

APPENDIX B  
(to Agro-Industrial  
Export Promotion PRP)

EVALUATION OF AID  
ASSISTANCE IN EXPORT DEVELOPMENT

522-15-290-053.1

Republic of Honduras

1971-1975

Evaluation prepared in  
cooperation with USAID/Honduras  
by THE WORLD TRADE INSTITUTE  
of the NY-NJ Port Authority  
Messrs. Sidney A. Schachter  
and Kenneth D. Weiss  
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Schachter, Sidney A.; and Kenneth D. Weiss

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The project to date has been quite useful, but could have been more useful had the objectives included the establishment of fiscal incentives and export finance, and the elimination of red tape. Some progress has been made in removing the obstacles faced by exporters, and considerable progress in creating conditions more favorable to export promotion. Chief among these is the establishment of a dynamic and highly respected export development office in the Ministry of Economy. It is important that technical assistance in specified functional and product areas continue. A firm commitment from the Government of Honduras (GOH) to dynamically increase exports is sorely needed. The GOH now has the capacity to help exporters and to utilize additional technical assistance. New efforts are underway to move the proposed export incentives and financing law forward. Honduras has a basic agrarian economy with extensive forest resources, so agriculture and forestry are the logical sources of raw materials for export products. AID assistance in 1976 should be offered in the areas of export systems, export financing and incentives, export market research, and product selection in key industries such as food products, wood products, and textiles.

## APPENDIX B

### Subject of Evaluation:

AID supported projects in Honduras in the area of export development, from mid-year 1971 until the present. Contracts during this period have provided the Government of Honduras with some 5 man-years of technical assistance, 9 man-months of participant training, \$100,000 worth of commodities, and \$30,000 for other expenses.

### Method of Evaluation:

This evaluation has been prepared after reading the project documents and reports of the AID advisors, and after extensive discussions with personnel of the Directorate-General of Foreign Trade and other government organizations. There have also been informal contacts with the private sector, but the time factor limited the number of these interviews.

Foreign trade statistics and other documents of the Republic of Honduras have been studied as well.

### Evaluation Criteria:

A recent AID audit examined the work done under this program with respect to its stated objectives. The question for this evaluation is: "Were the objectives the right ones"? Were the projects designed so as to create conditions which would have the maximum positive effect on exports.

General Conclusions:

The project to date has been quite useful, but could have been more useful had the objectives included the establishment of fiscal incentives and export finance, and the elimination of red tape. Some progress has been made in removing the obstacles faced by exporters, and considerable progress in creating conditions more favorable to export promotion.

Chief among these is the establishment of a dynamic and highly respected export development office in the Ministry of Economy. Personnel of this office are working closely with businessmen to help them export.

Thus, part of the job has been done. There is, however, a great deal that remains to be done. Additional assistance is needed, and is highly recommended to follow-up and build on what has been already achieved.

Relevant Conditions in 1971:

When the AID Project began there was very little consciousness in Honduras of the need to export, and there was no organization to provide assistance to exporters. There seemed to be little realization of the urgent need to export more in order to be able to import more, for both development and consumption. Thus, motivation was lacking, and there was no real means of providing it.

Another vital factor was the lack of exportable products. Other than bananas, cotton, sugar, coffee, fresh meat, unprocessed wood and certain minerals, the country had little that could be sold in foreign markets.

to build up the general level of export consciousness. He counselled innumerable private businessmen in his strongest area -- advertising and sales. He had difficulties, however, which may have stemmed from an approach a bit too aggressive for the Honduran culture, his inability to work in the Spanish language, and perhaps too little cultural adaptation of the measures proposed. He tried, for example, to form a chapter of SME, the Sales and Marketing Executives Club, and failed, perhaps because sales is not at all a profession in Honduras and is not always considered an honorable occupation. He succeeded in having a Honduran products display center set up on the grounds of the major hotel, but this was discontinued, partly because of its high costs and partly because of disputes as to how it should be operated. It is now a privately owned retail store and export agency, occupying about 2/3 of its former space and operating at a profit.

It can fairly be said that, during the latter part of this advisor's term of duty, he was out of favor of those whom he was to advise.

Overall his work certainly benefited the export climate, and he may have had some influence on the development of marketing techniques. In the areas of product development and delivery systems he did little. It seems likely that better results would have been achieved had he been replaced after 1 or 2 years with a more technically-oriented advisor.

