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UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

HONDURAS

PROJECT PAPER

PRIVATIZATION OF STATE-OWNED ENTERPRISES

AID/LAC/P-349

Project Number: 522-0289

UNCLASSIFIED

APPENDIX 3A, Attachment 1
Chapter 3, Handbook 3 (TM 3:43)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

DOCUMENT CODE: 3

COUNTRY/ENTITY: HONDURAS

3. PROJECT NUMBER: 522-0269

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): PRIVATIZATION OF STATE-OWNED ENTERPRISES

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12 DD 01 YY 89

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 86 B. Quarter 4 C. Final FY 88

8. COSTS ($000 OR EQUIVALENT $1 = 12.00)

A. FUNDING SOURCE	FIRST FY 86 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total				4,000		4,000
(Grant)	(1,000)	( )	(1,000)	(4,000)	( )	(4,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country					13,000	13,000
Other Donor(s)						
TOTALS				4,000	13,000	17,000

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	710	840		1,000		1,000		4,000	
(2)									
(3)									
(4)									
TOTALS				1,000		1,000		4,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE: 730

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code: BU
B. Amount:

13. PROJECT PURPOSE (maximum 480 characters)

To support GOH initiatives to plan and implement the privatization of state-owned enterprises.

14. SCHEDULED EVALUATIONS
Interim MM 12 YY 87 MM 11 YY 88 Final MM 08 YY 89

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☐ 000 ☐ 941 ☐ Local ☒ Other (Specify) 935

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

17. APPROVED BY
Signature: Anthony J. Cauterucci
Title: Anthony J. Cauterucci, Mission Director
Date Signed: MM 08 DD 08 YY 86

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

PROJECT AUTHORIZATION

Name of Country	:	Honduras
Name of Project	:	Privatization of State-Owned Enterprises
Number of Project	:	522-0289

1. Pursuant to Section 106 of the Foreing Assistance Act of 1961, as amended, I hereby authorize the Privatization of State-Owned Enterprises Project for Honduras (the "Cooperating Country") involving planned obligations not to exceed Four Million United States Dollars ($4,000,000) in grant funds ("Grant") over the three-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 finance foreign exchange and local currency costs for the project. The planned life of project is three years from the date of initial obligation.

2. The project ("Project") will support Government of Honduras (GOH) initiatives to plan and implement the privatization of state-owned enterprises.

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 and covenants and conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality or Services

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.

b. Conditions Precedent to Disbursement

Prior to any disbursement or to issuance of commitment documentation pursant to which disbursement will be made, except for short-term technical assistance, the cooperating country shall, except as A.I.D. may otherwise agree in writing:

1. Legally establish and make operational entities required for implementation of the Honduran Privatization program.

2. Complete and approve, by the appropriate GOH entities, the global privatization plans (the economic-technical study and the privatization action plan) called for by the Honduran Privatization Decree (Decree 161-85) which will serve as the blueprint for the privatization program supported by this Project.

c. Special Covenants

The Cooperating Country Covenants that it will ensure the autonomy and independence of action of entities established to implement the Honduran Privatization program.

Anthony J. Cauterucci
Mission Director

8/6/86
Date

Drafted by:DCruz-DePaula,DF

Clearances:
CLeonard:DMD
JMiller:DP
GLecce, RLA

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I. SUMMARY AND RECOMMENDATIONS

A. Summary

In the 1980s, the Honduran economy has experienced an annual compound rate of GDP growth of less than one percent, resulting in a fall in real per capita GDP since 1981 of about 12 percent. Serious fiscal and balance of payments problems and weak private sector capital formation have characterized the economy.

The growth of state-owned enterprises (SOEs) and public sector intervention in the marketplace has been a major contributor to this weak economic performance. SOEs have played a growing and pervasive role in the Honduran economy during the last two decades with disastrous consequences. Transfers to these enterprises to cover operating losses, and foreign and domestic debt payments are major contributors to both fiscal and foreign exchange deficits and, simultaneously, are crowding out private sector borrowing.

The Government of Honduras (GOH) recognizes that, to reverse the present decline in the economy, it must change the policies and practices that have prevailed in recent years. An important part of this effort is a recognition that SOEs have not accomplished their intended economic and social objectives and that the government should transfer the operation of potentially productive assets and enterprises to the private sector. Accordingly, the GOH has requested A.I.D. assistance in this important task.

