground water.

Soils in this region have fairly coarse texture with moderate organic waters and coarse subsoils which allows for good water permeability and good natural drainage. Transportation is suitable throughout the year.

Quimistan Valley: The Quimistan Valley (14,000 ha) is located about 95 km from Puerto Cortés with an altitude of 304 m. The valley is divided by a highway so transportation to the port is rapid throughout the year. The climate is semi-humid tropical with two seasons: humid-tropical and dry tropical. The dry tropical period most favorable for vegetable production extends from December through April during which time temperature are lower (Table No. F.3). Relative humidity is fairly high throughout the year. Irrigation is required during the dry season. So far, few irrigation systems have been developed but the area is designated for development with government

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support. The valley has abundant water from three rivers and underground supplies. Soils are deep, fertile of alluvial origin with sandy loam and clay loam texture and good drainage.

Optimal Conditions: Vegetables are capable of growing in a wide range of climates and soil types. Optimally, soils should have good drainage, water holding capacity, aeration, nutrient retention with no erosion. Water for irrigation should be easily accessible either from surface or underground resources. Vegetable production is favored by controlled water conditions such as occurs during the dry winter season.

During periods of limited rainfall, disease and insect control are optimum since the pesticide will remain on the surface of the plant and application is less frequent than during rainy periods. Production of vegetables during dry seasons also facilitates transportation, weed control, product quality and reduce lacking of soil nutrients .

Onions are considered to be a cool-season crop that may be damaged by high temperature. Onions also require dry conditions during harvest and low relative humidity for curing and storage. Thus, the production of onions is most favorable for Comayagua and Siguatepeque and not Quimistan.

Okra and cucumber are warm-season crops that may be damaged by prolonged cold temperature. None of the temperature experience in the three areas would damage these crops. Soils should be analyzed for pH and nutrient levels and fertilization practices applied accordingly.

Development Activities: The GOH should encouraged to support the expansion of irrigation areas and roads for agricultural development in Honduras. In the Comayagua area, drainage system should be developed and techniques of sub-soiling practiced to allow improved water penetration and prevent water-logging caused by the heavy clay subsoil conditions.

Farmers should be taught principles and practices of soil and water management for improved crop production and quality development. Presently, soil testing is not commonly practiced, so the fertilization requirement are not known after causing deficit on excesses. Agencies need to be developed to service reliable information and recommendations.

Table No. F.1 Mean monthly precipitation, temperature and humidity for Comayagua Valley, Station name Flores, Lat 14-15, Long 87-34, elev. 620 m. (14 years data).

MONTH	RAINFALL (mm)	TEMPERATURE (°C)	HUMIDITY (%)
Jan	0	20.6	65
Feb	0	22.0	64
Mar	0	23.4	54
Apr	1	24.2	54
May	106	24.6	59
Jun	65	24.3	70
Jul	61	24.1	78
Aug	89	24.3	77
Sep	119	24.0	80
Oct	84	23.5	80
Nov	5	22.0	79
Dec	0	21.6	71
Annual	758	23.2	69

Source: Hargreaves, G.H. 1976. Monthly precipitation probabilities for oisture availability for Honduras. UTAH State University.

Table No. F.2 Mean Monthly precipitation, temperature and humidity for Siguatepeque. Lat. 14-35, Long 87-36, Elev. 1078 m. (5 years data).

Month	Rainfall (mm)	Temperature (degree C)	Humidity (%)
Jan.	1	21.6	65
Feb.	0	23.0	64
Mar.	0	24.5	54
Apr.	1	25.5	50
May	128	26.5	59
Jun.	153	25.5	79
Jul.	112	25.6	75
Aug.	111	25.9	76
Set.	182	25.2	72
Oct.	170	24.8	80
Nov.	38	23.7	78
Dec.	25	23.7	71
Annual	1158	24.6	69

Source: Hargreaves, G.H. 1976. Monthly precipitation probabilities for moisture availability for Honduras. UTAH State University.

Table No. F.3 Mean monthly precipitation, temperature and humidity for Quimistan Valley. Station name Chumbagua, Sta. Bárbara. Lat. 15-15, Long 88-28, Elev. 304 m. (19 years data).

Month	Rainfall (mm)	Temperature (degree C)	Humidit (%)
Jan.	46.0	23.5	82
Feb.	57.7	23.7	79
Mar.	14.9	25.7	75
Apr.	28.3	27.3	72
May	74.4	28.4	73
Jun.	171.9	27.6	79
Jul.	110.2	27.0	79
Aug.	128.9	27.0	80
Set.	174.9	27.2	81
Oct.	100.4	25.9	84
Nov.	118.7	24.4	84
Dec.	60.8	23.5	83
Annual	1080.0	26.0	79

Source: Harza Engineering Co.; Quimistan Valley Feasibility and Engineering Design Project. San Pedro Sula, Honduras 1980.

TOTAL VALLEY AREAS OF HONDURAS AND PRESENT CROPS

Production Region	Total Area (has.)	Location	Example of Crops Grown
1.Agalta	30,000	Colôn	No information
2.Agua Caliente	4,000	Choluteca	Tobacco, sugarcane
3.Aguan	200,000	Yoro	Bananas, oil palm, rice citrus, maize, beans
4.Alianza	3,650	Valle	Maize, sorghum, vegetables
5.Choluteca	26,000	Choluteca	Sugarcane, maize, rice, sorghum, watermelon, cantaloupes, pasture
6.Comayagua	38,000	Comayagua	Pasture, maize, cucumber, tomato, papaya, coffee, tobacco, sorghum soybean
7.Cuyamapa	13,867	Yoro	pasture, rice, peppers, tomato, tobacco, maize, beans
8.Florida-La Entrada	4,800	Copân	tobacco, maize, beans, sorghum coffee, vegetables, pasture
9.Cuyambre	3,000	El Paraîso	No information
10.Guayape	25,000	Olancho	pasture, rice, maize, beans, soybeans, cotton
11.Jamastran	3,000	El Paraîso	tobacco, maize, beans, pasture
12.Jesûs de Otoro	1,400	Intibucâ	patato, vegetables, maize beans, fruits
13.Nacaome	7,041	Valle	rice, cotton, maize, beans pastures, cashew-nuts, vegetables
14.Patuca	84,000	El Paraîso	No information
15.Quimistân	14,000	Sta.Barbara	pasture, maize, coffee, yucca, sugarcane, citrus
16.San Juan Flores	1,500	Fco. Morazân	sugarcane, pasture
17.Siguatepeque	6,500	Siguatepeque	vegetables,corn, sorghum,corn
18.Siria	6,955	Fco. Morazân	pasture, maize, beans
19.Sula	123,600	Cortés	banana, sugarcane,rice,citrus,maize vegetables
20.Sumpul	1,000	Ocotepeque	maize, sorghum, beans
21.Talanga	16,607	Fco. Morazân	maize, beans,coffee,pasture,bananas
22.Victoria & Sulaco	2,800	Yoro	maize, beans, pepper,

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8. Reproductive Material and Cultivars

Present Conditions

a. Cucumber

Cucumbers are grown from seeds which are available from farm supply centers or they are obtained through cooperatives. Almost all cucumber seeds are imported since no commercial seed companies exist in Honduras. Several major seed companies in the USA have available the seed requirements and cultivars for cucumber as well as other vegetable production in Honduras. It is essential that seed requirements are anticipated well in advance of planting time since delays are often encountered in shipping, importation, etc. Seeds are usually handled and stored in sealed cans which is suitable for preserving viability.

The cultivar "Poinsett" is predominantly used by Fruta del Sol for export. "Poinsett" is an olden open-pollinated fresh market ccultivar which is tolerant to several diseases. Essentially, no systematic testing of new cultivars is being conducted in Honduras. ACDI and MNR have a few, scattered trials mostly for demonstration purposes.

b. Okra

Okra is not commonly consumed by Hondurans. Some suppliery carry seeds. Most seeds are imported from the USA in sealed cans. The cultivars grown are "Clemson Spineless" and "Emerald". "Clemson Spineless" is the main cultivar used thoughout the world for fresh market and processing.

c. Onions

Onions are grown either from seed or sets. Dry sets often are used in Honduras which are imported from Guatemala. Onions are commonly consumed in Honduras, so seeds or sets are readily available. Some farmers produce their own seeds. "Red Creole" is the main cultivar grown. It is an open-pollinated cultivar widely used in Latin America and other short-day areas. "Red Creole" produces relatively large thick-flat bulbs with reddish scales that are firm and have good characteristics for storage after curing. The main limitations of this cultivar as an export commodity are its low productivity, red color and susceptibilily to pink root rot. Texas Grano 502 is also produced in Honduras. It is also an open-pollinated short day cultivar and produces white, jumbo-sized bulbs.

As with cucumbers and okra, evaluation of new onion cultivars best adaptable to conditions in Honduras are not being conducted which makes changing to new, improved material a slow process. Hybrid seeds are not commonly used because

of the greater expense which may be at least 5 to 10 times that of open-pollinated cultivars. However, with export markets the extra cost should prove to be justified.

Optimal Conditions

Ideally active plant breeding, cultivar evaluation and seed production programs would exist to continually improve and provide the best plant material for conditions in Honduras. As it is, none of them are being done and farmers have to rely entirely on outside information or do their own testing. The information provided by SIATSA and MNR which primarily use (Bulletin No. 9) is used throughout the country even though it was developed for the North Coast and it is rapidly becoming out-of-date. Evaluation should be conducted continuously and the information obtained should be distributed to the farmers.

Development Activities

Arrangements through FEPROEXAH and FHIA should be made to develop an active scientific program of testing cultivars of cucumbers as well as other vegetables in the Comayagua area. Similar testing around Siguatepeque, Quimistan and other areas with potentials for growing vegetable should be conducted. Assisting FEPROEXAH with qualified personnel to manage and systematically evaluate new cultivars of cucumbers, onions and okra should be part of the immediate developmental activity. Assistance should also be provided to develop information on cultivars most suitable for export, yields, characteristics of the products and other advantages of the new varieties.

It is anticipated that the Honduran Agricultural Research Foundation FHIA will assume many of the responsibilities of cultivar testing once it becomes established. However, it is urgent that other organizations generate the required information until FHIA becomes active in its research program.

The following is a suggested list of cultivars that may provide improved yields and disease resistance and be suitable for exportation:

Crop	Cultivar and Characteristics
Cucumbers	a. Sprint 4405; a gynecious hybrid with high yields and early production, resistant to scab and tolerant to angular leaf spot, mosaic, downy mildew, powdery mildew and anthracnose. b. Poinsett 76; has same resistance to disease as PPoinsett but has scab resistance and it is slightly larger than the other cultivar. c. Cherokee; adapted to warm humid conditions with a high resistance to most diseases. d. Pickling cultivars; which provide an abundance of small cucumbers; Carolina, Explorer, Premier, Little Leaf.
Okra	The cultivar presently used Clemson Spineless is suitable.
Onions	Granex 33; Short-day hybrid, flat shape. Granex 429; Short-day hybrid, globe shape and cures rapidly. Texas Grano 502 PRR; Pink rot resistant version of Texas Grano 502.

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9. Cultural Practices

In this section the cultural practices such as growing season, land preparation, planting, fertilization, irrigations, cultivation and crop rotation are considered.

a. Cucumbers

Growers and management associated with Fruta del Sol have been gaining valuable experience in producing cucumbers for export. While missing the maximum market prices in previous years, the production was close on target during the 1983/84 season. The highest prices for cucumbers exported to the USA are received from December through March. During this time Florida and imports from Mexico are the only competitors. Thus, production needs to be directed toward these four months with emphasis on January and February. In order to accomplish this goal everything needs to be prepared so that the seeds can be planted 45 to 50 days before obtaining the first harvest. Cucumbers will be productive for 5 to 6 weeks. To obtain high productivity throughout the marketing period seeding is scheduled at 7 to 10 day intervals in relation to the predicted final harvests.

For cucumbers in the Comayagua area, soils are usually plowed about 25 cm deep by machine. As the cooperative grows, more farmers will likely be using plows pulled by animals as well as for other activities since machinery availability may be limited. The soils in this region are fairly high in clay content and require at least two tillages by disking. After the first tillage, the land is leveled to facilitate irrigation. Soil is treated mechanically with nematicides, beds are formed and seeds are planted in rows at one side of the beds which are 1.35 m. apart. About 2.5 to 3.5 kg of seed is used per hectare as fertilizer is added and then watered by furrow irrigation. When seeds are planted in the bed center not enough moisture infiltrates to allow germination. After germination, plants are thinned to about 20 cm within the rows. Additional fertilizer is applied by hand during plant growth, weeds are controlled by animal drawn cultivator or by hand tools, and the plants are furrow irrigated once a week until harvests are terminated. A trellis system is constructed soon after germination by 2 m. stakes spaced at 2.5 m. intervals with 2 or 3 horizontal cross strings. During growth and development severely diseased plants ae removed. Bees are used for pollination. Care is taken to control insects, diseases and nematodes by appropriate chemical applications however trained phytopathologists and entomologists are not readily available for consultation. After cucumber production, a crop of corn or beans may be grown during the wet, summer season and then another crop of cucumbers planted on the same land in the fall. No apparent rotation practices are followed since many of the farmers have only small plots of land.

b. Okra

Okra is not presently grown for export and very limited amounts are grown for domestic consumption. Okra grown on small plots have few disease or insect problems; however, when commercial plantings are developed more problems will occur and control measures need to be taken. Nematodes are particularly destructive to okra plantings.

c. Onions

Onions are not grown in Honduras for export but it is estimated that more than 500 hectares are grown in small plots for domestic use. Most onions are grown during the rainy season with harvest during the dry season. Seeds are often planted in raised beds to produce transplants.

About 40 to 50 days after seeding, the transplants are transferred by hand to fields consisting of raised beds. Spacing is usually irregular in multiple rows. Irrigation is required when onions are grown during dry periods. However, few farmers use irrigation for this crop and when they do, water distribution is not uniform because of the bed width. Also, little or no fertilization and virtually no pest control or rotation practices are used.

Optimal Conditions

Scientists and management from Standard Fruit Co. and the MNR were instrumented in establishing the cultural practices and recommendations used by Fruta del Sol for producing cucumbers however, not all farmers follows these practices and as more are contracted it is likely that fewer will be knowledgeable and efficient producers. Even now, not all of the recommended practices are optimal and continuous trials need to be conducted for improvement as situations change. Around Comayagua, some growers are knowledgeable of the current best practices for producing quality cucumbers but few are familiar with good practices for producing onions and okra for export. Even less is known in the Siguatepeque and Quimistan areas about crop production for export. Ideally, farmers would be experienced and educated on the best current practices of producing high quality crop, and research and extension programs would be active in testing, developing, and demonstrating improved practices best suited for situations in Honduras. It is also essential that growers and handlers be knowledgeable of FDA and EPA regulations on chemicals used on food products in the USA.