The trade fairs (visual merchandising) advisor, Mr. Federico Figueroa, a Guatemalan national, seems by all accounts to have made an extra-

ordinary impact during the term of his contract. His objectives were in the area of marketing and promotion -- to trim the government's plans for participation in trade fairs to a workable size and to improve the quality of such participation. In completing these tasks he helped plan Honduras' participation in fairs in West Germany and Italy. He also prepared a report which included, inter-alia, a recommendation to organize a system of local, state and national fairs to help prepare the country for international exhibitions. This recommendation has now begun to be implemented.

The Advisor trained a staff member of the Directorate-general in trade fair techniques, and then suggested that he use the time remaining in his contract to assist the DGFT in a number of additional functions. He made the first thorough analysis of Honduras' trade with Central America, presenting it in graphic form, and helped considerably to assess the effects of Hurricane Fifi on the country's future exports. He is lauded by the persons whom he advised.

It must be noted that, at the time of this writing, 26 Honduran firms are participating in "Interfer 75" in Guatemala, with extensive support from the Government, and in a pavillion designed by Mr. Figueroa. There are plans to move this entire exhibit to Honduras when the Fair closes so that interested Hondurans can see it. As Honduras' participation in "Interfer 73" was considered a disaster, the improvement has been dramatic.

Thus it can be said that the work of this advisor made a major contribution to the performance of an important export marketing technique.

The Foreign Trade Information Advisor, Mr. Kenneth Weiss, worked in the area of government (information) services to exporters. Many kinds of information are needed for product planning, and in all aspects of export marketing, and also in delivery functions such packing and transportation.

This advisor moved into a newly-established information center, analyzed and systemized its activities one by one, trained its staff through consultation and formal classes, and prepared a detailed operations manual.<sup>1</sup> He left the Center in an operating form. Now, 10 months after his departure, it has a staff of 6 and is providing Honduran exporters with names and addresses of foreign importers, foreign customs duties and other vital information. It is said to be serving an average of 30 walking visitors per week, and responding weekly to 50 other (mail or telephone) requests for information. Records are kept of requests and the way in which they are handled. In addition certain kinds of trade information, such as specific export opportunities, are communicated by telephone, cable or mail directly to exporters who may utilize them.

Also of importance is that this Center is a source of pride to the DGFT. It has received considerably publicity, and meetings have been

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<sup>1</sup> A copy of this manual was recently taken by an information staff member to an information services training course in Brussels, and was considered to be of such importance that it was duplicated and distributed to course participants.

held in it to explain its services to interested groups. It is still weak in information retrieval, and in follow-up on contacts made, but these difficulties could be corrected with a small amount of additional technical assistance.

Thus, this project has made a continuing contribution to the development of government services to exporters.

Mr. Guillermo Klein, of Argentine nationality, was brought in to analyse the investment climate in Honduras. As industrialization cannot occur without local and/or foreign investment, the investment climate is vital to the supply of exportable products.

This advisor held wide-ranging discussions of the conditions affecting capital investment in Honduras. His report presents a long series of economic, legal and political obstacles, and proposes series of measures for attracting local and foreign investment. Its conclusion is presented clearly. A direct translation from the Spanish reads: "...the climate for private investment in Honduras is negative."<sup>1</sup>

As this report does go so far in "calling a spade a spade" it has been closely held, and thus has not been read by many of the persons who might act upon it. Still, it is a compact and eloquent compilation of the considerations affecting investment, and of measures which would improve the investment climate. It must surely have influenced the thinking of those who have read it.

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<sup>1</sup> "La Inversión Privada en Honduras," report by Mr. G. W. Klein, 1974, page 6.

It should be mentioned that, at this writing, the newly-created National Investment Corporation (CONADI) is beginning to apply its broad mandate, adequate funding and dynamic personnel to the task of industrial development in Honduras. Through numerous discussions the Advisor contributed to CONADI's organization and operations. It should also be mentioned, however, that some of the members of an OPIC mission, which visited Honduras in early November, 1975, took only a few hours to rule out the possibility of investing here now. A major obstacle in their eyes was the current agrarian reform law, which limits the size of landholdings for all purposes, and which is a continuing subject of debate between poor farmers and business interests.