The purpose of the Project is to support GOH initiatives to plan and implement the privatization of state-owned enterprises. The successful completion of privatization activities will directly contribute to USAID/Honduras' Central America Initiative goals of economic stabilization and economic growth. The Project will: reduce recurrent costs and GOH financial support for state-owned enterprises engaged in the production of goods; transfer companies and assets to individuals with equity at risk; attract new investment into the Honduran productive sector; and reduce the administrative burden presently confronted by the GOH in managing a wide range of commercial enterprises. The Project will assist in the privatization of approximately 12-15 SOEs, demonstrate the feasibility of implementing a privatization program in Honduras, and make a significant contribution to sustained economic growth.

USAID/H is aware of the complex nature of the privatization program and the high risks involved in this undertaking. The complexity and risks have become all the more apparent during intensive review. Privatization, despite the obvious economic and financial implications, is essentially a political process (a fact recognized in the recent A.I.D. guidance cable on privatization) which should be approched cautiously. Moreover, the GOH, A.I.D. and other donors have little accumulated experience in carrying out divestiture programs. In light of the sensitive nature of conducting a privatization program, the Mission judges that the most appropriate approach

is a strategy of phased privatization, of which this Project represents the first segment. During the proposed three-year funding period, an initial set of SOEs will be sold to private investors or liquidated, thereby setting in motion a process that will stimulate future divestments. Simultaneously, the administrative and analytical framework necessary to plan and implement a comprehensive program will be established within the GOH. Once this framework is in place, an expansion of the divestiture program to cover a wider array of firms can begin.

The proposed Project is recognized as being experimental to a large extent. In this sense, the Project will be not only trying to accomplish important, specific objectives, but also providing a base for "lessons learned" for other A.I.D. privatization programs. The Project will have an important evaluation/"stocktaking" component for this purpose.

The Mission's approach to privatization of SOEs has been to encourage and support the GOH in its pursuit of this goal, providing technical assistance as required to move the process along its early phases, though carefully not assuming or appearing to assume the leadership of this effort. To walk this narrow path between encouraging the GOH to move forward through policy dialogue at various levels and at the same time ensuring that the USG is not "out front" in this effort has required a great deal of restraint whenever the process has slowed for several reasons or where the government has temporarily taken an approach that appears overly cautious. It is our firm conviction, however, that while such an approach may limit quantifiable progress somewhat over the very short term, this restraint has and will continue to pay high dividends as the process evolves and privatization packages are completed, and as the process is identified as a GOH program reflecting the will of a large segment of Honduran public opinion. There is already a broad recognition in the Honduran community that the Mission's participation in this effort is neither politically inspired nor in support of any specific interest group. A cautious approach, however, should not be identified with lack of progress. In spite of the approach chosen, the Mission has helped the GOH accomplish several crucial tasks, as described below:

- Design of a focused strategy to deal with the very broad problem of SOEs in Honduras. Based on a review of SOEs and the opportunities and constraints, privatization efforts will focus on the National Investment Corporation (CONADI) as a first target of opportunity. This strategy was reviewed by high level GOH officials and explicitly approved by the GOH. Nonetheless, the focus of CONADI will not exclude pursuing the privatization of other SOEs on an opportunistic basis.

- Development of the legal and regulatory framework for privatization. Working with the Ministry of Economy, the Mission, with the help of external consultants, helped draft the privatization law (Decree 161-85) and later the regulations which should guide the process, with a focus on CONADI but open to privatization of other GOH enterprises.

- Establishment of the information base for decision-making on CONADI's enterprises. With the tacit approval of CONADI's management and cooperation from its staff, the Mission has completed a profile of every enterprise in CONADI's portfolio and has carried out in-depth analysis of those targeted for the initial push on privatization.

- Development of the analytical base to design and carry out workshops and seminars and other opinion-forming events to develop and sustain a climate favorable to privatization. A program of workshops and other similar events has been prepared that recognizes the views and biases of various leading individuals and institutions which are deemed critical to the success of the privatization strategy. These workshops will be carried out shortly after the signing of the Project Agreement.

- Design of a preliminary marketing strategy to attract potential investors in CONADI's enterprises. Consultants have developed a methodology for identifying potential investors, preparing the companies/assets for sale, and establishing the terms and conditions to achieve privatization. Initial contacts have been made with 23 investor groups interested in CONADI enterprises and several groups interested in COHDEFOR sawmills. One COHDEFOR mill has been privatized. Several successful negotiations are expected to result from these contacts.

The Project will comprise the following activities:

1. Institutional Configuration and Analytical Support

Technical assistance will be provided to the Board of Directors of CONADI, a government-owned investment bank and holding company for over 60 SOEs, to plan and implement the privatization program, including identification of international and domestic investors. Project resources will establish and assist an independent Privatization Technical Working Group (TWG), which will serve as the technical staff of the National Privatization Commission (NPC), a special Commission established by the President of the Republic to oversee the privatization of government operations in Honduras, and to advice the Board of CONADI and other GOH institutions responsible for SOEs regarding privatization actions.