Development Activities

Qualified personnel or agencies should be identified and given responsibilities of managing the development of information and extension activities related to cultural practices of vegetables. Additional persons dedicated to public service should also be provided advanced training to strengthen their ability to evaluate and design new methods of cultural practices. The MNR should develop easily retrievable reference material as well as extension bulletins. A considerable amount of farmer training material has been published in Mexico and this material should be acquired since many of the principles, practices and conditions could be easily adapted for situations in Honduras. FEPROEXAH should also develop published materials and be actively involved with training programs and examining and improving cultural practices. Farmers that are interested in growing vegetables for export should be supported for direct training through growers association or at EAP. As the HARF emerges as a center of research excellence, it should be responsible for developing investigations and recommendations of soil preparation, fertilization, irrigation, plant populations, disease control and other related practices.

10. Agricultural Inputs

Present Conditions

Supplies for agricultural production are usually available through cooperative stores or agricultural supply centers. However, most of the materials such as fertilizer, pesticides and equipment are imported from North America and Europe which makes the prices paid by the farmer several times more expensive than the original price. Shortages due to delayed shipment and import procedures may occur. Pesticides used on vegetables are about 5 times more expensive in Honduras than they are in the USA. This drastically reduces the ability and incentive to utilize optimum cultural practices and results in excessive food losses and poor quality. To obtain exportable quality, it is necessary to produce vegetables with suitable size, shape, color and freedom of blemishes and defects which will require appropriate use of pesticides, fertilizers, irrigation equipment and machinery.

As discussed in the section on citrus agricultural inputs, the high prices are caused by freight import duties, taxes and middle merchant profits. An additional problem is the lack of foreign exchange available for growers associations to purchase large quantities of imported materials. This curtails availability and ability to purchase at discount prices.

Agricultural supplies such as stakes, bees and boxes are produced locally. As production for export increases more of the support industries will need to develop pari passu.

Optimal Conditions

Agricultural inputs should be readily available at an economical price. Foreign exchange should be available to import materials not produced in Honduras.

Development Activities

The causes for the exorbitant prices of imported agricultural inputs should be determined, exposed and subsequently negotiated to lower levels. FEPROEXAH should immediately develop a program to address this problem and mediate a solution. Furthermore, FEPROEXAH should establish an account in a U.S. bank to assist ith purchases of agricultural inputs required for producing export vegetables.

11. Harvesting and Handling

Present Conditions

a. Cucumbers

Cucumbers grow rapidly so they are hand-harvested every 2 to 3 days during the production period around Comayagua. Prior to 1980/81, fruits were not pre-selected in the field, and only 35 to 50 percent were graded as marketable. Now, pre-selection is made at harvest, and 60 to 80 percent are exportable, which substantially improved the packing house grading efficiency. When reaching marketable size and quality, cucumbers are removed from the vine, laid into wooden or plastic boxes and then transferred to wooden tote bins for bulk transfer to the packing facility. Caution is taken to prevent bruise injury but handling in uncushioned bulk containers and on unpaved roads results in physical damage. Also, harvesting and handling during late morning and afternoons results in high fruit temperature as does holding in unshaded environments.

b. Onions

Onions are usually hand-harvested with stems attached and marketed in containers of various dimensions without proper curing which is required to reduce deterioration. Also many onions observed in local markets have been harvested prior to maturation. For immediate marketing, these procedures are suitable; however, they would not be acceptable for export. Furthermore, without curing and careful handling, delayed sales at local market often results in severe losses from desiccation and decay.

c. Okra

The small amount of okra produced in Honduras is hand-harvested when over mature and damaged severely during handling. Over maturity causes poor, tough quality and physical injury along with high temperatures contribute to rapid formation of dark blemishes.

Optimal Conditions

Fruta del Sol management is knowledgeable of good harvesting and handling practices. Some improvements could be implemented such as harvesting very early in the mornings so that field-heat is minimal and handling in cushioned containers to reduce physical injury. Furthermore, it is important that all farmers are educated and re-educated on proper harvesting and handling techniques.

Onions should be pulled when 25 to 50 percent of the tops are senescent. If the soil is tight, loosening the bulbs prior to pulling is necessary, otherwise they can simply be pulled by hand. After pulling, the bulbs should be placed on the ground in windrows with the tops providing shade to prevent sunscald and then allowed to cure for a few days. When the outer leaves are dry and tight, the onions should be de-topped leaving 1 to 2 cm. of the stem, then cleaned and graded. In areas with rainfall and high humidity during the harvest period, curing in covered buildings on wire racks or by forced air drying units is necessary. The onions are then bagged and marketed or stored at 0 to 40 degrees C with 65 to 75 percent relative humidity.

It is necessary that okra be harvested with a sharp knife or clippers when 6 to 8 inches long, depending on the cultivar, and handled gently in shallow containers to prevent bruise injury.

Development Activities

Farmers will need to be trained on proper maturity and quality characteristics of vegetables and techniques of harvesting and handling to maintain quality. This task can partially be undertaken by EAP but most of the responsibility should be assigned to FEPROEXAH for providing technical assistance and training programs to growers associations.

Harvesting, handling supplies, and equipment will be required for Comayagua, Siguatepeque and Quimistan. A facility designed for curing of onions will be located at Comayagua. It is planned that onions grown at Siguatepeque and surrounding areas will be transported to Comayagua for room curing, bagging and storage prior to marketing. The management of Fruta del Sol will assume the responsibility for onion production, preparation and marketing.

12. Assembling, Packing and Storage

Present Conditions

a. Cucumber

Cucumbers at Fruta del Sol are dumped into a water flume, washed with chlorinated water, waxed, hand sorted and graded, placed into cardboard boxes and then either loaded directly into shipping containers or placed into cold storage. The packing line is presently adequate to allow expansion; however, as growth continues it will be necessary to add an additional line. Also mechanical sizing equipment is needed to improve size uniformity and operationl efficiency. An important component missing is facilities for pre-cooling prior to placing in refrigerated conditons. Without pre-cooling, temperature reduction is a slow process and market quality will be reduced. Fruta del Sol is analyzing various methods of pre-cooling, one being the utilization of ice in the unloading tank. However contact will not be uniform, ice is expensive, infiltration of spoilage bacteria will be increased and the fruits will be subsequently exposed to warm temperature during washing, sorting, packing, etc. In addition, cooling of rejected fruit would occur which is an unnecessary waste of cooling energy. The coldroom facility is only being used for cucumbers which is a relatively short time period.

b. Okra

Facilities are not available for cleaning, grading, packing, cooling and storing okra. Rapid cooling is essential for preserving market quality of okra. Facilities at air terminals for refrigerated holding of perishables have not been developed.

c. Onions

Some operations required for onions can be performed in the field; however, to provide consistent quality shipments, it is important that proper post-harvest facilities are developed. Presently, facilities do not exist for cleaning, trimming, bagging and storing onions. These are necessary for preparation for export, and they would be beneficial for providing uniform distribution in domestic markets. In contrast to cucumbers and okra, properly cured onions can be stored for several months in order to choose a suitable market period. Presently, knowledge of USDA grades and standards is lacking. The cold storage facility at Comayagua could be used for okra and some other vegetables but not for onions since the odors absorbed into onion storages cannot be removed adequately and they would create adverse flavors in cucumbers.

Optimal Conditions

Facilities for cleaning, grading, packing, cooling and storage are essential for preparing vegetables for export. It is important that vegetables exported from Honduras are associated with high quality so all components necessary to accomplish this trademark need to be established. It is also highly important that the facilities are managed properly and that farmers and handlers know the grades and standards required for export markets. For cucumber, an experienced working model (Fruta del Sol) has been developed which can be adapted to other location within the country. The main missing link in their total system is facilities for pre-cooling. It is recommended that a forced-air cooling systems be implemented to rapidly cool cucumber and okra as well as other vegetable when they emerge as export commodities. Rapid cooling reduces moisture loss and metabolic processes whereby several days of prolonging market quality are added.

For onions and okra, facilities need to be constructed, management and graders trained and sources of materials such as bags and boxes need to be arranged. Cucumbers and okra should be held at 7 to 10 degrees C with 90 to 95 percent relative humidity while onions require 0-4 degrees C and 65 to 70 percent relative humidity.

Development Activities

Development activities at Fruta del Sol should emphasize the immediate acquisition of sizing equipment for cucumbers and pre-cooling (forced-air) facilities for cucumbers and okra which could also be used for other vegetables when they became feasible. A portion of the present cold storage facility could be re-modeled to provide a tunnel force-air cooling system. Cucumbers, okra and onions produced around Comayagua and Siguatepeque should be prepared for market at the Fruta del Sol, Comayagua facility.

A receiving station and cold storage facilities should be located at Siguatepeque for accumulating vegetables to be transferred to Comayagua. In order to handle onions, a separate line for cleaning, grading and bagging should be established and a separate storage unit suitable for onions should be installed at Comayagua. Preparation of okra requires only a conveyor, hand grading and packaging followed by pre-cooling and holding at refrigerated conitions. Okra produced in Mexico is not often cooled; however, the time for transport to the USA and subsequent marketing in refrigeration is much shorter than could be accomplished from Honduras, so cooling will be essential.

In the Quimistan area, a receiving station equipped for preparing and cooling cucumbers and okra for market will need to be established. This can be acccomplished by using the Fruta del Sol facilities as a model with modifications included to improve cooling efficiency.

Personnel from Fruta del Sol and other private sector companies should be contracted to assist with the development of these facilities, acquire materials, and train the new management.

The development of temporary storage facilities for holding perishables at the San Pedro Sula and Tegucigalpa airports should be pursued by FEPROEXAH.

It will be essential that management of cooperatives and members of the growers associations are trained for business activities, equipment operation, and postharvest managmeent of cucumber, okra and onions. Precise and current information on USDA grades and standards as well as grading techniques will need to be learned. FEPROEXAH should have specialists employed to provide training and technical assistance and they should acquire reference material pertinent to equipment, supplies, grading management and postharvest techniques required for exporting vegetables. Key personnel should be identified for short-course and short-term private sector training in the USA. A short course on Postharvest Tecnology of Fruits and Vegetable is given annually (June) at U.C. Davis and involves several field trips and the study of commercial packinghouse operations.

13. Preservation

Present Conditions

Most vegetables consumed in Honduras are purchased fresh and then prepared at home. Few families can afford the higher cost of canned or frozen processed foods. However, a wide selection of processed products are available in supermarkets most of which are imported and affordable only by the middle and upper income population.

Thus, with limited demand, only a few processing industries have developed. A relative small but important tomato and juice processor is established at Comayagua (Mejores Alimentos Naturas, S.A.). Their tomato products, juice, paste and catsup are good quality, distributed throughout the country and exported to other Central American countries. Most of the products are made from locally grown tomatoes, but due to monocultural practices, virus and other disease problems, production is declining.

A small amount of vegetables, cucumbers and mixed vegetables, are preserved by pickling for domestic consumption but again due to a small demand no major industry has developed. The fermented pickled cucumbers are very poor quality although the mixed vegetables preserved by pasteurization in acid brine are attractive and good quality. Some peppers are salted and exported to the U.S.A. by Henry Fransen Co. located in San Pedro Sula. No vegetables are frozen for use in Honduras or for export.

Optimal Conditions

Honduras should be manufacturing all the processed vegetables that it consumes and should be developing export markets for preserved vegetables. Mejores Alimentos should be diversified to include other vegetables and to maximize their operation efficiency. Major constraints to the export of fresh vegetables are the limited types that are admissible and the highly perishable characteristics. Preservation by freezing, canning, pickling or drying eliminates these constraints. Special attention should be given to expand, diversify, and develop preservation industries with emphasis on exportation through national processors or joint ventures with foreign companies.

Development Activities

In the Quimistan area, support should be directed for the development of pickling systems for okra and cucumbers. This operation will be associated with the receiving and packing station for export of fresh okra and cucumbers. The small (No. 1 size) Gherkin cucumber should receive most attention since it has the greatest demand by the cucumber pickling companies in the U.S.A. and since it is highly labor intensive. Okra in the U.S.A. is now mostly consumed in pickled form and most is produced in Mexico due to its high labor requirement.

Both okra and small cucumbers can be produced throughout the year for pickling and both can be preserved by simple, low technology requiring process. When accumulated in sufficient quantities the products should be shipped in bulk containers (55 gallon plastic barrells) for re-manufacturing.

To establish this operation, crop production trials for pickling cucumbers need to be conducted, growers associations established, markets pre-determined, managers and technicians trained and facilities constructed.

FEPROEXAH should establish a division to include processed foods for export. They should be instrumental in promoting joint ventures with companies in the U.S.A and other countries, promoting development of existing and potentially new Honduran food companies to produce food products for export and providing technical assistance on food technology through trained specialists.

14. Transport and Shipping

Present Conditions

Refrigerated shipping containers or roll-on-roll-off trailers are available for contract from CCT, Sealand, Concord Seaborg or MATRA shipping companies for moving commodities overland to Puerto Cortes and then to the U.S.A. During 1983/84 shipping costs were $2,400 per 40,000 lbs container or 6 cents per pound. Total export costs including land transport was $3,375 per container. Fruta del Sol has negotiated a lower price ($1,800) for container druing the 1984/85 season; however, freight costs will still represent a major cost of exporting cucumbers.

A major constraint is the low volume of vegetables presently being exported from Honduras. With larger volumes and more frequent shipments lower prices could be negotiated. Presently the high cost limits many products that can be exported profitably.

Land transport is suitable on the main highways; however, if production is distant from the port, land transport is slow and expensive due to mountainous conditions.

Transport from Comayagua and Quimistan to the port does not present any problem. The secondary roads are rough or often impossible during rainy periods. For fresh cucumbers and okra, rapid transport and shipping are essential while onions are less perishable, so rapid movement is less critical. About 8 days have been required for exporting cucumbers which includes the time for ground transport. For okra more efficient scheduling to reduce this amount of time will be necessary.

Facilities for air transport of vegetables have not been adequately developed. A major constraint of exporting commodities by air is the apparent requirement of using only the Honduran airlines for freight and the absence of private air freight carriers.

Delays, critical for perishables, are often encountered for obtaining documents required for exporting products.

Optimal Conditions

Land and sea transport should be smooth, rapid and reasonably priced. Shipping containers should be readily available and well maintained. Air transport should be reliable with the infrastructure developed to meet the requirements of exporters. Obtaining documents for exporting products should be streamlined.

Development Activities

FEPROEXAH should assume the immediate task of negotiating for reduced freight rates. Furthermore, they should be responsible for streamlining mechanisms of obtaining governmental documents required for exporting commodities. FEPROEXAH should also be the source of intelligence on sources of containers, prices, schedules and other components required for exportation.