Miss Joyce Moy, the expert in textile products is now working in Honduras, and Mr. Dan Casper, the expert in food products is due to arrive the 15th of the current month (November, 1975). The execution of this project was delayed by contracting complications between AID and the Contractor, but these have now been resolved and a form established for future agreements between the two parties.

These projects are the beginning of a concentrated effort to overcome the limitation of product supply for export, and should lead to comprehensive, long-term assistance in this field. Without exportable products exports cannot take place. The advisors will help to provide exportable products by dealing with product selection and design; branding, labeling and packaging; product testing and test marketing, channels distribution

and methods of promotion. They and their counterpart personnel will be working directly with exporters and prospective exporters.

Mr. John Riordan (and Mr. William Pabst), Product Standards Advisors:

The intent of this project was to help make Honduran products exportable, through conformance with the standards of importing countries. As the project was of short duration, little could be done except a survey of the situation and recommendations for action.

The Advisor and his associate, working at all times with counterparts who helped with translation when necessary, spoke with personnel of the Directorate-General of Industry (Ministry of Economy), and with owners and managers of manufacturing companies. They visited production plants and held 2 very well received seminars on quality control. Their report contained several recommendations, chief among which was the establishment of a weights and measures (an important part of quality control) laboratory.

Results of this work to date may include a few improvements in some of the manufacturing plants visited. Also, a quality control section has been formed in the Directorate-General of Industry, and the Ministry of Economy is actively considering establishing the suggested laboratory.

It seems clear that central services in standards and quality control are important to the development of exportable products, that the advisor "started the ball rolling," and that AID should take more steps

to help keep it rolling by including quality control in the project design for future AID assistance.

It is hard to evaluate the effectiveness of the participant training, especially as most of the persons trained have now left the Directorate-General of Foreign Trade to receive higher salaries in private industry. This is a perennial problem of virtually all development assistance training. The best solution seems to be to continue training on the grounds that, if the trainees leave the organizations which sponsored them, at least they are likely to remain in their countries and make constructive use of their new knowledge. There is discussion of the formation of a semi-autonomous export promotion institution with technical and financial independence, which could pay salaries competitive with those of private industry. There are both advantages and disadvantages of this, as has been shown in several countries. If such an institution is formed, AID should of course cooperate by shifting the training and advisory assistance to it.

Surely the training courses selected under this project were appropriate. Future training should continue to concentrate on export marketing and procedures, perhaps with increased emphasis on in-depth work in specific product areas. Long-term training is not recommended because of the problem of trained personnel changing jobs.

Past training has been concentrated (or perhaps limited exclusively) to staff members of the Directorate-General of Foreign Trade. Hopefully,

employees of other government organizations concerned with exporting, and of exporting and export service firms, will be given opportunities for training in the future. In general, each course attended should be attended by 3 or 4 persons from different organizations. Then a trained person will not be alone in trying to sell his newly-acquired ideas upon return to Honduras, and some effect will remain even if one or more of the trainees changes jobs.

Most of the commodities provided under this program have been office equipment for the DGFT, information storage and retrieval equipment for the information center, and printing equipment for the information center. All of this is now in use, and is helping turn out informative bulletins for exporters, a periodic newsletter, an exporter's guide, a directory of Honduran exporters and other useful publications. When machine time is available it has been used to help related organizations including the Honduran Tourism Institute and the National Investment Corporation.

An encouraging fact is that a telex machine, provided originally by the recently-disbanded Central American Export Promotion Center (PROMECA), and a Xerox machine provided initially by AID, are both still in use. The Government is now paying the rental fees.

Thus it appears that the commodities component of this program has been a success.

Areas of Future Activity

Although progress has been made in certain aspects of export development in Honduras, a great deal of assistance is still needed.

Regarding the lack of export consciousness and national commitment, there is still a need for a presidential decree establishing export expansion as a top national priority, and for the formation of a top-level export steering committee. AID can do little to promote the issuance of a presidential decree, and there are signs that the needed advisory committee will soon be organized.

AID can and should offer assistance, however, in organization for export promotion, export finance and incentives; and the simplification of export procedures. These should be priority tasks, and perhaps should have been done in the first four years of assistance.