2. Privatization Support Components

While the thrust of the Project is to provide the GOH/CONADI with the institutional and technical capability to implement the privatization program, support mechanisms (e.g., credit, severence payment support) will be provided when necessary to close the sale of a SOE. While many investors will not require this type of support. given existing credit lines and their own resources, it is recognized that some investors will, and that the availability of these support resources will, in some cases, be the difference between privatization and continued public sector involvement in business operations. All Privatization Support Components will be financed exclusively with ESF local currency resources.

B. Recommendations

The proposed Project fully supports and strengthens GOH, Central America Initiative, and USAID commitment to stabilization and private sector strategies. As articulated in A.I.D.'s guidance to the field on privatization, the Project will contribute to an important agency initiative and to the Administrator's goal of completing privatization actions for an average of two state enterprises per each USAID Mission in coming years. It is the Project Design Committee's opinion that the Project has sound technical, economic, social, and financial bases as substantiated during intensive review. Accordingly, the Committee recommends that the USAID/Honduras Mission Director authorize the Project Paper.

C. Project Design Committee

1. The USAID/Honduras Project Design Committee consisted of:

Danilo Cruz-DePaula	Office of Development Finance
Victor Paz	Office of Private Sector Programs
Luis Ampuero	Office of Development Finance
James Grossmann	Office of Private Sector Programs
Juan Buttari	Office of Economic Policy and Analysis
Felipe Manteiga	Office of Rural Development
William Kaschak	Office of Development Finance
Eugene Szepesy	Office of Development Programs

2. The Center for Privatization TA consisted of:

Joseph Borgatti	J.J. Borgatti Associates, Chief of Party
Fuat Andic	Arthur Young, Inc.
Humberto Esteve	Arthur D. Little, Inc.
Jorge Segura	Arthur Young, Inc.
John Sequeira	Arthur Young, Inc.
Jorge Recinos	Equity Expansion International
Mark Rosenberg	Florida International University

2. The Project Paper was reviewed in USAID/Honduras by:

Carl H. Leonard	Deputy Mission Director
John Miller	Program Officer
Jerome Lapittus	Office of Economic Policy and Analysis
Phillip Amos	Office of the Contoller

3. The Project Paper was authorized by:

Anthony J. Cauterucci	USAID/Honduras Mission Director

II. BACKGROUND AND JUSTIFICATION

A. Country Setting

With a per capita GDP in 1985 of approximately $769 (in current values), Honduras is the poorest country in Central America and one of the poorest in the Western Hemisphere. Its population suffers from high infant mortality, low literacy, and serious malnutrition.

In the 1980s, the Honduran economy has experienced an annual compound rate of GDP growth of less than 1% and has suffered from serious fiscal and balance of payments deficits. Capital formation in the private sector has been weak. Combined with high population growth, the weak economic expansion of the 1980s resulted in a 1980-85 fall in real per capita GDP of about 12%. To overcome these problems, Honduras needs to attain substantially higher GDP growth rates. To do so, however, it must reverse the economic policies and practices that have prevailed during recent years and overcome structural problems that sap its economic potential.

A key structural problem inhibiting economic growth is significant public sector over spending, resulting in a public fiscal deficit of approximately ten percent of GDP. To the extent that the deficit is not financed with in-flows from abroad, it must be financed with domestic resources, part of which would otherwise be available to the private sector for investment. The high level of public spending, however, is crowding out that private sector investment. A related problem is a balance of payments deficit in the current account equivalent to 9.4% of GDP in 1985. Catalyzed by the need for imported capital inputs and improper foreign exchange policies, this deficit translates into a scarcity of foreign exchange which acts as a constraint to growth.

Although it could be argued that investment by the public sector could make up for weak private sector investment, the Honduran public sector is overextended. Current public sector savings are negative and 70% of the overall deficit of the consolidated nonfinancial public sector is financed with resources from abroad. Moreover, despite some progress through policy dialogue, public sector expenditure has not been effectively controlled. State-owned or controlled enterprises in Honduras cause a significant fiscal and foreign exchange drain on the GOH. In 1985, approximately L35 million (US$17.5 Million) was expended by the GOH to meet interest payments on domestic and international debt of CONADI's SOEs alone. The external debt of the National Investment Corporation (CONADI) alone accounts for nearly 80% ($170 million) of commercial bank debt under renegotiation.

In sum, Honduras must reduce its fiscal deficit and expand its net exports before it begins to generate economic growth and raise the standard of living of its citizens. Such goals call for increasing private sector investment and seeing that the country's capital resources are allocated efficiently. The country must foster the conditions for entrepreneurial dynamism and rely to a greater extent on free market competitive forces.