Another assignment for FEPROEXAH is to obtain approval for air freight systems not currently available for the transport of perishables. This will require exploring space availability and guaranteed contracts with TAN-SAHSA and TACA airlines, negotiating to allow other established airlines to carry freight and to permit the development of new private enterprise air freight systems when opportunities become appropriate for this method of exporting vegetables.

15. Marketing

Present Conditions

Cucumbers exported by Fruta del Sol are marketed on consignment in the U.S.A. by Six L's Packing Company located at Immokalee, Florida. This is a convenient method of marketing; however, as the cooperative expands and diversifies, more sophisticated marketing strategies should be developed. Rather than using only one broker, contact communications and arrangements should be made with several so that returns can be maximized and perhaps commission fees (presently 10 percent of gross revenues) can be negotiated. This will require developing greater depth in market intelligence as well as promotional activities.

About 30 to 40 percent of the cucumbers received by Fruta del Sol are unsuitable for export, mainly because of size, shape, color or bruises. These fruits are sacked and sold at domestic markets. During 1981/82 about 325 metric tons were sold for $21,350. Those fruits have been washed and waxed and they are recognized as having better quality than other cucumbers grown nationally.

It is important that domestic markets receive good quality fruits even though not of export quality and not be a dumping ground. Thus, the system for handling these fruits should be changed from 175 pound sacks to a less damaging container.

Export marketing of onions and okra has not been practiced; therefore information and experience are severely lacking.

Optimal Conditions

Market information and multiple competitive markets should be readily available. This requires marketing specialists that have rapid, precise information on current markets and that have developed contacts with several reliable brokers. Market information should be available for several countries in addition to those in the U.S.A. For fresh cucumbers and okra production needs to be concentrated to coincide with the lowest supplies and highest prices of the market target. In contrast, onions and preserved vegetables can be stored until suitable markets are determined but detailed information, predictions, actions and market characteristics need to be developed.

Development Activities

FEPROEXAH should develop as a center of market intelligence and promotion and be responsible for aggressive marketing tactics. This requires personnel trained and experienced in marketing who maintain current information on volumes, movements, prediction of domestic and external production, harvest periods, prices and other statistics. It is essential that this office develop export arrangements with various reliable brokers in the U.S.A., Canada, Europe and other potential market locations. Development activities should be directed toward identification of personnel, training and establishment of appropriate computer and communication systems. This FEPROEXAH office will be the resource of export marketing activities by vegetable exporters, cooperatives, associations and independent investors.

An additonal important function of this agency will be to conduct market analyses of potential export commodities and when feasibilities are detected, promotional activities should be directed toward their implementation.

Development Activity Requirements

A. FEPROEXAH

1. Personnel and Activities:

a. FEPROEXAH's Executive Officers will aggressively negotiate to expand list of admissible crops exportable from Honduras to the U.S.A.; reduce taxes on imported materials for agricultural production; establish access to foreign exchange for purchasing material for agricultural production; streamline acquisition of export documents; establish approval for free enterprise of air freight systems; and develop temporary storage for perishables at La Lima airport. They will also actively promote industries to develop export commodities.

b. The Horticulture Production Specialist and two technicians will provide technical assistance, information, demonstrations and experimental trials on cultivars and cultural practices, develop methods to improve vegetable production efficiency, work with HARF on plant nutrient requirements and recommendations and rely information to growers associations, cooperatives and potential investors develop teaching materials and training programs, prepare bulletins on recommended practices and promote development of exports.

c. The Postharvest Technologist and 2 technicians will provide technical assistance, information, demonstrations and experimental trials on harvesting, handling, curing, cleaning, grading, packing, cooling, storage, preservation, loading and shipping. Train graders according to U.S. Grades and Standards. Develop training programs on quality assurance. Serve as a reference source on postharvest practices, food preservation, supplies, materials and export requirements as well as promote development of export industries.

d. The Export Marketing Specialist and 2 technicians will generate market information, statistics, strategies and analyses, develop buyers, coordinate containers, shipping and brokers, serve as a reference center for domestic and export markets and promote the development of export industries.

e. Clerical (3): Office management, clerical operations, information organization and retrieval, skilled with word processing.

2. Supplies and Equipment

a. Office: 3 typewriters, 1 word processor, 1 copier, 2 computers, desks, shelves, 1 camera, library space, and general supplies.

b. Reference Materials and Visuals

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3. Training: The production, postharvest and marketing specialist should receive three months training through practical experience programs in U.S.A. and Mexico.

4. Travel: Promotional activities and negotiations; training of specialists; market development; technical assistance and training activities.

B. Comayagua

1. Personnel - the present management should extend their employment to 12 months to develop the expansion of cucumber production to initiate okra and onion operation and train farmers on production practices. Fieldmen should conduct trials on onion and okra production. When new operations are established other managers will need to be employed.

2. Equipment Facilities

a. Cucumber sizer.
b. Forced air pre-cooling system.
c. Onion curing room and dryer.
d. Onion storage.
e. Line for onion sorting and bagging.
f. Line for okra, grading and boxing.
g. Pallets.
h. Drive through cold room doors.
i. Trucks for handling produce (2).
j. Boxes.
k. Computer.

3. Training

a. 2 field production managers for onion and okra production and quality assurance.
b. 2 packing house managers on personnel management, grades and standards, equipment operation, curing and storage.
c. Farmers need to be trained on business mangement practices for small farmers and methods of growing quality cucumbers, onions and okra; representative farmers should be selected to visit production operations in the U.S.A. and Mexico.

C. Siguatepeque

1 Personnel-no additional personnel should be required. The horticultural production specialist with FEPROEXAH along with production specialist with Fruta del Sol should conduct production trials on onions and cucumbers, teach farmers production practices, establish contracts through COHORSIL and provide someone to operate the receiving station during the harvest season.

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2. Equipment and Facilities

   a. Receiving station.
   b. Cold storage room for overnight and use for export of other commodities.
   c. Boxes for handling produce.
   d. Truck to transfer from COHORSIL to Fruta del Sol.

3. Training

   a. Farmers should be trained on production techniques and quality requirements. Representative farmers should be selected to visit USA and Mexican production operations.

D. Quimistan

1. Personnel-FEPROEXAH should conduct production trials, initiate the establishment of a vegetable growers association and assist with training growers on production and handling of cucumbers and okra.

   a. General manager-will play a key role in developing the Quimistan cooperative, developing the facilities and managing business and employees.

   b. Field coordinators (2) will be responsible for training farmers production practices, scheduling operations, arranging for field supplies and equipment.
   c. Packing house manager will manage the receiving cleaning, sorting, grading, packing and cooling operation, supplies and personnel.
   d. Pickling manager will develop procedures, facilities and operation of preserving cucumbers and okra for export.
   e. Clerical (2) to manage office and conduct secretarial functions.

2. Equipment and Facilities

a. Receiving station, land and offices.
b. Cucumber sizer.
c. Cucumber cleaning, waxing, packing line.
d. Line for midget cucumbers.
e. Okra grading and packing line.
f. Washer and grader for transfer to brining tanks.
g. Water storage.
h. Pre-cooling unit.
i. Cold storage.
j. Boxes for handling produce.
k. Forklift.
l. Pallets.
m. Tractors (2) and accessories.
n. Sprayers (5).
o. Brining tank and supplies.
p. Pumps.
q. Barrells for exporting preserved products.

3. Training

Initially the management at Quimistan should work closely with Fruta del Sol; study buying practices, production and plant operations and obtain hands-on experience. It will be necessary for the Fruta del Sol management to provide technical assistance for the establishment of operations at Quimistan.

a. Management-training by Fruta del Sol.
b. Pickling manager-training on preservation techniques.
c. Farmers should be trained on production techniques for fresh market and pickling of okra and cucumbers. For okra the production practices are the same for fresh market and pickling while for cucumbers the practices are different. Farmers should be selected to observe production techniques at Comayagua, U.S.A. and Mexico.

ANNEX _____

LIST OF ADMISSIBLE FRUITS AND VEGETABLES FROM HONDURAS

A. The following items are admissible from all countries including Honduras into the entire United States (includes Continental United States, Guam, Alaska, Hawaii, Puerto Rico, and the Virgin Islands) without a USDA import permit.

Cannonball fruit
Coconut (without husk or without "milk")
Cyperus corm
Lily bulb, edible
Maguey
Mushroom (fresh)
Peanut (raw)
St. Johnsbread
Tamarind bean pod
Truffle (fresh)
Waterchestnut
Waternut

In addition to the above items, other food materials including such items as dried beans and peas (except *Vicia faba*, *Lens* spp. and *Lathyrus* spp.), dried seeds, dried bamboo leaves, dried herbs, and similar commodities are admissible for food purposes and may be imported without permit from all sources into any port subject to inspection on arrival. Dried nuts without fleshy or leathery husk (exept acorns, chestnuts, coconuts and macadamia nuts) are enterable for food purposes without permit at all ports, subject to inspection.

B. The following items are admissible from Honduras with a USDA import permit issued in advance of shipment. Permits are only issued to importers and brokers residing in the United States.

1. Admissible into the entire United States (includes Continental United States, Guam, Alaska, Hawaii, Puerto Rico, and the Virgin Islands):

Items listed in paragraph A and:

Acrocomia
Allium
Arrowroot
Artocarpus
Asparagus
Astrocaryum
Ayale
Banana (no permit required)
Beet
Brassica oleracea
Carrot
Celery
Chestnut (treatment required see 319.56-2b)
Corn, green
Cucurbit (commercial shipments only)
Dasheen
Durian
Ginger root
Lettuce
Lime (sour)
Marang
Okra
Palm heart
Pea
Pineapple (except Hawaii)
Roselle
Rubus spp
Rutabaga
Salsify
Spinach
Strawberry
Swiss chard
Thyme
Turnip
Watercress
Yam (treatment required see 319.56-2(m)).

2. Admissible into North Atlantic ports - (Atlantic ports north of and including Baltimore; ports on the Great Lakes and the St. Lawrence Seaway; Canadian border ports east of an including North Dakota; Washington, DC (including Dulles) for air shipments):

Items listed in paragraph A and B-1 and:

Artichoke (Globe and Jerusalem)
Cacao bean pod
Chickpea
Cucurbit
Ethrog (treatment required see 319.56-2(d) or 2(p)).
Husk or mil tomato
Lemon
Mango (treatment required see 319.56-2(i)).
Orange (treatment required see 319.56-2(d) or 2(p))
Papaya (treatment required see Section T102(e) of the PPQ Treatment Manual).
Tangerine (treatment required see 319.56-2(d) or 2(p)).
Tomato*

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3. Admissible into South Atlantic Gulf ports - (Atlantic ports south of Baltimore, Gulf ports; Puerto Rico, and the Virgin Islands)

Items listed in paragraph A and B-1 and:

Artichoke (Jerusalem)
Chayote

4. Admissible into North Pacific ports - (North Pacific ports do not include California).

Items listed in paragraph A and B-1 and:

Artichoke (Jerusalem)
Cucurbits
Tomato

5. Admissible into Puerto Rico and the Virgin Islands:

Items listed in paragraph A and B-3 and:

Chickpea

* Movement through South Atlantic Gulf ports, under customs Bond, for PPQ clearance at North Atlantic ports authorized IF in closed van containers or on pallets completely enclosed by cardboard or plastic cover.

Frozen fruits and vegetables: Freezing is an acceptable treatment for most fruits and vegetables. The treatment involves an initial quickfreezing at sub-zero temperatures with subsequent storage and handling at not higher than 20°F at the time of arrival.

ANNEX

Recorded U.S. Imports of Selected Vegetables, 1980-1982
(all units 1,000 CWT)

	1980			1981			1982		
	Imports	U.S. Shipments	I/I&U.S.	Imports	U.S. Shipments	I/I&U.S.	Imports	U.S. Shipments	I/I&U.S.
Asparagus	81	654	11.0%	93	708	11.6%	165	697	19.1%
Beans	276	1,076	20.4%	201	966	22.1%	170	1,009	14.4%
Broccoli	25	3,665	0.7%	9	4,090	0.2%	1	4,713	—
Cabbage	275	12,209	2.2%	58	11,613	0.5%	246	10,799	2.2%
Carrots	1,089	10,713	9.2%	879	10,911	7.5%	1,040	12,011	8.0%
Cauliflower	89	1,623	3.3%	125	3,089	3.9%	116	3,172	3.5%
Celery	48	14,675	0.3%	74	16,023	0.5%	102	15,928	0.6%
Cucumbers	3,238	4,968	39.5%	3,080	4,985	38.2%	2,835	4,619	38.0%
Eggplant	412	520	44.2%	341	480	41.5%	358	515	41.0%
Iceberg Lettuce	75	61,001	0.5%	59	58,673	0.1%	82	58,929	0.1%
Other Lettuce	48	369	11.5%	42	418	9.1%	67	429	13.5%
Onions, Dry	862	23,622	3.5%	917	22,969	3.8%	1,246	24,665	4.8%
Onions, Green	428	1,044	29.1%	398	1,118	26.3%	437	1,166	27.3%
Bell Peppers	1,572	3,859	28.9%	961	4,032	19.2%	1,362	4,278	24.1%
Other Peppers	319	38	89.4%	358	32	91.8%	476	57	89.3%
Radishes	152	1,289	9.5%	61	1,328	4.4%	82	1,153	6.6%
Garlic	244	--	100.0%	193	--	100.0%	240	--	100.0%
Okra	218	61	78.1%	247	48	83.7%	386	63	86.0%
Squash	1,002	1,070	48.4%	789	1,064	42.6%	1,165	1,292	47.4%
Tomatoes	5,973	19,343	23.6%	4,799	19,643	19.6%	5,612	19,219	22.6%
Tomatoes, Cherry	898	257	77.7%	796	276	74.3%	796	327	70.9%

The Investment Climate

I. GOH Policy Relating to Export Development

Government policies and actions affect the feasibility of developing specific exports in different ways. Export and investment incentives have an across the board impact, except where specific exclusions or special provisions are codified. Government policies and regulations have different effects on specific products and product groups. For example, Honduras' strict mining code and high tax bite on mineral ores had long discouraged investment in the mining sector. A recent revision has helped to stimulate an upsurge in mining investment. The labor code and other legislation have a major effect on the cost of labor for assembly industries. Government regulations regarding availability of foreign exchange affect industries in direct proportion to their dependence on imported goods in the productive process. Government efforts in export promotion also have different effects on the feasibility of developing specific exports. Government failure to provide promotion and representation services can retard export sales, especially for smaller producers who can't afford a major sales effort in external markets.

Successive governments have been supportive of private investment in Honduras. Foreign and domestic investors are afforded equal treatment under the Honduran constitution. U.S. firms have been engaged in profitable endeavors in Honduras for over a century. The present regime has strongly encouraged private sector development. It recently initiated negotiation of a Bilateral Investment Treaty with the U.S., and has requested that Honduras be declared eligible for western hemisphere treatment of conventions. Whatever restrictions on investments and trade exist generally result from the regulatory climate more than from the legal structure. The difficult regulatory climate usually takes the form of lack of coordination and conflicting goals by GOH agencies.