Concerning the supply of exportable products, the National Investment Corporation (CONADI) will be advised by UNIDO, and will have financing available for industrial development projects. CONADI has close ties with the Ministry of Economy. As indicated above the provision of privileged financing and fiscal incentives to exporting companies will be most useful, and should be priority areas for AID attention.

AID/Agriculture, FAO, the Home Ministry, the National Forestry Development Corporation, the National Agrarian Institute and other organizations have programs of agricultural, livestock, fisheries and forest production,

which should improve the supply of raw materials for domestic consumption, exporting, processing and manufacturing. AID export development activities should be responsive to the programs of these organizations.

AID and United Nations educational programs will help to overcome the problem of the lack of skilled workers and managers, but additional managerial training will surely be needed. It is hoped that future export promotion projects can provide participant and in-country training for managerial personnel of specific industries.

Product design remains a serious problem, and should probably be approached industry by industry. The establishment of a design center has been considered but is probably not justified now because of the primacy of other kinds of assistance.

In standards and quality control there is an apparent need for more technical assistance and training, and for the establishment of a weights and measures laboratory. There is already a small food safety laboratory in operation, and perhaps the two could be combined or could work together. AID assistance in quality control is recommended.

Regarding export marketing, there is a pronounced need for establishment or improvement of such functions as export marketing research (by both business and government); branding, labeling and packaging; product development and testing; promotional activities such as export advertising, use of trade attachés, trade missions, international fairs, and publicity and public relations; export costing and pricing; sales activities

including the selection of distribution channels; production of sales literature; selling trips and special offers, and after-sale investigation and follow-up.

Although these are essentially the functions of individual business firms, the Directorate-General of Foreign Trade should offer, and to some extent is offering, professional assistance. The suggestion here is that AID offer to provide more technical assistance in export marketing, both to and through the DGFT. Assistance to the Directorate-General should be in specific functional areas, such as government-level marketing research, and assistance through the DGFT should be direct to exporters of selected kinds of products (always with counterparts from the DGFT). Both technical assistance and training are needed, and the need is large.

Assistance with delivery systems can be considered a kind of incentive to exporters. Delivery systems include export quotations and terms, credit and collection, contracts, packing, shipping and insurance, after-sale service, and the settlement of trade disputes. These are areas in which the DGFT can be of considerable assistance to exporters, and its staff should be trained so that they are capable of providing this kind of assistance. Some training and assistance might also be offered to export service companies, such as transportation agencies.

Summary of Assistance Now Needed

In sum, AID assistance in 1976 should be offered in the areas of export systems, export financing and incentives, export market research, and product selection in key industries such as food products, wood products, and textiles. This will complete the preparation for the integrated development of priority products' exports.

Subsequently, integrated projects should deal with priority industries and should concern export production, export marketing and delivery systems. At the same time, the ability of the Directorate-General of Foreign Trade to provide services to all exporters should continue to be increased. As the Government will be exporting at least two important products, bananas and wood, the DGFT might soon be helping with even these products.

Assistance should continue to include both short and long term advisors, participant training, commodities (especially equipment for the weights and measures laboratory), and other items. Some of these other items might be an international credit reporting service for the trade information center, materials for informational publications for exporters, local training courses, overseas marketing research studies, product testing, participation in trade fairs and missions, and external publications to promote the country's image and products.

Conclusion

The AID project over the past 4 years has gone far toward preparing

Honduras to right its trade balance through increased exports, although these efforts do not yet show in the foreign trade statistics. These projects might have had even more effect had some of their objectives been different, but that is now 'water over the dam.' The important thing is that assistance continue, in specified functional and product areas.

On the Honduran side, a firm government commitment to dynamically increase exports is sorely needed. If the same national commitment put to recovering from the effects of Hurricane Fifi were to be harnessed to increase exports, the obstacles could be overcome and the commercial balance righted.

It is worth mentioning again that the Government of Honduras now has the capacity to help exporters, and to utilize additional technical assistance. It is also making good use of assistance. It is also making good use of assistance from the Organization of American States (OEA and CICA). For numerous reasons it has stumbled on the passage of an export incentives and financing law, but new efforts are underway to move this project forward.

As Honduras has a basic agrarian economy with extensive forest resources, agriculture and forestry are the logical sources of raw materials for export products. If these raw materials can be processed and manufactured for export, with an improved export climate, marketing techniques and delivery systems, substantial progress can be made.