B. Project Setting

1. State-Owned Enterprises (SOEs) in Honduras

SOEs have played a growing and pervasive role in the Honduran economy during the last two decades. In fact, the budgetary claim of non-financial public enterprises in Honduras appears to be relatively greater than in many developing countries. For example, according to IMF figures, transfers from the central government to public enterprises to cover interest payments of both domestic and foreign debts were equivalent to 4% of GDP in 1984.

The growth of SOEs in the 1970s was facilitated by several factors reinforced by the ample availability of foreign loans, including resources from bilateral and international financial institutions. A wide range of enterprises (as is presented in the listing of Annex III C) were created to direct economic activity and provide services in areas where the state was perceived to have exclusive domain or where a "public good" was provided.

SOEs cover a wide range of industries and sectors as regulatory bodies, producers, or providers of services. The largest SOE is the National Electric Company (ENEE) which has incurred operating losses during the last five years and represents 60 percent of revenues and 65 percent of expenditures of all public enterprises. The Honduran Telecommunications Agency and the National Port Authority are also important SOEs, which reportedly yield small operating profits when their significant debt burdens are not taken into account.

SOEs also proliferated in areas where the private sector was perceived to lack the capital, dynamism, and interest to generate investment and growth. This was particularly true in the agricultural sector and in sectors where private enterprise had supposedly failed in its efforts to lead the development process. In addition, and in response to a perceived need to control private exploitation of the country's forest resources the Honduran Forestry Development Corporation (COHDEFOR) was established in 1974 to manage the country's forest resources and exclusively market the export of sawn wood products. In time, as credit from international lenders became available to COHDEFOR, it expanded its activities to wood processing and other commercial activities. While COHDEFOR generated revenues of approximately $10 million during the last five years, the Corporation and its enterprises have been operating in the red, and have accumulated long-term debts of over $80 million not including long-term assumed by the Central Government. The National Agricultural Development Bank (BANADESA), also in serious financial difficulties, was established to channel resources to a sector largely ignored by commercial banks. The National Food Supply Company (BANASUPRO), the Honduran Banana Corporation (COHBANA), the Honduran Agricultural Marketing Institute (IHMA), and many other public institutions such as those involved in agricultural mechanization, seed production, and various other areas attempted to fill real or perceived gaps in private sector interest and investment. Finally, and of particular importance in Honduras, the state has intervened in commercial activities to promote private sector capital formation. This support was provided to solely private sector initiatives as well as joint public/private sector investment efforts, principally through the National Investment Corporation.

2. The National Investment Corporation (CONADI)

CONADI was established in 1974 with three main objectives: (1) To accelerate private and mixed investment in priority economic sectors; (2) To strengthen the capital and securities market so as to mobilize savings; and (3) To facilitate access by individual Honduran investors to ownership in local enterprises. CONADI was to function as both a development bank and a venture capital firm and was patterned after the many Development Finance Corporations (DFCs) initiated at that time throughout Central America and much of the Third World.* In essence, it was part of a popular model of development which envisioned the state as a driving force and catalyst for private sector capital formation.

CONADI was initially capitalized by direct transfers from the central government and the forced contributions of banks, and insurance and industrial companies, in the form of bonds and certificates of participation. Table 1 presents the composition of CONADI's funding sources through 1984. The Table illustrates CONADI's growing dependence on direct loans as a financing source, a dependence which eventually created serious financial difficulties.

Table 1
Composition of CONADI's Capital and Liabilities
1975-84 (%)

Capital and Liabilities	1975	1978	1981	1984
Capital				
GOH Contributions**	35%	7%	5%	0
Banks and Insurance Institutions	30	7	6	0
Liabilities				
Certificates of Participation	13	10	10	11
Bonds	22	3	1	1
Direct Loans				
- Commercial Banks	0	73	78	44
- GOH	0	0	0	33
Other Accounts Payable	0	0	0	11
Total Capital and Liabilities	100	100	100	100

Source: CONADI, 12/31/81 Financial Report, 1981; 1984 audited financial statement.

* See "Development Finance Companies, State and Privately Owned: A Review". IBRD Working Papers No. 578.

** Refers only to capital contributions. Does not include debt repayment transfers.

During the period 1975-81, CONADI was a major source of investment capital in Honduras through loans, loan guarantees, and equity participation via the acquisition of stock and capitalization of debt. In its early years of operation, CONADI appears to have been an effective mechanism to increase private investment. It invested in a wide range of companies (over 70) and was considered a key element in fostering economic development. Prior to 1981, the companies in which the Corporation had investments reportedly accounted for 6% of the nation's gross domestic product derived from the manufacturing sector, 21% of the total value of industrial exports, and 59% of gross investment in manufacturing.