II. The Investment Climate

The Embassy's 1982 Investment Climate Statement contains an ample description of government policies and attitudes toward private sector development and foreign investment. The generally positive environment has occasionally been dampened by abrupt policy changes which dampened private investor enthusiasm (e.g. nationalization of timber in 1974; limitations of the size of private agricultural land holdings in 1975). However, such occurences have been rare and government policies have been remarkably stable over the years.

The GOH currently offers investment incentives that include relief from

income taxes, import taxes and transaction taxes. The categories and amounts of the incentives and the documentation required to apply for them are governed by the Agreement on Industrial Incentives and its protocols subscribed to by the five Central American countries. This Agreement was recently renewed for 1984. Although the incentives are generous, the granting of eligibility is a complicated process requiring technical and financial studies and a series of approvals that involve over 30 steps within the Ministry of Economy, the Ministry of Finance and a special Inter-Ministerial Commission, as well as Presidential approval. The process usually takes from several months to over a year. The GOH recently approved an Export Incentives Law, which was prepared with assistance from AID-financed consultants. The law provides for GOH issuance of a tax certificate for up to 15% of the value of non-traditional exports, which is the approximate amount of indirect taxes paid in the production process. It will be some months before exporters will be able to take advantage of this benefit.

Approvals are needed for many purposes in addition to qualifying for incentives. For example, businesses must register with the Municipality and the Ministry of Finance for tax purposes, and specific laws and regulations relating to natural resource exploitation also require approvals of planned activities. At present, as a result of government attempts to ration foreign exchange, import and export permits must be obtained from the Central Bank.

Recommendations for improvement in some of these policies and administrative procedures were made by the Presidential Agricultural Task Force which was sent to Honduras by President Reagan in late 1982 in response to a specific request from President Suazo. Those recommendations include: improving incentives to encourage private investment and exports; streamlining government bureaucratic processes so that applications by the private sector for incentives, licenses, permits, etc., are acted on quickly and efficiently; creating an office for expediting and promoting private investment and exports; and eliminating the import-export permit system as well as controls on foreign exchange.The GOH has taken some steps towards implementing the Task Force's recommendations. In June 1983, the GOH approved the recommendations regarding new incentives for investment and exports and the establishment of a one-stop center for government approvals. The Ministry of Economy, with short-term assistance from AID, has reduced the steps and time needed for approval of investment incentives.

Additional measures have recently been taken or are planned. The one-stop center has been established in the Ministry of Economy. Implementing regulations for the recently passed Export Incentives Law are being prepared. A companion measure, which will eliminate the high bonding

requirements which have reduced the feasibility of drawback operations until now, is under consideration. AID-financed assistance is being provided on development of a new Industrial Incentives Law. The tariff structure, which has perpetuated the protectionist industrial structure engendered by the CACM accords, is being reviewed by the GOH.

ANTEPROYECTO DE

REGLAMENTO A LA LEY DE FOMENTO A LAS EXPORTACIONES

CAPITULO I

OBJETIVO

ARTICULO 1. El presente Reglamento establece las normas y procedimientos para la aplicación de la Ley de Fomento a las Exportaciones contenida en el Decreto No.220-83 del 17 de diciembre de 1983.

CAPITULO II

DE LAS DEFINICIONES

ARTICULO 2. Para los efectos del Artículo 2 Literal a) de la Ley, no serán elegibles para los beneficios de la misma, los productos incluidos en la lista del Anexo No.1 del presente Reglamento.

ARTICULO 3. Los productos sujetos a regímenes o regulaciones especiales se consideran incluidos dentro de la lista de excepciones a que se refiere el Artículo anterior, como ser:

i) Exportaciones al amparo de las Leyes de Zona Libre
ii) Maquila y ensamblaje; y
iii) Sistema de importación temporal

ARTICULO 4. El cálculo del valor agregado nacional de los productos no tradicionales de exportación se efectuará anualmente o cuando

la Comisión de Fomento a las Exportaciones lo estime conveniente de conformidad con lo prescrito en el Artículo 2 Literal b) de la Ley. Para tal efecto, las empresas de exportación deberán llenar un Formulario con los requisitos exigidos en el Anexo No.2 de este Reglamento, el cual deberá contener como mínimo:

a) El valor FOB del precio del producto y las unidades exportadas.

b) Los costos de los componentes nacionales y extranjeros en la elaboración directa del producto tales como: costos de producción, servicios y otros pagos que incidan directamente en la elaboración del producto, así como la utilidad o pérdida del mismo.

La relación porcentual se calculará dividiendo el valor agregado nacional de un producto por su precio FOB.

ARTICULO 5. Los Certificados de Fomento a las Exportaciones (CEFEX) serán expedidos anualmente por la Secretaría de Hacienda y Crédito Público, a favor de las empresas de exportación cuyos productos sean calificados como elegibles, previo Dictamen de la Comisión de Fomento a las Exportaciones.

La entrega de los CEFEX se hará efectiva a mas tardar el 30 de junio de cada año o cualquier otra fecha que determine la Comisión.

ARTICULO 6. Podrán solicitar los beneficios de la Ley, las empresas de exportación que exporten productos no tradicionales hondureños, de acuerdo con la siguiente clasificación:

a) Categoría I de Exportaciones:

1) Clasificaran en esta categoría los productos no tradicionales de exportación que tengan un valor agregado

nacional entre el veinte por ciento (20%) y el treinta por ciento (30%) cuando la empresa aplicante demuestre mediante un estudio de los CEPEX son necesarios a fin de preservar y lograr competitividad en sus mercados. Esta clasificación tendrá un período de vigencia de dos (2) años.

2) Clasificarán en esta categoría los productos no tradicionales de exportación cuyo valor agregado nacional sea entre el treinta por ciento (30%) y el cincuenta por ciento (50%) inclusive.

b) Categoría 2 de Exportaciones:

Clasificarán en esta categoría los productos no tradicionales de exportación que contengan un valor agregado nacional superior al 50% y con un alto grado de procesamiento.

Se entenderá por productos no tradicionales de exportación con un alto grado de procesamiento aquellos que tengan una mayor transformación en el desarrollo de su producción, como resultado de una mayor utilización de servicios tecnológicos.

Para cuantificar y clasificar el alto grado de procesamiento se utilizará la siguiente fórmula:

$$\frac{\text{Costo de Producción-Materia Prima Directa}}{\text{Costo de Producción}} = \text{Grado de Procesamiento.}$$

ARTICULO 7. Las personas naturales serán aquellas que tengan capacidad legal para ejercer por cuenta propia actos de comercio y que exporten productos no tradicionales.

Personas jurídicas las asociaciones, corporaciones, comercializadoras, sociedades, fundaciones reconocidas por la Ley, que exporten productos no tradicionales.

ARTICULO 8. La Comisión de Fomento a las Exportaciones podrá revisar los periodos de los niveles bases de exportación que se hayan establecido. El propósito de esta revisión será determinar el nivel base de exportación que corresponda al volumen de exportaciones durante el año calendario inmediato anterior. Si las exportaciones durante un año resultaron menores que las del año calendario inmediato anterior a la vigencia de la ley, este último se tomará como base.

ARTICULO 9. Para los productos no tradicionales nuevos, su nivel base de exportación será determinado por las exportaciones efectuadas durante el primer año calendario.

Se consideran como productos no tradicionales nuevos los siguientes:

a) Un producto que sea elaborado o manufacturado por primera vez y se exporte.
b) Un producto que exista en el mercado nacional sin haber sido exportado anteriormente; y
c) Un producto que haya dejado de exportarse durante los últimos dos (2) años a la fecha que reinicie su exportación.

ARTICULO 10. Las empresas de exportación deberán inscribirse en el Registro de Exportadores que a tal efecto llevará la Dirección General de Comercio Exterior. La inscripción empezará a contar desde el día de la clasificación del producto sujeto al beneficio de exportación.

ARTICULO 11. Para efectos de la Ley y el presente Reglamento se consideran impuestos directos, los causados por importación, exportación, consumo y ventas contemplados en las Leyes del país.

CAPITULO III

MECANISMO FISCAL

DE LA CALIFICACION

ARTICULO 12. Podrán acogerse a los beneficios de la Ley, las empresas de exportación que exporten productos no tradicionales que tengan un valor agregado nacional conforme lo establecido en el Artículo sexto del presente Reglamento y cuyo volumen de exportaciones exceda el setenta y cinco por ciento (75%) del nivel base de exportación.

ARTICULO 13. Las empresas de exportación que cumplan los requisitos de la Ley y su Reglamento obtendrán un Certificado "CEFEX" de Categoría 1 o 2, según sea el caso servirán para el pago de impuestos indirectos y tendrán una validez de tres (3) años a partir de la fecha de su emisión.

ARTICULO 14. Para las exportaciones clasificadas en la Categoría 1, el CEFEX se otorgará por un monto equivalente al diez por ciento (10%) sobre el aumento del valor FOB originado en el incremento del volumen de exportación, y para las exportaciones clasificadas en la Categoría 2, el CEFEX se otorgará por un quince por ciento (15%) sobre el aumento del valor FOB originado en el incremento del volumen de exportaciones.

Los porcentajes a quese refiere el párrafo anterior se aplicarán al volumen de exportaciones que exceda el año base de

exportación y que el incremento exceda del (75%) setenta y cinco por ciento.

ARTICULO 15. El Certificado "CEFEX" se autoricará a las empresas de exportación que lo soliciten y por producto no tradicional exportado que se elabore total o parcialmente en el país y sea elegible por la Comisión de Fomento a las Exportaciones.

ARTICULO 16. El CEFEX podrá ser solicitado por una empresa de exportación, aún en el caso de que el producto a ser exportado, no haya sido producido por el solicitante, siempre y cuando reuna los requisitos establecidos en la Ley y el presente Reglamento.

ARTICULO 17. Tendrán derecho al CEFEX los productos no tradicionales de exportación destinados a países del Itsmo Centroamericano unicamente en el caso que se compruebe que alguno de estos países otorga incentivos similares a sus exportaciones destinadas hacia Honduras.

DEL PROCEDIMIENTO

ARTICULO 18. Para obtener la calificación y clasificación de los productos y gozar de los beneficios contemplados en el la Ley, los interesados deberán presentar ante la Secretaría de Economía y Comercio, una solicitud en papel sellado de primera clase en original y dos copias, acompañada de los formularios debidamente llenados que al efecto emitirá la Dirección General de Comercio Exterior y que contendrá como mínimo la siguiente información:

a) Nombre y razón social de la empresa.
b) Descripción del producto y fracción arancelaria.
c) Un resumen del proceso de producción del producto sujeto a la exportación.

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d) Hoja de trabajo (desgloce) para sustentar la información de costos y gastos para el período de referencia contable.

e) Los componentes nacionales e importados a que se refiere el artículo 4 de este Reglamento;

f) Certificación del Banco Central donde se haga constar que el solicitante no tiene pendiente entrega de divisas atrazadas al momento de realizar su solicitud;

g) País o países de destino de las exportaciones; y

h) Incremento del valor FOB originado por el aumento del volumen exportado.

ARTICULO 19. La solicitud se presentará a la Dirección General de Comercio Exterior, que será la Secretaría Técnica de la Comisión de Fomento a las Exportaciones (COFEX), la cual evaluará la solicitud y emitirá el informe respectivo, mismo que será presentado a dicha comisión para la emisión del dictamen correspondiente.

Si a la solicitud le faltare algún documento o requisito legal, después de recibida, la Secretaría Técnica se abstendrá de darle curso y dictará providencia para que el interesado subsane la omisión o defecto cometido en la misma, en el término de ocho (8) días hábiles, para su posterior trámite administrativo.

ARTICULO 20. Después de realizar los estudios y las investigaciones pertinentes, la Secretaría Técnica emitirá el informe correspondiente a más tardar dentro de los treinta (30) días hábiles de haber recibido la solicitud.

ARTICULO 21. Emitido el dictamen por la Comisión de Fomento a las Exportaciones (COFEX) la Secretaría de Economía y Comercio, dará traslado del expediente a la Secretaría de Hacienda y Crédito Público para que emita la Resolución y certificado respectivo.

ARTICULO 22. La resolución que emita la Secretaría de Hacienda y Crédito Público además de los requisitos establecidos en el Código de Procedimeintos Administrativos, deberá contener lo siguiente:

a) Categoría en que se ha clasificado el producto
b) Beneficio concedido del diez por ciento (10%) ó el quince por ciento (15%).
c) Descripción del producto exportado y la fracción arancelaria.
d) Valor FOB del producto.
e) Incremento del volumen exportado.

ARTICULO 23. Emitida la resolución se procederá a la emisión del Certificado de Fomento a las Exportaciones, el cual deberá contener como mínimo los datos siguientes:

a) Número de certificado nominativo
b) Fecha de expedición y vencimiento
c) Nombre del beneficiario
d) Número de carnet y registro de exportador.
e) MOnto en lempiras del certificado
f) Indicación deque el certificado está exento de impuestos.
g) Artículos y cantidad exportada.
h) Número y fecha de la Resolución.
i) Firma del Ministro de Hacienda y Crédito Público.

ARTICULO 24. Contra los autos y resoluciones cabran los recursos contenidos en el Código de Procedimientos Administrativos.

CAPITULO IV

MECANISMOS FINANCIEROS

ARTICULO 25. El Directorio del Banco Central de Honduras mediante resolución creará el Fondo para el Fomento de las Exportaciones de productos no Tradicionales. En el Reglamento del Fondo se especificaran las diferentes líneas de crédito que se crearán para las diferentes étapas de la exportación.

ARTICULO 26. El Directorio del Banco Central de Honduras mediante resolución establecerá un sistema ágil y expedito para facilitar la importación de insumos y bienes de capital requeridos para la producción de productos no tradicionales exportables, mecanismo a ser administrado por el Departamento - Regulador del Financiamiento Externo.

CAPITULO V

MECANISMOS PROMOCIONALES

ARTICULO 27. La Dirección General de Comercio Exterior tendrá a su cargo la planificación y ejecución de los mecanismos promocionales orientados a fomentar y facilitar el acceso de los productos no tradicionales a los mercados internacionales, desarrollando y ejecutando programas que permitan impulsar la producción nacional exportable.

El plan de trabajo sobre los mecanismos a que se refiere el párrafo anterior deberá ser presentado por la Dirección

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General de Comercio Exterior a mas tardar el 30 de septiembre de cada año y aprobado por la COFEX el 30 de noviembre del mismo año.

CAPITULO VI

DE LA COMISION DE FOMENTO A LAS EXPORTACIONES

ARTICULO 28. La Comisión (COFEX) tendrá, entre otras, las siguientes atribuciones:

a) Solicitar las investigaciones y estudios que requieran los planes de trabajo o proyectos tendientes a fortalecer y desarrollar las exportaciones no tradicionales.

b) Recomendar las medidas que sean necesarias para mantener en el mercado internacional, aquellos productos no tradicionaels que tengan una influencia significativa en la economía nacional.

c) Proponer aquellas reformas legales para mejorar la aplicación de la Ley o la derogación de disposiciones legales y reglamentarias, que sean un obstáculo para la misma y restrinjan o retengan el libre acceso a los productos no tradicionales a los mercados internacionales.

d) Modificación de las listas de excepciones.

e) Modificiación del nivel base de exportación.

f) Resolver los conflictos que se susciten en la aplicación o interpretación de las disposiciones de la Ley y el Reglamento.

g) Solicitar el asesoramiento de otras dependencias administrativas y organismos internacionales para el mejor cumplimiento de sus fines.

h) [illegible] de trabajo [illegible] de la Secretaría Técnica.

ARTICULO 29. Los miembros de la Comisión serán acreditados ante la Secretaría de Economía y Comercio, por los respectivos organismos que representen y serán nombrados mediante Acuerdo del Poder Ejecutivo.

ARTICULO 30. A las sesiones de la Comisión solo asistirán los miembros propietarios; los suplentes asistirán cuando el titular no pueda hacerlo por causa justificada.

Las decisiones de la Comisión se tomarán por simple mayoría de votos. En caso de empate el Presidente tendrá voto de calidad.

ARTICULO 31. La Comisión se reunirá cuantas veces la Secretaría Técnica lo considere conveniente, previa convocatoria de la misma.

Para celebrar la sesión se requiere la presencia de por lo menos tres (3) de los miembros de la Comisión.

ARTICULO 32. La Comisión podrá convocar a los representantes de cualquier otra Institución o sectores que considere conveniente para un efectivo cumplimiento de sus funciones, con derecho a voz pero sin voto.

ARTICULO 33. Los miembros propietarios o suplentes que dejen de pertenecer o de prestar sus servicios a la Institución que representen, pierden su calidad de miembro, debiendo proponerse o nombrarse el correspondiente sustituto para que complete el período correspondiente.

DE LA SECRETARIA TECNICA

ARTICULO 34. Corresponde a la Secretaría Técnica:

a) Preparar los informes de las solicitudes que presenten las empresas de exportación que deberá conocer la Comisión de Incentivos a las Exportaciones (CONIEX).

b) Convocar a las sesiones a los miembros de la Comisión

c) Preparar la agenda respectiva.

d) Levantar el Acta de las Sesiones celebradas que deberán ser firmadas por el Presidente y el Secretario.

e) Llevar el Registrode exportadores.

f) Preparar el Plan de Trabajo y los proyectos específicos.

g) Realizar los estudios e investigaciones que le solicite la Comisión.

h) Las demás que sean necesarias para el cumplimiento de la Ley y del presente Reglamento.

CAPITULO VII

DE LAS OBLIGACIONES SANCIONES

ARTICULO 35. Las empresas de Exportación que se acojan a los beneficios otorgados por la Ley y este Reglamento deberán cumplir con las siguientes obligaciones:

a) Presentar los estados financieros y demás documentación solicitados por la Dirección General de Comercio Exterior de la Secretaría de Economía y Comercio, los que estarán sujetos a inspección de parte de la misma.

b) Proporcionar a las autoridades competentes; los informes que se le soliciten sobre el uso, valor, volumen y precios de los productos que se exporten al amparo de la ley, así como permitir las comprobaciones, cuando se estime conveniente.

c) Proporcionar o prestar gratuitamente al organismo oficial correspondiente muestras de artículos para ser exhibidos en los eventos internacionales en que participa el país.

d) Cumplir con las demás obligaciones y condiciones que se señalen en la Resolución de concesión de incentivos, de conformidad con lo que disponga la Ley y el presente Reglamento.

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DE LAS SANCIONES

ARTICULO 36. Si el beneficiario faltare al cumplimiento de sus obligaciones derivadas de la Ley y del presente Reglamento, usare indebidamente los beneficios que le corresponden conforme a los términos que se prescriben en los mismos, el Gobierno de la República a través de la Secretaría de Economía y Comercio podrá imponer las sanciones correspondientes, previa concesión de un plazo no menor de treinta (30) días al presunto infractor para presentar sus descargos.

ARTICULO 37. La empresa de exportación se sancionará con suspensión permanente en los casos siguientes:

a) Consignar datos falsos o adulterados, así como información inexacta en los formularios presentados a la Dirección General de Comercio Exterior, para obtener el Certificado.

Si el beneficio ha sido otorgado, la empresa de exportación deberá reintegrar al Fisco el valor total del beneficio recibido; así como el certificado para su anulación por la Secretaría de Hacienda y Crédito Público.

Con suspensión temporal del carnet de exportador, hasta por el término de seis (6) meses en los casos siguientes:

a) Exportar productos diferentes a los indicados en la Resolución.
b) Impedir a la Aut. competente la inspección y fiscalización de los estados financieros de la empresa.

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c) En los demás casos que resulten de la ley y del presente Reglamento.

Con una sanción pecunaria en los casos siguientes:

a) Exportar productos con diferente calidad según el contrato respectivo y la información presentada en la declaración jurada.

b) Cuando se acuse la imposibilidad de producción total por la empresa productora declarada en la Resolución y el Certificado respectivo.

En los casos de los incisos a) y b), se sancionará con una multa de devolución del cincuenta (50) por ciento del valor del Certificado otorgado al producto y si fuere grave o de reincidencia la devolución será el cien (100) por ciento del beneficio.

CAPITULO VIII

DISPOSICIONES FINALES

ARTICULO 38. Los productos beneficiados que posteriormente a la aprobación del presente Reglamento se agreguen a la lista de excepciones, gozaran de los beneficios de la Ley por un año adicional que se contará a partir de la fecha en que la Secretaría de Economía y Comercio emita el acuerdo de inclusión respectivo.

ARTICULO 39. Cuando existan contratos de compraventa entre un exportador hondureño y un importador extranjero mediante contratos a futuro y el producto fuera incluido en la lista de excepciones, se aplicarán los mismos términos establecidos en el artículo anterior.

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ARTICULO 40. El presente Reglamento entrará en vigencia a partir de la fecha de su publicación en el Diario Oficial la Gaceta.

Dado en la ciudad de Tegucigalpa, Distrito Central a los _____ de _____ de mil novecientos ochenta y cuatro.

A N E X O No. 1

NAUCA	D E S C R I P C I O N
011-01-01	Banano en fruta
071-01-03	Café en grano sin tostar
011-01-03	Carne de ganado vacuno, refrigerada o congelada no procesada.
Grupo 241	Madera en trozas o simplemente cortada
Grupo 243	Madera aserrada, machimbrada, etc.
Grupo 263	Algodón desmotado en rama
Grupo 061	Azúcar de remolacha y de caña sin refinar
121-01-01	Tabaco en rama sin elaborar, incluso desperdicios
001-01-02	Ganado vacuno en pie de raza ordinaria
211-01-01	Pieles y cueros (excepto pieles finas) sin curtir (incluso desperdicios de cueros curtidos)
121-01-01	Camarones y langostas excepto, los cultivados
281-01-01	Minerales de metales comunes no ferrosos y sus concentrados
284-01-01	Chatarra y limaduras de metales comunes no ferrosos
Grupo 285	Concentrados de plata
999-97-02	Minerales de oro y oro refinado en formas manufacturadas, en pepitas, planchas, láminas, alambre, polvo, etc, incluso las limaduras de chatarra de oro (excepto oro para dentistas)
Grupo 313	Productos derivados del petróleo

[illegible] SOLICITUD DE INCENTIVO FISCAL

(Decreto 224-82 - Ley de Fomento a las Exportaciones)

Producto	Unidad Comercial	Precio FOB

Componentes Nacionales e Importados por Unidad Comercial

Producto	Nacional		Importado	
Partida	Cantidad	Valor Lps.	Cantidad	Valor Lps.
Materias Primas				
Mano de Obra Directa				
[illegible]				
Mano de Obra Indirecta				

Gastos Generales y Administrativos

Gastos de Distribución y Venta

Gastos Financieros

Gastos

Utilidad o Pérdida Neta

Total

Monto Consumos Nacionales | Monto Consumos Importados | Valor Agregado Nacional

Porcentaje de Valor Agregado | Observaciones | Utilidad Acumulada Período

Best Available Document

III. SPECIFIC PRODUCT EXPORT MANAGEMENT COMPANIES (SPECO's)

A. What Is a SPECO?

The SPECO will be owned by a grouping of "product specific" Honduran manufacturers. The SPECO will act as the export department of the individual firms. (Note: the SPECO model is structured similar to Mexico's Export Consortiums which are owned by groupings of manufacturers (foreign-owned or Mexican). The lesson learned from the consortiums was that the manufacturers must make a commitment to the export market and not merely export their surplus inventory. This commitment became crucial in mid-1983, when Mexico's recession deepened.)

A SPECO, depending on the preference of a particular firm, can act either as the "Exporter of Record," or simply as a "Commission Sales Agent" for the manufacturer. As "Exporter of Record" the SPECO becomes the fiduciary agent for the export transaction, pays the manufacturer on an FOB/plant basis and takes the commercial risk for the transaction. The manufacturer should appropriately indemnify the SPECO for any and all product liability.

Alternatively, the SPECO acts simply as a "Commission Sales Agent" for the manufacturer by expediting the export transaction. Under this approach, the manufacturer takes the entire commercial risk.

The services of a SPECO to a participating firm may include some of the following:

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1. Joint Planning

With the manufacturer, plan a joint export sales strategy, which includes:

- o Market identification
- o Identifying competition
- o Defining sales objectives
- o Determining comparative advantage of manufacturer's products
- o Estimating a realistic time frame needed to achieve the sales objectives defined

2. Sales Promotion

- o Appointment of sales representatives (agents/distributors)
- o Advertising in foreign publications, if appropriate
- o Travel on behalf of manufacturer
- o Mailing of catalogs and promotional materials to prospective customers
- o Organizing specialized trade exhibits, e.g., the Dallas Apparel Mart, the High Point (North Carolina) Furniture Market, specialized food product shows, etc.
- o Making firm commitments on behalf of member companies

3. Book Orders

- o Checking customer references
- o Determining and arranging method of participants
- o Processing orders to companies, including full instructions for handling and packaging for export

- Providing company with technical assistance and/or financial advice to assure delivery of product
- Proper quality assurance and inspection of product prior to shipment
- Coordination of customer's inspection and approval prior to shipment from plant
- Agreement with buyer prior to processing of an order the type of arbitration to be used in the event of product acceptance dispute

4. Coordinate Shipping and Logistics
   - Booking space on ocean going vessel, airlines etc.
   - Clearing shipment with necessary customs, port authority and other governmental entities
   - Contacting forwarding agent to process all necessary documentation
   - Handling all paperwork regarding collection and payment from client

5. Pay or Process Payment to Manufacturer
6. Quality Control Advice and Assistance
7. Product Design and Standardization Advice and Assistance
8. Processing all Quotes
9. Staffing
10. Licensing

(Note): Items 5, 6 and 7 are product-specific know-how and assistance that could be provided by FIDE upon request of a SPECO with the assistance of AID.

B. Requirements of a SPECO

The success of a SPECO depends on its ability to satisfy on a sustained basis three constituencies:

1. Foreign Buyers

The SPECO must serve the foreign buyers by fulfilling their needs and expectations, thereby gaining and holding the customer's respect and loyalty. The SPECO will need to:

- Offer merchandise of true value to the buyer.
- Support the sale with appropriate levels of service/quality and other support activity to the customer.
- Achieve a preeminent competitive position in each market served.

2. Suppliers

The SPECO must become the most suitable, most efficient vehicle for Honduras' specialized product producers to enter foreign markets on a systematic, planned and sustained basis. The SPECO will develop with the manufacturers a united commitment to the "customer" objective mentioned above.

3. Employees

The SPECO must foster initiative and creativity of all its personnel, allowing the individual employee freedom of action in attaining well defined objectives.

C. Operational Philosophy: Sales

The overriding philosophy of a SPECO is one which emphasizes a high degree of professionalism with a total dedication and commitment to sales.

To achieve an ever-increasing sales performance, the SPECO must be able to communicate to his customer(s) his commitment to a long term sustained effort to supply the export market with a quality product, dependable timely service, and competitive pricing.

D. What Does a SPECO Expect of a Manufacturer?

The manufacturer must be clear about his objectives when entering into a relationship with a SPECO. The firm must be prepared to meet the export market's requirements. Some of these requirements from the perspective of the SPECO are:

1. Solvency: Is the manufacturer financially solvent?

2. Commitment: Is the manufacturer clearly committed to exporting and to absorbing the expenses and time required to enter the export market by:

   - o preparation of catalogs
   - o preparation of samples
   - o participation in trade exhibits

3. Personnel Capability: Does the manufacturer have the personnel (a coordinator) to back-up the SPECO on a day-to-day basis?

4. Credit: What payment terms will the manufacturer extend to the SPECO?

5. Other Questions: Does the manufacturer have the quality and quantity of product needed by the export market?

E. Rationale for Alignment of Specialized Product Export Management Companies (SPECO's)

1. Homogeneous Nature of Markets

Homogeneous character of:

- o Specification and grading
- o Transportation and packaging
- o Sales technique
- o Market and market trends
- o Personality type of buyers
- o Financing and sales terms
- o Distribution systems

2. Unified Criteria: Producers/Traders

The SPECO and its manager will be totally committed to maximizing the export sales of its participating firms. The manufacturer would be committed to satisfying not the SPECO but his own client through the SPECO. The SPECO merely serves as the conduit to the international market place.

3. Acquisition of Foreign Distributor

The SPECO's, may in time, justify an offshore office. More importantly, the SPECO may be justified in acquiring a controlling interest or joint participation with an established import distributer in a given market. The individual firms may through the SPECO share in the ownership of this offshore unit. (Such a mechanism has been used extensively by Colombian coffee producers in effecting greater penetration in foreign markets.)

4. Pooling of Production

Honduras' individual producers are not now capable of handling large volume requirements of industrial buyers. The necessary volumes to enter the U.S. or European markets will be created by the SPECO's pooling like production from more than one manufacturer within his SPECO. This is the case, in many instances, where the Japanese and Taiwanese trading firms pool production from competing manufacturers.

F. Required USAID Assistance

To establish these SPECO's USAID should take the following steps:

Provide funding in the proposed Export Development Project for a feasibility study to provide a specific design for the SPECO's. Such a study would cover:

- priorities for organizing SPECO's for special product groups
- financing arrangements, including equity participants
- organizational structure and management requirements for SPECO's
- staffing requirements and recruitment priorities
- potential incentives to encourage producers to join SPECO's such as Central Bank regulations allowing "fast-track" approval of export-related imports permits and foreign exchange for SPECO imports.