Table 2 presents the composition of the Corporation's investment portfolio in selected years. As illustrated in the Table, CONADI increased its overall equity position as loans were capitalized and guarantees began to be called.*

Table 2
Composition of CONADI Investment Portfolio

Type of Investment	1977	1980	1984
Direct Loans	27%	26%	30%
Acquisition of Stock	11%	18%	19%
Loan Guarantees	62%	56%	51%
Total	100%	100%	100%

Source: CONADI

At the end of 1984, CONADI's investments were concentrated in agro-industrial and construction projects which accounted for 63 percent of the portfolio. By the end of 1984, CONADI's portfolio of loans, loan guarantees, and equity investments included businesses in the sectors illustrated in Table 3.

The Corporation also concentrated its portfolio in a relatively small number of companies (4 of which account for 51% of the entire portfolio, 14 for 80% and 28 for 96%). Annex III.E. illustrates this concentration by company.

* As loans fall increasingly in arrears and guarantees are called, CONADI's equity participation will continue to increase in the future in the absence of privatization.

Table 3
Sectoral Distribution of CONADI Investments Portfolio

SECTOR	SHARE
- Agro-industry	35%
- Construction	28%
- Forestry and wood products	8%
- Metals and metal fabrication	6%
- Tourism and hotels	8%
- Leather products and textiles	7%
- Chemicals	7%
- Services and other	1%
Total	100%

Source: CONADI

While CONADI achieved some level of success during its initial years of operation, beginning in 1981 the Corporation confronted a serious financial crisis which evolved to unmanageable proportions. Among the factors which contributed to CONADI's deteriorating financial condition were:

- An excessive concentration of the Corporation's loan and investment portfolio in a limited number of companies and economic sectors which was excerbated by financial and market interdependencies between the companies;

- The poor performance of the companies in which CONADI invested, principally due to domestic and international economic conditions as well as poor management, political influence, and unethical behavior and corruption on the part of both public and private sector officials. This included failure to foreclose and enforce repayment agreements when the borrower's capacity and willingness to repay was negligible or non-existent;

- An aggressive borrowing policy, principally targeted at foreign banks (at dollar interest rates ranging from 9 to 22%), to expand its growing lending and investment operations, which excessively overextended its capital base;

- The conversion of delinquent loan and preferred dividend payments into increased equity participation and CONADI's willingness to continue accepting such equity in companies with questionable prospects for recovery, and in amounts far in excess of potential expectations of collateral recovery;

- The decision by CONADI management to bypass the Corporation's internal policies with regard to capital reserves and credit, guarantee, and investment limits;

- An inherent conflict of interest between the Corporation's role as an investor (owner) of various companies and as the principal source of government guaranteed credit for these companies;

- A similar conflict of interest between CONADI's role as a government development institution responsive to social and political demands and its role as a quasi-private financial institution looking for efficiency and profit; and

- The inability to resolve the operating and financial problems confronted by a number of firms. In general, CONADI has proved weak in properly monitoring companies and in detecting problems and taking corrective measures. Moreover, remedial solutions adopted (consisting of actions such as foreclosures, sales, debt re-scheduling, and provision of increased funding) were unsuccesful due to the lack of adequate professional legal and financial support.

As a result of the growing pervasiveness of these difficulties, CONADI gradually moved from a position of creditor to that of owner-operator. By the end of 1984, the Corporation maintained equity control of at least 25 companies representing 93.6% of the outstanding value of its investment portfolio, including loan guarantees. CONADI also has significant influence, but not control, over another eight companies, bringing the total to 33 companies in which the Corporation maintained a majority control. The role of owner-operator is one which CONADI management and staff were, in most cases,unqualified to perform and one which, as noted above, placed management in a position of conflict with the Corporation's role as creditor. The transition from creditor to owner-operator has had serious consequences for the management of the majority of the companies which are linked to CONADI.

CONADI has named "interventors" to directly manage numerous enterprises or to oversee the operations of private-operated companies in which CONADI investments/liabilities are at risk. With only a few exceptions, however, the quality of management of these interventors has been poor and/or there has been collusion between CONADI-appointed managers and private sector shareholders, resulting in questionable business practices (e.g., below cost sales to firms associated with the private sector minority shareholders and loss of machinery and other assets). In fact, the powerful private sector vested interests that effectively manage and control a number of these enterprises, regardless of CONADI's equity participation, is a characteristic of CONADI operations which can weigh heavily on the privatization process as discussed in following sections.* Debt owed to or guaranteed by CONADI, in many cases considerably more than assets, goes unpaid while questionable

* For example, one major firm is operated, managed and controlled by a family which owns only one percent of stock; CONADI owns the balance of 99 percent. In spite of this ownership structure, the private "owners" recently reached a questionable agreement with CONADI under which they will maintain operating control of the firm for a ten-year period at which time they will have the first option to buy CONADI's stock. This transaction essentially closes options for the Corporation to divest its stock to other investors.

business practices continue to drain firms. Relatedly, there have been cases where legal documents have been "lost" thus inhibiting CONADI from making financial claims or to initiate foreclosure procedures required to recuperate at least part of its investment and divest its assets.