Subject to the results of the feasibility study, USAID, through FIDE or FEPROEXAH should consider providing up to half of the first year's operating budget of priority SPECO's. These grants could be provided using Operational Program Grant (OPG) procedures.

3. The counterpart organization contracted to assist FIDE and FEPROEXAH should provide a long-term advisor to assist in the formation of SPECO's and such short-term technical consult nts as may be needed to provide product-specific production or marketing assistance.

G. SPECO Strategy

1. Base Product

The key requirement for the success of the SPECO's is the correct choice of base product. This conclusion is based on the experience of trading companies observed in Mexico, the U.S., Brazil, Spain and Israel.

The SPECO should make every effort to prioritize its export effort around a major base product that will permit the SPECO to "shake down" its organization: With one product flowing successfully into the export market and a positive cash flow in place, the SPECO should then begin planning for a second major product sub-grouping.

2. Personnel

The key to the success of an export management/ trade company is its people. Critical to sustained and expanded sales of a SPECO is the skill of the SPECO's chief officer (buyer/seller/trader/ financer/entrepreneur). This individudal must develop a relationship with given foreign buyers and the Honduran manufacturers on the basis of the value provided by his services.

The leader (CEO) of the SPECO will either be acquired or developed by the trading company. Candidates for SPECO leadership positions may come from participating Honduran or foreign companies. In either case, the acquisition or development of skillful entrepreneurial leaders will be a gradual and difficult challenge.

Structuring the inducements needed to attract such seasoned entrepreneurial leadership will be a major task of FIDE and FEPROEXAH.

Note: Philipp Brothers, the trading arm of Phibro/Salomon, known as the world's largest and most diversified marketer of raw materials, places "the real strength of the firm in the depth of its individual traders." This strength is coupled with Phibro's belief that once a trader has learned how to trade a given commodity, he can master another with relative ease. ("Inside Philipp Brothers, a $9.0 Billion Super Trader," Business Week, 9/31/79, p. 108).

3. Banking

A key focus of the SPECO is to structure its financial relationships in such a way as to permit the SPECO to become the bridge into the foreign market for the Honduran manufacturers who buy in to the SPECO's.

A mechanism for building up the equity structure of the SPECO to withstand the rigors of commercial life is required. Possible equity investors are: Honduran manufacturers, local banks, foreign trading companies, and FIDE or FEPROEXAH. Since the SPECO's are in effect new export trading companies, it will take time for them to establish their track record and credit relationships with commercial banks. A separate study is indicated to determine the most appropriate financial structure for SPECOs.

(Note: The complexity of developing these structures argues for a careful go-slow approach to avoid precipitous actions. The choice of CEOs for the SPECO's is a major step as they will also need extensive financial experience in addition to trading/entrepreneural backgrounds.)

4. Foreign Trading Companies

The SPECO can accelerate its development by linking up with a specific foreign trading company for the marketing of a specific product. A special effort most be made to avoid giving exclusive distribution authority to foreign trading companies for more than one product at a time.

Additionally, foreign trading companies may be a source of personnel for the SPECO CEO slots.

5. Currently Established Honduran Exporters

A currently successful Honduran exporter may be an ideal candidate for converting its export department into a product-specific SPECO. It would qualify as a SPECO if joined by other legally unrelated manufacturers of the same product category.

[illegible] in cocoa production in Honduras

1. On Friday, June 15, 1984, representatives of the Post-Harvest Institute for Perishables (PIP) met with Glen Trout and B.K. Matlick of the Agricultural Division of Hershey. The purpose of the visit was to determine their interest in cocoa production in Honduras following Trout's visit to Honduras. PIP, with funds provided by the Mission funded the air travel and per diem costs of Trout's visit; no consulting fee was charged.

2. Hershey's interest in Honduran raised several questions. Why was Hershey interested in Honduran cocoa? What was the current source of supply for Hershey? What were they doing in other parts of the world? How did they see themselves participating, if at all, in an AID supported project in Honduras?

3. It was made clear early in the discussion that Hershey views itself as a food processor and is not interested in production of basic materials. Examples were cited to support this statement: milk is purchased from independent producers; almonds were produced at one time by the company in California but this successful operation was sold; cacoa is purchased by company buyers from brokers. Their own production and direct purchases of cocoa are noteworthy because they are exceptions to the rule and represent a very small part of the total volume.

4. Their facility in Belize and reported activities in Haiti, the Dominican Republic, and the interest in Honduras seemed to be counter to this policy. The explanation was that company management had agreed to finance a small operation designed to examine the long term supply situation in cocoa given recent production changes in Africa. The company was willing to make some relatively small forays into cocoa production as a means of improving the technology and productivity to assure a continuing supply of cocoa beans. What they learn in their facility in Belize they want to share with anyone.

5. The reported results of their work in Belize are impressive. From a average yield of 200 lbs. per acre (which they consider average) they report yields of 2,000 lbs. per acre. The yield increase is a result of improved cultural practices; better pruning, fertilization, pest control, etc. The planting material is the same used through Central America (maybe broader). While they are confident of their experience they stressed that application in specific sites still requires a period of adaptation.

6. Maklick and Trout stress that the technology they are applying (taken from existing publications), and are continuing to refine, will, in their opinion, determine world market shares in the future. The improved management, high input system permits the higher yield. This means, in their technology will

be the survivors. Non-adaptors will not be able to compete with the more efficient, lower unit cost producers. The technology, developed independently, is already being applied in Malasia with impressive results in acreage expansion and yields.

7. Based on these promising results they are now looking for means to transfer this technology to other countries. Their first consideration, multinationals, proved fuitless. They were not interested. United Fruit Company did produce cocoa at one time but they retired from that product. They have now decided to offer their services to participate in specific projects in countries where the economic and agronomic conditions are suitable for the technology. They have been active in a small way in Haiti for about two years and recently signed an agreement with the Panamerican Development Foundation, VITA, and the AID Mission in Belize to establish a project in conjunction with their own plantation.

8. Based on their experience in Haiti, Belize and the Dominican Republic (where an earlier non-project approach was tried) the model they are currently working with is the following: they will be the technical advisors coupled with a foundation, firm, or local organization to work through a cocoa commodity associations with individual farmers. They were emphatic that they do not have the technical experience nor the time to act as organizational development specialists. They will provide a full array of technical services (on a short-term basis) from production to processing. They will provide training in the field and at their facility in Belize to participating farmers and field personnel. They will also stand ready with offers to buy cocoa from producers receiving teechnical assistance but they wmphasized that they do not want to be the exclusive buyer. They will make an offer which the farmers are free to reject.

9. I shifted the discussion to the specific case of Honduras. They view Honduras as a promising supplier of cocoa expanded well beyond the few acres now dedicated to this crop. The proximity to Belize is part of the reason, I believe, for theirenthusiasm. The agronomic conditions are suitable and their visits to production areas confirm their opinion. They were veryimpressed with the efforts of one producer. They are also very interested in applying improved techniques to the several hectares recently planted under World Bank support as they believe that the right program can lead to very quick results.

As in Haiti and Belize, they would want to be the technical advisors working with an organizational group with the cocoa association. They strated that an initial effort (two years) should be programmed to begin the project in adapting the technology and working with various growers in the association. When I pressed them for the cost of the service they agreed that they could provide approximately 300 days a year for two years (approximately 10-12 trips

per year) for travel and per diem costs. No charges will be made for consultants' time. After this two-year period they would have to sit down with AID and assess and renegotiate further involvement. The same travel and per diem costs for training of Hondurans in Belize would also have to be provided by the project. I told them I would report htis to the Mission.

9. Glen Trout identified what could be a major marketing problem for the project during his last visit. He observed a transaction between a grower and buyer where the cocoa appeared to have excessive moisture content. The price was approximately $1.00 a pound, equal to the current New York price. The destination of the cocoa was El Salvador. One can speculate that the transaction was motivated by a desire to convert Salvadorean currency into dollars. The problem for the project is that if buyers from Salvador are willing to pay hihger than market prices for cocoa (discounting their currency) then the producer has less of an innentive to produce a quality product to meet the international price.

10. PIP's assessment is that the Hershey propossal is sound and the Mission should make every effort to draw them into the project. They are offering a full range of services from production to processing the marketing at a very cheap price. The training facility is very close and also cheap. The two-year pilot program they propose (working in part on rehabilitation of young plantings) is enough time to assess the financial and economic feasibility of the technology without committing the Mission to an expensive long term technical assistance agreement.

BANCO HONDUREÑO DEL CAFE

TEGUCIGALPA, D.C., HONDURAS, C.A.

BANHCAFE CBG-35/84

July 10, 1984

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Mr. Anthony J. Cauterucci
Director, USAID/Honduras
AMERICAN EMBASSY
Tegucigalpa, D. C.

Dear Mr. Cauterucci :

In reference to the Export Development and Services project now being planned between AID and Honduras, I have discussed with members of -- your staff the planned activities to increase exports of cocoa, citrus fruits, and vegetables. On the basis of those discussions, I am pleased to advise you that BANHCAFE intends to provide long term supervised - loans to producers of cocoa and citrus fruits under the project. Our major aim in such a participation would basically be to offer diversi fication options to the coffee producers of Honduras.

A member of our technical staff and another from IHCAFE have been sent by BANHCAFE, S. A., to the Federación de Cafeteros de Colombia to - - study the citrus fruits program it is implementing in that country.

We are also willing to provide financial assistance to growers of vege tables for export as long as the technical assistance provided through the project is effective in making appropiate marketing arrangements - and providing technical support to the growers.

On behalf of BANHCAFE, I wish to thank you and your staff for the inte rest you have shown in favor of Honduras export sector. We are looking forward to a continued productive relationship with you and FEPROEXAH- in the implementation of this project.

Sincerely,

ROGER MARTIN NEDA
General Manager

APARTADO POSTAL No. 963 TELEX No. 1276 BANHCAFE HT. TELEFONOS 22-4210 22-4211

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Banco de Occidente, S. A.
TEGUCIGALPA, D. C., HONDURAS, C. A.
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Tegucigalpa, D.C., 13 de julio de 1984

Señor
ANTHONY CAUTERUCCI
Director
A.I.D.
Su Despacho

Muy estimado señor Cauterucci:

Hace unos tres días recibimos la visita del señor Felipe Monteiga, de la señora Mary Likar y del señor Boquín, los dos primeros del A.I.D. y el último en representación de la Asociación de Productores Agrícolas para Exportación.

El motivo de su visita era tratarnos sobre la posibilidad de que nuestro Banco participara como intermediario en la concesión de créditos, con una línea de financiamiento que A.I.D. pondría a la disposición de nuestro país, para cultivos no tradicionales dirigidos a la exportación, así como el financiamiento de Agro Industrias.

Nos hablaron especialmente sobre el interés que hay ya de invertir en la siembra, procesamiento y exportación de cítricos y de cacao.

Por medio de la presente deseamos informarles que nuestro Banco con mucho gusto participaría como intermediario para utilizar este crédito y ayudar, en esa forma, al desarrollo de nuevos cultivos y, si posible, a desarrollar nuevas agro industrias.

Le expliqué al Sr. Monteiga que siendo el crédito agrícola bastante arriesgado y de algo costo por su supervisión, sin la cual, se aumenta el riesgo de una mala utilización de los fondos, nuestro Banco desearía participar con un diferencial de 7 a 8 puntos porcentuales en la concesión de los créditos. Trataré de explicarle:

Como ejemplo: Si a nosotros se nos permitiera dar los créditos de estos fondos al 16% de interés anual, entonces nos gustaría recibir el préstamo pagando nosotros del 8 al 9% de interés anual.

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Banco de Occidente, S. A.
TEGUCIGALPA, D. C., HONDURAS, C. A.
APARTADO POSTAL 177-C
TELEFONOS: 22-3849, 22-5611, 22-9730, 22-0432, 22-2211

.../2
Sr. Anthony Cauterucci
A.I.D.
13 de julio de 1984

El Banco de Occidente correría con todos los riesgos en cuanto a falta de pago de los préstamos que concedería y por éso consideramos que con un diferencial de esa magnitud, parte del mismo puede tomarse como una prima para autoseguro en caso de mora, con la cual haríamos una reserva para créditos de dudoso recaudo que nos ayudaría a soportar cualesquiera pérdidas que tuviéramos por falta de pago de algunos de los créditos.

Naturalmente, nuestro Banco se reservaría el derecho de exigir para cada préstamo la garantía que considerase adecuada, garantías que podrían ser fiduciarias, es decir, personales, hasta garantías hipotecarias.

Lo que sí queremos manifestarle es que nosotros participaríamos en este proyecto con el ánimo de hacer uso intensivo de esos recursos para el desarrollo de la producción agrícola no tradicional dirigida principalmente a la exportación.

Aprovecho la oportunidad para saludarlo y manifestarle, de nuevo que a nuestro Banco le gustaría mucho participar en un proyecto de esta clase.

De usted, su amigo y servidor,

JORGE BUESO ARIAS
Gerente General

JBA:MAY

cc: File

Banco de los Trabajadores

Tegucigalpa, D. C. Honduras, C. A.

25 de julio de 1984

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USAID/HONDURAS
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C&R UNIT

Señor Antonio Cauterucci
Director Agencia para el
Desarrollo Internacional
Embajada de los Estados Unidos de América
Tegucigalpa, D.C.

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Muy estimado señor Cauterucci :

Deseamos hacer de su conocimiento que, en ejercicio ampliado de la filosofía que informa la creación de este Banco, nuestra Junta Directiva ha emitido instrucciones precisas para que la Administración Superior del mismo proceda a la creación y operación de un Departamento de Promoción y Financiamiento Agrícola, el cual estará bajo la dirección del Licenciado Gustavo A. Zelaya Chávez, Economista Agrícola recientemente egresado de Cornell University, y quien tiene ya avanzada la planificación correspondiente.

Nosotros sabemos que la Agencia para el Desarrollo Internacional, que usted acertadamente dirige, tiene sumo interés en canalizar recursos para fomento de la actividad agropecuaria en nuestro país, utilizando la banca privada hondureña. Nosotros estamos en posición de ofrecer a usted los servicios de este Banco para la ejecución de esas ideas y mucho nos gustaría discutir personalmente con usted aspectos concretos del tema.

Por lo expuesto, muy atentamente nos permitimos solicitarle una entrevista, en la fecha que usted tenga a bien señalar, para el propósito mencionado.

Sin otro particular y agradeciéndole su atención a la presente, nos es grato suscribirnos de usted, cordialmente.

ROLANDO DEL CID V.
Presidente

BANCO DE LOS TRABAJADORES
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Honduras

mmh.