While this minority control could be perceived as a form of privatization, it is but one example of the negative implications of public sector involvement in equity participation in productive enterprises. The firms are not for the most part operated on market principles, but rather on socio-political and interest group pressures, much like other SOEs. This collusion between public and private sector interests, which has characterized the history of many SOEs in the CONADI portfolio, is illustrated in Annex III.I.1 which describes the history of one major enterprise. It is placed in the context of the Honduran political system in Section V.D. "Social Analysis Summary."

3. The Decision to Privatize and the Current Environment

In recent years, growing numbers of Hondurans in the private and public sectors, including the past and present Presidents of the Republic, have recognized that CONADI and many other SOEs not only fail to contribute to the country's development, but are also a serious fiscal drain whose negative cash flow positions will not be reversed in the foreseeable future unless drastic measures are taken. Limits on domestic revenues, mounting debt service payments, and foreign exchange shortages have moved the government to search urgently for means to cut expenses and increase revenues. Since 1981, the GOH has paid approximately $50 million in debt service -- and if the present course of SOE management continues, it will reportedly have to pay at least $75 million more by the end of the decade to cover CONADI's interest obligations of its present debt in Honduras of L143 million and abroad of $183 million.

Responding to this growing concern, the Mission introduced divestiture of key SOEs as part of the policy dialogue leading to the FY85 ESF Agreement. Pursuant to this agreement, the GOH -- through the Ministry of Economy -- initiated efforts towards the promulgation of legislation that would both permit and mandate CONADI to begin the process of privatization of its enterprises.* USAID supported the efforts of the Ministry of Economy by

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* The terms of privatization and divestiture are used interchangeably throughout this document. In fact, privatization is a broader term defined as the transfer of a function, activity, or organization from the public to the private sector. It is not necessarily synonymous with private ownership. Contract management, the operation of a para-statal on market principles, or the complete transfer or sale of an enterprise to the private sector are all forms of privatization. Divestiture is a specific mechanism of privatization involving complete sale or transfer. The objective of this Project is divestiture. The broader term is used, however, as it is recognized that some privatization actions may fall short of divestiture as further described in the text.

providing assistance in the drafting of enabling legislation and to help the GOH obtain a better understanding of the issues involved in the privatization process. This politically sensitive law was approved by Congress on September 30, 1985, shortly before the national elections. In November 1985, the Mission presented a PID to AID/W to assist the GOH in planning and implementing a comprehensive privatization program. The Mission subsequently provided assistance to the Ministry of Economy in drafting the implementing regulations to the law.

Shortly after PID approval, Mission staff began working with CONADI personnel to compile profiles for each of the enterprises in the Corporation's portfolio to establish an analytical and information base for the privatization program (results are presented in Annex III.G.). In April 1986, USAID/H contracted AID's Center for Privatization to assist in intensive review analyses and help CONADI initiate the divestiture of four enterprises during 1986. In addition, the new Director of COHDEFOR expressed keen interest in the divestiture of a number of commercial enterprises (as well as other key operations which will be supported through a separate project) and has also received Mission support. To date, one COHDEFOR/CONADI-owned sawmill has been privatized.

More recent events have highlighted the general concern over CONADI. The May-June 1986 period witnessed wide local press coverage on the failures of CONADI, the Corporation's reported losses, who was to blame for these losses, collusion and corruption, and charges and countercharges between high-level GOH and CONADI officials and private sector representatives (Annex I.D. presents some samples of press coverage of events and will provide falvor for the present environment). This environment has created a politicized climate of uncertainty and caution on the part of private and public sector officials which further complicates the privatization process. Nonetheless, it has also increased attention on CONADI's financial disaster and has raised the determination on the part of public and private sector groups to deal with the CONADI debacle. The allegations regarding CONADI have heightened the awareness of the political nature of the Corporation and the privatization process. But together with the promulgated privatization law, it has created a unique opportunity to move forward with a privatization program.

C. Problem Statement/Constraints to Privatization

Honduras needs to attain high levels of economic growth; achieve a balance of payments situation which is viable in the long term without relying on emergency assistance from abroad; reduce its fiscal deficit; and generate productive employment at higher levels of real wages. Yet it is clear that the economy will not accomplish these objectives without unshackling its public sector dependency and increasing private sector initiative, fostering conditions for entrepreneurial dynamism, and improving the efficiency with which its economic resources are allocated to productive activities.

Privatization of its SOEs has been recognized by the GOH, and leading private sector spokespersons as one important means of accomplishing these objectives. Nonetheless, there are many serious and diverse constraints to privatization which will undoubtedly affect any such program. These range

from the will of the government to carry out a program to the weak potential investor base available to purchase enterprises. These constraints are briefly discussed below.

1. Political Will/Commitment

Privatization, and particularly divestiture, is essentially a political process. Implementing decisions, from the initial judgement to go forward with a program, to the delineation of specific privatization actions, will ultimately be political, emanating in many cases from the highest levels of the government in Honduras. Political implications in the process are three-fold: (1) the ideological question of what the role of government should be in the economy -- specifically the role it should play in promoting investment and as guardian of "national interests"; (2) the willingness of public officials to concede losses, i.e., sell a company or assets for less than what has been invested by government; and (3) political decisions regarding who benefits and who loses from privatization actions.

Ideological opposition to privatization does not appear to be particularly strong in Honduras. There are numerous public and private sector individuals who envision a lead role for the state in the economy. For the most part, however, ideological opposition to privatization in Honduras is directed at privatization of key sectors of the economy or voiced by minority groups. Given past performance and recent allegations, CONADI has few supporters and practically no one has claimed that privatization of most of its assets and enterprises is contrary to national interests. The passage of Decree 161-85 (the Privatization Law) with relatively little debate and opposition is testimony to this fact.

Resistance to selling enterprises at less than book value is likely to be a constraint in implementing the program. It is a constraint of divestiture programs everywhere, including the U.S. Nonetheless, this resistance can be overcome with a sound technical valuation program and a well managed public information campaign. In this regard, one key clause in the Honduran privatization law exempts present office holders from legal responsibility for selling public assets at less than full book value. Until passage of the law, this was identified as a major constraint in divestiture efforts.

Finally, the political opposition to privatization in Honduras may manifest itself in perceptions of how the process is implemented and who benefits and does not benefit, who has access and who does not, to privatization decisions.* Powerful private and public sector and other important political groups have benefitted from the CONADI debacle and may see privatization as a threat to present arrangements. For example, divestiture of some firms may require foreclosure procedures against present non-CONADI shareholders to permit CONADI to gain control of an enterprise prior to divestiture. Undoubtedly, the implementation of the privatization program will test the commitment of the present government to carry out the program effectively.

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* For a more detailed description of socio-political constraints, see Section V.D. "Social Analysis Summary."

2. Paucity of Experience/Analytical Skills

There is little experience to date in carrying out successful privatization programs in developing countries. The experience which does exist has served to highlight the fact that it is a sensitive and difficult process requiring considerable political and analytical skills. While the CONADI Board of Directors has been entrusted with implementation of privatization of companies controlled by CONADI, it does not have the managerial and analytical skills (e.g., financial, marketing, legal) to draw on to implement the program. CONADI is clearly not in a position to lead this effort.

3. Limited Investment Base

Capital is required to purchase SOEs. Yet given capital flight, the political situation in Central America, the scarcity of term financing in Honduras, and other variables, the lack of capital could be a serious constraint to privatization. Moreover, capital in Honduras is concentrated in a few small investment groups, some of which have rested interests in CONADI. A privatization program in Honduras cannot exclude these groups, particularly those that have had legitimate relations with CONADI. But the privatization program will probably have to expand this base as well as to seek international investors if it is to be implemented successfully. It will be necessary to market enterprises adroitly and tap available capital resources.

D. Rationale/Justification of Privatization Efforts

A successful privatization program will not only result in significant fiscal savings and contribute to stabile the economy, but will also contribute to enhancing private sector capital formation, productivity, and increasing employment over the long-term.

The GOH recognizes that implementing the privatization program will be a difficult and sensitive undertaking and will require skills not available in Honduras. It has thus requested A.I.D. assistance in this effort. A.I.D. has a unique opportunity to make a significant contribution to this key GOH program, and to assist the GOH overcome the constraints noted above. A.I.D. resources can strengthen the position of key GOH players committed to privatization and can contribute to the legitimization of the process. Project resources can also bring to bear the human and other resources, currently lacking, which are necessary for effective implementation.