C. D. C.

CITRUS DEVELOPMENT CORPORATION DE C. A.
HONDURAS

Julio 19, 1984

Dr. Felipe Manteiga
Oficinas A.I.D.
Embajada Americana
Tegucigalpa D.C., Honduras

Dear Felipe:

Thank you for your continued interest in our projects. As you requested, I am sending you a letter of our intentions and projects here in Honduras, with a few comments of my own included.

The principal development policies of our company were set up in accordance with the guidelines voiced by the Reagan Administration; e.g. establishing industries in the Caribean Basin area and assisting the host country in their economic development.

With the formation of Citrus Development Corporation of Central America, Inc., (C.D.C.) Griffin & Brand of McAllen, Inc., has taken this policy a step further.

C.D.C., in place of buying large land holdings and groves, are contracting with the local growers for the purchase of their production on a tonage basis. The purchasing price negotiated with the growers is almost twice as much as the price offered by other local companies. C.D.C. also offers technical assistance at a no cost expense to the growers. C.D.C. recognizes that if the citrus industry is to be successful in Honduras, technical techniques and standards must be established and that the grower must be motivated to take care of his groves by the prospect of profitability. Profitability can only be obtained when there is a readily available market which C.D.C. provides.

Our major operation is located in San Pedro Sula where we are refurbishing an abandoned processing plant that has been closed for the last eight years. The plant will be able to process 360 tons of fresh oranges per day. Future plans call for processing the orange oil, processing grapefruit sections and processing the waste peel for animal feed.

C.D.C. plans call for the planting of 20,000 manzanas of oranges in Honduras. C.D.C. will be participating with the private landowners in a 15 year joint venture project where C.D.C. will supply trees and materials and advance monies for the development of groves. Thereafter, C.D.C. will participate on a partnership basis in the production of the groves.

Also included in these projections is the establishment of two orange tree nurseries to supply the trees. We have contracted with the private sector for the establishment of 30 acres of nurseries of which we presently have 146,000 trees planted. Projected plantings is for 375,000 trees per nursery. All trees will be certified.

Km. 4, Carretera a Puerto Cortés — Apartado Postal 850 — San Pedro Sula, Honduras, C. A.
Teléfonos 52-67-54 52-67-55

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Also, we are currently installing in the Bajo Aguan area, a packing operation for grapefruit with the capacity of 1,600 boxes per hour. Because of the poor care and maintenance of the groves in that area over the previous years, production will be limited to approximately 90,000 boxes this season. However, with the proposed technical assistance, chemicals and fumigation machines that we are advancing to the Aguan area, we expect to see a 100% increase in production for the following year.

We have also increaded the size of the packing building as it would not a accomodate the machinery.

As you can see Felipe, C.D.C. is undertaking an agressive and wide ranged project in Honduras. All financing for these projects comes from the States and no financial credits are being requested.

During my short time here in Honduras, ti has become apparent that the most important development needed is a centralized, well organized infrastructure of technical assistance to the growers; e.g., assistance in chemical and fertilizer applications and uses, availability of machinery (and reasonable prices for that machinery), an extension service for soil, tissue and other annalysis and improved road systems for transportation. The dirt roads currently servicing the main production areas in Honduras could be improved 100% by simply maintaining them on a monthly basis with road graders.

All of these basic elements lead to a renewed interest in citrus production by facilitating the possibilities of profit, the basic element for motivating production.

Altough C.D.C. has had (and is still having) substancial problems with bureaucratic procedures in the establishment of it operations and importation of its equipment, we feel the potential for successful business relations in this country are tremendous.

Sincerely,

E. DERALD SMART, JR.
GENERAL MANAGER C.D.C.

Citrus Development Corporation of Central America

EDS/sdr

CC: FILE

1. Relationship of Research Foundation to Export Promotion Project

Research findings and ongoing research to improve varieties, cultivation practices, and methods are essential to the success of the Export Services Development Project. Ideally, an institutional structure to provide these requirements could be in place before a major ag. export promotion would be undertaken. Unfortunately, this is not the case. USAID/Honduras is simultaneously addressing both the research "infrastructure" problem through the Honduran Agricultural Research Foundation (522-0249) and the export agriculture problem (through this project), an essential strategy if Honduras is to exploit fully the CBI opportunity.

Simultaneous development requires a careful integration of both projects to ensure that:

1. Individual commodity systems are not promoted until an adequate knowledge base is available to assure reasonable prospects of profitable operation. This implies that some CS otherwise attractive will not be promoted until the necessary knowledge base is developed. The CS qualification process addresses this problem by establishing a formal procedure for consideration of all aspects of CS "Adequacy", including the knowledge base.

2. The research agenda of the Foundation is defined in light of practical prospects for successful export agriculture.

3. The growth and development of Foundation's programs staffing, and operations are planned and managed to emphasize activities supporting CS with significant prospects for easly profitable export operations.

4. The non-research activities of the Export Services Development Project tracks the same priorities as research activities, for example:

    a) TA and training programs should be developed first for QCS and soon to be qualified CS.

    b) The information system development process is managed to provide as much technical information as possible for QCS as soon as possible leaving support of other CS for future development.

    c) Grower Association development and support service operations will allocate more resources to operations affecting QCS and near QCS than operations benefiting CS unlikely to be qualified in the immediate future.

A prioritized CS list should be incorporated in the development of the Foundation research agenda and institutional development plan. However, it is recognized that it is the Board of the Foundation, not the design teams for the two projects which will make the final decisions on the Foundation's program. As the two projects follow somewhat different decision-making processes, the design teams for the two projects have consulted and have agreed to the following formulation:

The Foundation project establishes a permanent institutional infrastructure for research in Honduras. It is designed to do research and provide TA and training with heavy emphasis on activities supporting current and "near future" agricultural operations as distinguished from basic plant and soil science. As much, the relationship of the Foundation to export agriculture will be very close. The Foundation will be more like a U.S. University Experiment station than an international research center such as IRRI or CYMMIT.

Both the Foundation and Export Projects address NTEA. Both projects involve, albeit from different perspectives, research, technical assistance, training, and information services. The commodity systems of interest to the two projects are largely if not entirely the same.

While substantive areas of interest are essentially the same, the decision-making process and related institutional imperatives of the organizations involved are different and should be, given the purpose of the organizations and their supporting projects.

Project design teams for the two projects consulted in depth on these matters and reached the following conclusions:

1. It is expected that major export opportunities and major areas of research interest of the Foundation will coincide.

2. It is not institutionally appropriate to define a list of research priorities supportive of the Export Project at this time.

3. Close administrative and operational coordination of these two projects will assure direct, measurable benefits to Honduran farmers and their families, processors, shippers and traders/exporters within a short period of development. Without this serious attention to coordination and mutually agreeable assignments, confusion and needless duplication of resources might result a coordinating committee will be formed immediately upon project authorization.

4. The Export Project will define research needs of commodity systems under consideration and steps to initiate work on these systems under consideration and steps to initiate work on these problems. The Foundation will be the preferred source of research and technical assistance for the Export Project. The Export Project through its agricultural implementing agency, FEPROEXAH, will make every possible effort to raise the necessary funding and procure these services from EHIA.

5. Quality assurance support (i.e. soil analysis; plague control measures; fertilizer formulaes) is perceived as an inmediate area of complementarity between both projects.

The Mission believes that this approach provides a flexible but operationally sound approach to the management of the intricate relationships between the two projects. The following chart identifies a number of these relationships and illustrates the necessity for careful integration of the two programs.

RELATIONSHIP OF EXPORT PROMOTION PROJECT TO FOUNDATION

Export Ag. System	Function	Foundation
Defines location of production	Soil, water, climate	Conducts research
Propagate, cultivate	Plant varieties	Develop, select varieties and lines, oversee propagation
Applies	Cultivation practices	Improve through research
Applies	Research findings	Develops
Generates	Research agenda	Executes
Support Services	Trouble-shooting production problems	Diagnostic and technical services
User	Processing facilities	
User	Storage	
User	Field equipment manufacture	
Generates production opportunities	Market development	Influences programs
User pays for performs & defines programs	Technical assistance Training	provides input to Provides input & performs
Enables production	Production financing	
Enables export	Export financing	
Support growers	Grower organization	Contact with growers
User charges help finance	Information System	Communications and outreach
Inform marketing process	Market intelligence	Input to decisions/operation
Inform production process	Technical information	Input to decision/operation
Qualify access to resources	Commodity System Analysis	Participate in analysis

NON-TRADITIONAL AGRICULTURAL EXPORT DEVELOPMENT (NTEA)

I. The approach to NTEA in Honduras has the following features:

1. The project concept is that of a market-driven and private sector implemented program.
2. The commodity system approach is used as an analytical methodology and a design structure. Each crop or crop group is viewed as having unique characteristics requiring specific analysis and implementation. Each CS is composed of numerous factors from adequate soil and water conditions to specific market requirements.
3. Resources are provided to initiate a process wherein private enterprise can access all factors needed for profitable operation within a CS.
4. Private sector management is rigorously required to acquire project resources at three operational levels:

    a. the commodity system
    b. the line operation
    c. the transaction

5. The commodity system level is the overall set of knowledge, skills, institutions, practices, and resources necessary for profitable production and marketing of a crop. CS support services such as technical assistance and training as well as constituency representation and investment promotion activities are managed by FEPROEXAH, the confederation of grower's associations.

6. The line operation is the chain of grower-processors-shipper-marketer which moves a flow of product from the consumer. In addition to management within each enterprise participating in this chain, a key managerial function is performed in coordinating the flow and assuring each participant knows the requirements of the market and meets them. This coordination function (which may be enforced by contract, rejection of non-complying product, or by direct management within a firm) is called the "channel captain" function. Project resources are not available to operations lacking the "channel captain" feature.

7. The transaction, for purposes of the project, is an individual contract or production marketing operation involving the use of financing and other services provided or facilitated by the project. Private sector resources must be at risk in any transaction using project resources. Risk limiting devices are contemplated by the project to induce bank participation. But all transaction financing must retain some element of risk to test the market's appraisal of the profitability of the operation.

8. Three commodity systems representing three categories of NTEA ~~are~~ selected for initial operations:

   Cacao - improve quality and expand production to 6000 tons.
   Citrus - expand production by 1200 hectares
   Vegetables- okra, onion, cucumber rotations in three locations.

9. This project involves the creation of open, efficient market-driven commodity systems for NTEA. This implies that many individuals and organizations must learn skills, knowledge, and behaviors which are either wholly new or not well understood. The very core of the project is technical assistance and traning. The TA/training (TA/T) system proposed is managed by FEPROEXAH which will contract with a number of institutions and individuals for TA/T services. The key figure in designing a program which will work is the Director or Program and Staff Development in FEPROEXAH. Under his overall coordination, training programs will be developed with El Zamorano and consultants for growers, technicians, FEPROEXAH and grower association personnel, bankers, and government officials. The technical assistance program will link sources of TA (including the Foundation, CATIE, U.S. University, and consultants) to crop specialists in FERPEOXAH who in turn support field technicians from the associations. "Channel Captains" will demand that TA advice is followed because markets will reject non-conforming produce. Banks will quickly weed out growers who fail to comply with TA advice from further consideration for credit. This program makes heavy technical demands on participants and builds in mechanisms to help assure that such demands are met by those seeking project resources. Wile this approach is rigorous the market would quickly filter out those who do not comply-and do so at higher cost. The NTEA market is a strict taskmaster. The project will assure that participants know the market's demands; know how to meet those demands; and have resources needed to meet those demands. But non-compliance is tantamount to commercial failure and waste of project resources and will be treated as such.

   A system of technical assistance and training is established based in and managed by FEPROEXAH. This system involves at least one technical specialist for each CS based and supported in FEPROEXAH (until transferred to the interested grower association). Each specialist is supported by two technicians. The specialist/technician team will form the core TA unit. The core teams will be supported by short-term experts and by a training staff and program which will train technicians (generally agronomos), growers, and others such as bankers and government officials. The Panamerican Agricultural School, among others, has agreed to participate in the treaining of technicians and agronomos.

10. Development of individual growers associations is promoted. Transfer of TA support functions from FEPROEXAH to the associations is contemplated so that ultimately FEPROEXAH will perform constituent representation, information, and investment promotion functions leaving technical leadership in the hands of the individual associations for their respective crops.

11. Close coordination between this project and the Honduran Foundation for Agricultural Research ("FHIA" or the Foundation) is viewed as essential.

12. FEPROEXAH funding is limited to five years with further support to be considered in light of emergent conditions and institutional performance. A requirement of self-financing by FEPROEXAH is not recommended. However, significant contributions to its budget through user charges and various other charges and fees should be required.

13. Adequate project support and evaluation at the USAID level will be essential for effective project implementation.

14. The project initiates a dynamic and unpredictable institutional and system growth process. A high degree of flexibility in activities and supporting funding is deemed essential in keeping with the principal of a market "as expressed through private enterprise activity should determine the ebb and flow of project activity. The project should act as a vehicle for directing support to commodity systems within which market-oriented private enterprise operates. In principal, the project should not direct the flow of private activity. While this principal is impossible to be followed in all cases at all times (and especially at the outset since the program must arbitrarily, albeit rationally, start somewhere) development over time should follow rather than lead open market activity.

COMMODITY SYSTEM DEVELOPMENT

This project is based on a commodity system (CS) approach to export agriculture development. The "commodity system" is the entirety of the knowledge, goods, and services involved in growing a crop and moving it to its ultimate consumers.

The commodity system approach recognizes that each crop is not only biologically unique, but also has many unique characteristics in production, post-harvest handling, and marketing. Successful export agriculture requires that all component elements are in place to help the growers deliver the right quality produce to the right buyer at the right time.

A "Qualified Commodity System" (hereafter "QCS") is a CS which has been determined for purposes of this project to incorporate all factors required for effective grower-investor operations and therefore to be a suitable subject for investment promotion and use of the resources of this project. This positive list procedure is considered essential to keep project resources focused in areas of relatively high probability of cost-effective, profitable export operations.

The methodology for "qualifying" a commodity system for access to project resources involves the in-depth examination of current conditions of the CS; identification of problem areas; and the definition of a set of conditions which would reasonably assure growers, buyers, and investors of the institutional, technical, and operational base necessary for successful cultivating and marketing of the CS crop. When deficiencies exist, the CS analysis defines development activities to correct the CS defects.

This project provides resources to analyze commodity systems, identify CS problem areas, and address the problem areas identified. One "output" of the project in this sense is QCS's.

The Commodity Systems Approach concept incorporates an analytical methodology; a set of assumptions about how agricultural development takes place; and a managerial technique to guide planning and implementation.

The analytical methodology is that of the examination of each and every significant step and component of activity in cultivation and marketing of a given crop or set of crops. The set of assumptions in the CS approach is essentially that all significant factors can and should be identified and considered when attempting to promote development of crops; in short, the master assumption is that no significant assumptions are admissable.

In contrast to traditional approaches to agricultural development which focused attention on production problems and assumed that markets would absorb product on terms acceptable to all market participants, CS approach examines each link in the chain of elements necessary for profitable agriculture from preproduction agronomic and market research to final consumer acceptance.

The managerial technique follows from the analysis by identifying all real obstacles to successful cultivation and marketing and taking action to relieve the constraints identified. Once all significant constraints are relieved, the whole commodity system can be opened to broad-based participation. The crop becomes potentially profitable to a large number of participants: not only large operators with the capital and know-how to put together under a single management all the necessary elements for successful operations but also small operators whose capital and knowledge limitations necessitate that they obtain services in an open market. The objective is that of an "open system," not a "closed" organizational solution to an agricultural objective.

It is, of course, possible to conduct export agriculture by means other than the CS approach. Indeed, many developing countries have experienced the classic model of enclave agriculture where foreign companies invest heavily in "intensive agriculture" plantations and export only the product of those plantations to their distribution units overseas. Variations on the theme of commercial and technological exclusivity are common such as verticial integration of corporate agribusiness operations and a trading company exporting for a few large growers leaving others, particularly smaller growers effectively outside the export market.

While one or a few growers can indeed define a mechanism to assure successful marketing of their own products, the potential for wide participation in export markets can only be opened by the establishment of commodity systems of the type described in this paper. When the policy environment is right and the necessary services are available in the system the grower can concentrate on management of his own resources and use of his own expertise Thus, the CS approach facilitates entry into export markets and efficient exploitation by growers and investors of their comparative advantages in export agriculture.

Management to coordinate disparate independent units and activities in a CS is the crucial factor in NTEA. The importance of knowledgeable management in a commodity system is recognized and rigorously insisted upon at several levels. At the CS level, grower organizations (in this case, FEPROEXAH) perform a managerial role in promoting improvements in policy, facilities, and support services. At the line operating level, the project incorporates the "channel captain" concept to assure the existance of a managerial nexus in the complex firm to market chain. The "channel captain" assures that all participants in the operation know and comply with the strict requirements of the market (such as quality control) and the operational implications of those market requirements (such as rigorous cultivation practices). At the transaction level, the entrepeneur or manager performs the management role with an independent review by the bank which participates in the transaction risk.

Credit resources of the project are available only for use in qualified line operations within qualified commodity systems in which all participants are at risk.

Other commodity systems of interest besides the three addressed by project will be analyzed by competent experts (following generally the methodology used in this PP); constraints to effective agriculture exports identified; and subprojects developed to add these new CS to the program.

ii) What are the CS opportunities open to Honduras?

Some products have been identified as potential export crops but the most likely candidates for expansion are winter vegetables such as cucumbers, melons, onions, and snow peas; citrus fruits such as ruby red grapefruit and persina lime; cacao, annual fruits such as papaya and pineapple; tobacco, and fish. The most likely new commodity systems are tree crops such as mangoes, avocado, and macademia nuts; spices and aromatics, such as cardamon and allspice; and specialty crops such as cassava and plantain.

A number of technically interesting opportunities (such as green beans and egg plant) are currently denied entry to the United States for various reasons including the fact that USDA has not been asked to allow the import. (In the project development process, PIP initiated requests for import reviews by USDA for green beans, egg plant, and bell peppers). The possibility of future changes in USDA policy offers additional possibilities for export diversification.

iii) Criteria for Selection of CS for Development

The following criteria will be applied in selecting new CS for qualification for access to project resources:

1) Technical suitability for profitable cultivation and export operations.
2) Evidence of market interest in the product coupled with interest in production interest by Honduran and foreign growers and investors.
3) Employment generation
4) Feasibility of alternative markets for less than perfect produce (i.e. risk minimization).
5) Relatively low foreign exchange input requirements .

6) Other critical criteria such as weight to volume ratio or transportation costs significant marketing advantages, market window, CBI benefits versus other countries.

The profitability, interest, and significant employment generation criteria are dominant concerns and must be determined to exist for CS qualification. Alternative markets and low foreign exchange component and other secondary criteria may affect a qualification negatively if the primary criteria are met only marginally.

iv) Implementation of CS Development

FEPROEXAH will implement new CS qualification studies as appropriate and if necessary develop projects to support selected CS.

III. C. Project Activities

2. Commodity Systems Development in Honduras

The Commodity Systems approach developed in this project is based on Honduran experience it is not a theoritical model introduced without precedent. Rather the model builds on learnings from earlier successes and failures in NTEA.

Successful penetration of export markets will require a strategy that addresses each link in the production-marketing chain. In the developing world, successful agricultural production and marketing schemes in the international arena have historically been vertically integrated-- the entire production/processing/marketing chain under single ownership (agriculture enclaves). Successful operations in Honduras, prior to 1970 were operated in this manner under the ownership of large multi-national firms. These firms owned and operated, directly or through subsidiaries, land, transport systems, communications, and processing facilities, and employed the technical (including research), operational, and mangement staff to produce commodities for a specific profitable market.

Recognizing the profitability of selling in the U.S. market, other export attempts have been made over the years. Few successes survived and the failures can be attributed to the inattention or inability of individual entrepreneurs to address all links in the production-processing-marketing chain. Disease or inappropriate cultural practices resulted in produce that could not meet market standards; processing resulted in damaged or high percentage of rejects; transportation services were not available at the right time; produce arrived in the U.S. when competition from domestic or other foreign suppliers was intense; payment to growers was delayed or neglected. These and several other reasons made ventures into export operations highly risky and usually failures.

Beginning in early 1970's, a different model appeared. Initiated by one of the large multi-national firms but outside the corporate structure, an operation was set up to export melons (a non-traditional export) from private growers and cooperatives in the Choluteca area. Somewhat later, another operation was started in the Comayagua Valley to export cucumbers. Valuable lessons can be extracted from those experiences.

These two projects in Honduras, both approaching their ninth operational year, have succeeded where many others failed. Although both projects still have some shortcomings when critically analyzed, both are viable organizations. Projections indicate ever increasing plans for expansion and diversification with improvements in agronomic requirements, postharvest practices and marketing. The two projects, although of different design, had several almost identical features. The most noteworthy of these and the one that had more direct bearing on their successes, was a system of strong dedicated central management. Another very similar feature of both organizations was that they were totally open for participation from small and medium growers, cooperatives, private or agrarian reform units, idendependent agrarian reform farmers (asentados) and even a few large entrepreneurs. Both have small, highly qualified, carefully selected elite staffs.

The two projects are Fruta del Sol, now a producer/shipper cooperative located in Comayagua and PATSA, a five-party producer/shipper organization located at Choluteca.

PATSA, a subsidiary of United Brands Co. (UBCo.) initiated operations after a series of meetings with the Minister of Natural Resources, the Director of the National Agrarian Reform (INA), and the President of Banco Nacional de Fomento (now BANADESA). During this period, meetings were also held with producers and producer groups in the Choluteca area. PATSA had already undertaken agronomic reseach trials with SIATSA, now to become the research Foundation. Various areas in Honduras, including Choluteca, were tested for their suitability to produce some of the cucurbits, i.e., cantaloupe, honeydew and watermelon. Agreements reached in original four-party contract provided that the participants would be responsible for the following:

1. BANADESA	--	production financing (the only prerequisite for producers was a participation contract signed by PATSA)
2. MNR	--	supply of a limited amount of tractors (5), equipment and a cadre of selected agronomists (5)
3. INA	--	land in Choluteca for receiving/packing shed and construction of shed and outbuildings
4. PATSA	--	seed and other inputs (some chemicals, fertilizers, technical training (including MNR cadre of 5), purchasing, treating, classing, packing (packaging materials) over-land freight to Puerto Cortés, marine freight to U.S., sales and project management. PATSA also agreed to purchase all equipment/machinery required in receiving/packing shed.

The producer cooperative agreed through a separate contract (same used for obtaining production credit) to: (1) plant a specified number of hectares to cantaloupe, honeydew, or watermelon at a specified date, (2) follow agronomic practices, outlined in writing and supported by PATSA trained agronomists of the MNR and (3) deliver export grade produce to the packing shed. The majority of this producer group formed a producer cooperative, CREHSUL.

PATSA agreed to pay INA a rental for use of their well constructed PATSA designed packing shed. The annual rent was paid by transferring 20 percent of the packing shed equipment/machinery value per year. At 5 years the building and contents would be owned by INA. It was also agreed in original contract that INA, after the fifth year, would sell the building and contents to the producer cooperative at the fully depreciated value. PATSA's additional responsibilities were:

1. quality maintenance

    a. produce equal to USDA standards
    b. minimum sweetness (brix level)
    c. quality, cost, and availability of packaging materials
    d. postharvest practices-- proper container stacking, cooling, humidity and temperature
    e. training-- of all plant, infield and transport personnel-- quality control system
    f. control of ag chemicals used

2. management

a. staff and plant payrolls
b. accounting - cost - inventory controls - projections, budgets
c. communication system-- with staff, shed, markets, transporters, and GOH agencies participating
d. training-- mid-level management
e. informing GOH participating agency heads on a regular basis
f. personal relationships with producers
g. logistical planning/coordination
h. contracting/purchasing all inputs, transport (sea and land) producers, research
i. services, etc.

BANADESA collected over 88 percent of all production loans the first year plus some old loans made to agrarian cooperatives. Fruit accepted for export was paid for by PATSA every two weeks. During pay day period, BANADESA placed a man just next to PATSA's paymaster for collecting portions of production credit.

PATSA has grown from a meager 200 ha in 1976/77 to over 1,200 ha in 1983/84 season when some 95,000 boxes (slatted wood, 55 lbs per box) of cantaloupe, 58,000 crates (cardboard box - 30 lbs per box) of honeydew melons plus over 4,000 boxes of watermelon were exported to U.S. markets.

The melon project should expand to some 1,700 - 2,000 ha and PATSA is presently studying/investigating a group of vegetables for more diversification. They are now using a hydrocooling unit for pre-cooling melons as well as some other vegetables. It is estimated that over 3,000 workers are involved in this project. PATSA markets most produce through Sun World in Florida.

The Fruta del Sol cucumber project was initiated by the GOH and financed by USAID with United Brands (UBCo.) The Standard Fruit Co. (SFCo.) was contracted for technical assistance. UBCo. was dropped the second year and SFC continued until 1982. Current Fruta del Sol Cooperative management developed out of the SFC management and technical assistance team. One of Fruta del Sol's outstanding abilities is their ability to transmit technical assistance to participating growers.

Fruta del Sol has grown from less than 20 ha to over 65 ha, exporting 79,500 boxes (55 lbs cardboard) of top quality cucumbers to U.S. markets during the winter of 1984 with 25 growers participating. Plans for 1984/85 season indicated yet another large expansion to 130 ha with a minimum of 50 producers. Fruta del Sol manages the packing shed, marketing, grower contracts and provides credit, supplies and technical assistance. All shipments recently have been to Six L's (Florida brokers with an excellent reputation) on a consignment basis. This project is a viable operation as viewed by its continuous improvement and aggressive projections.

This cooperative, like PATSA, needs research backing and diversification. The problems of monoculture, i.e., nematodes and viruses, were more prevalent in 1983/84 than in previous seasons. Other current requirements are less expensive refrigerated transport with more frequent sailings. Some method of pre-cooling is an immediate need for reducing water loss and prolonging shelf-life.

These two model export projects are specific concrete examples of a "vertically coordinated" commodity system that have stood the test of time and adversity. They should be built upon and replicated as well as made known to potential investors, bankers, educators, and promoters of Honduran ag export programs. Both projects still need assistance, as described above, which should come from technical support services of this project and the expanded research laboratory at La Lima, the Foundation.

The projects have worked and continue to work. This experience in Honduras illustrates the principal that any NTEA project should contain the following:

1. strong central management system
2. open structure-unrestricted participation by producers
3. strong, elite technical staff - good communicators
4. support services with special attention to research
5. support services to organize producer organizations

The management function which is responsible for coordination of these activities at the firm level is referred to in this paper as the "channel captain". The "channel captain" function may be within a vertically integrated corporation, or, as described above, in an entreprenurial vehicle which coordinates independent units. The function is profit driven and market oriented.

At the beginning of the PATSA and Fruta del Sol projects (and a continuing for some casual observers), there was some concern about the monopsonistic power of the channel captain and the firm he represented. Would the growers be able to withstand the strong economic power of the buyers or would he/she become a captured serf? Both firms took this into account in their planning. Frequent discussions were held to explain the terms of the contract; project staff were trained to respond to questions and complaints; and an open door policy was established by project management. Additionally, both projects stipulated that the grower was free to sell his produce to anyone else who offered a higher price. And that freedom is being exercised. Currently, the cooperative which began working with PATSA, has decided to market its production through a different channel.

In other attempts to run similar projects in Honduras, the independence of the Honduran grower has been established. A citrus operation in the north lost the supply from nearby growers because of disatisfaction with price. Tomato growers in the Comayagua Valley now refuse to sell to a local processor because the processor changed the price in the second year of operation.

The open market nature of the PATSA and FRUTA DEL SOL and the demonstrated independence of Honduran growers provide the safety valve to reduce the monopsonistic power of the channel captain. As the commodity system expands with more "channel captains" in the market, any remaining power of a single buyer will be reduced.

3. The Project Model

The development model described above-- not vertical integration but vertical coordination-- is the basis for the project strategy. The basic requirements are:

1. Market driven - matching market opportunities with specific production areas and growers.

2. Unified management - a "channel captain" to be responsible for and oversee the many links in the chain: production, logistics, processing, and marketing.

3. Commodity specific technical staff.

4. Open participation by all interested growers on a contracted basis.

5. Access to support services-- technical training, research, and producer organizations.

The project will support this model to stimulate agricultural exports. In particular, it is expected that some variation on the following scenario will be supported by the project.
An entrepreneur, foreign or domestic, will assume the responsibility of "channel captain". Initially, this person is likely to be a representative of a U.S. firm active in U.S. markets, e.g., a broker or packer. Using their own funds but with information and limited technical support from FEPROEXAH, a product and market will be matched. The first steps are the confirmation of market (timing, volumes, prices), costing from market to source of production (over-land and sea transport, fees, etc.) and commercial pre-production trials of varieties and cultural practices.

Once profitability is confirmed, contact is made with growers (with assistance from FEPROEXAH and the commodity association), plans for field collection, sorting, grading, and processing established, arrangements for inland and international transport confirmed, ties with U.S. brokers, forwarders, buyers are established, and financial arrangements initiated e.g. product and export credit.

Once the plan for vertical coordination is established, the channel captain moves, with appropriate support from FEPROEXAH, staff is hired, training courses initiated, packing and processing facilities constructed, grower contracts signed, and financial arrangements completed.

This model, with minor variations, forms the core of the project. Insisting on vertically coordinated projects with a clearly defined channel captain promises to transform failures from the past into additional future successes. The agronomic conditions are suitable, the economic environment is supportive, and the entrepeneural talent is ready to take advantage of economic opportunity.