III. PROGRAM FACTORS

A. Relationship to Host Country Programs

The Project is in line with the GOH's National Development Strategy which emphasizes private sector-led growth. The GOH has taken some initial steps to correct the existing economic disequilibria and to stimulate private investment. Policy discussions within the Joint Economic Working Group have resulted in important policy measures, including the passage by Congress of an

important fiscal package in 1984 and the establishment of credit targets for 1985 and 1986 that would also contribute to private sector-led growth. The commitment of the GOH to the divestiture process is a major step in achieving long-term fiscal balance, and returning the initiative for investment to the private sector.

Besides the passage of the Privatization Law, the GOH commitment to privatization is evidenced in several recent actions. For example, the National Basic Foods Supplier (BANASUPRO) runs a large number of retail establishments, many of which are incurring operating losses. BANASUPRO has developed and began implementing a plan to lease about half of its money-losing retail outlets to private management. The National Banana Corporation (COHBANA) has transfered three of its farms to private hands. Plans are also being developed to privatize other COHBANA operations. An effort is also underway to transfer to the private sector grain storage facilities that are presently operated by the Honduran Agricultural Marketing Institute (IHMA). After three years of negotiations between the Mission and COHDEFOR, the Lumber Corporation is now genuinely interested in a major role for the private sector in forest product processing and marketing, as well as divestment of other commercial operations. Currently, a large lumber yard in the north coast, CEMSA, and a sawmill are being assessed to determine fair market value prior to their public offering. CORFINO, the largest sawmill in Central America (one of the biggest disasters in the SOE portfolio) is undergoing an evaluation as an initial step toward its potential transfer to the private sector. The GOH has also recently expressed interest to the Mission in assistance to divest its improved seed production and agriculture mechanization programs, and coffee processing mills.

B. Relationship to A.I.D. and USAID/Honduras Program

1. Relationship to Agency Policy

As noted in the Deputy Administrator's address to the Center for Privatization Conference in February 1986 and more recently articulated by the Agency's guidance to the field on this subject, privatization of state-owned enterprises is one of A.I.D.'s most important tools for achieving its private sector goals. The guidance cable indicates that "the Agency's privatization objective is based upon the pragmatic realization that the entrepreneur and the private sector are the most appropriate mechanisms for economic growth. A healthy independent private sector can secure individual economic freedoms (and) serve as a strong base from which to ensure that democratic institutions...remain free from centralized political control. Privatization of functions, activities, or organizations currently in the public sector should contribute to the achievement of these goals." This Project will significantly contribute to the Administrator target of an average of two privatization actions by each USAID Missions per year.

2. Relationship to USAID/Honduras Strategy

As articulated in the current CDSS, privatization of SOEs is one of the highest priorities of the Mission as it is critical to Honduras' economic stabilization. It is a cornerstone of USAID's strategy to assist Honduras to

achieve sustainable economic growth. Stabilization of the economy is also a key goal of the Central America Initiative developed from the recommendations of the National Bipartisan Commission on Central America.

The Mission's FY88 Action Plan indicates that "a major thrust of our program is to assist the GOH to implement its stated policy to divest itself of certain commercial enterprises by transferring, where possible, their operations to the private sector". The proposed Project is the principal vehicle for achieving this, as illustrated by the fact that the FY88 Annual Budget Submission places the Project as the third highest priority for funding both in FY87 and FY88, second only to the ESF balance of payments program and private sector population activities. That priority is warranted both by the importance of this activity to reducing the GOH's fiscal deficit and its importance for the future private sector-oriented growth of Honduras.

C. Relationship to Other Donor Programs

In attaining greater efficiency for the Honduran economy, the Project complements the development efforts of other donors. More specifically, the Central American Bank for Economic Integration (CABEI) and the Inter-American Development Bank (IDB) have problem loans to CONADI and non-CONADI SOEs and have expressed interest in cooperating with the privatization program, particularly in facilitating workout plans for major SOEs. The IDB is a major creditor of CORFINO and recently sent a mission to Honduras to, among other things, examine possibilities of transferring the saw mill to the private sector. The International Bank for Reconstruction and Development (IBRD) has supported CONADI in the past and has also expressed interest in the program. An IBRD line of credit (FONDEI) may be a significant source of financing for investors. The Organization of American States Development Program also supported past CONADI programs and is also interested in the privatization of its enterprises. The Mission will maintain a continous dialogue with these donors to coordinate and enhance our joint efforts.

IV. PROJECT DESCRIPTION

A. Goal and Purpose Statement

The goal of the Project is to contribute to the achievement of long-term equitable economic growth. The Project purpose is to support GOH initiatives to plan and implement the privatization of state-owned enterprises. It will directly contribute to the Mission's Central America Initiative goals of economic stabilization, and economic growth. The Project will:

- reduce recurrent costs and GOH financial support for state-owned enterprises engaged in the production of goods;

- transfer companies and assets to individuals with equity at risk, increasing the returns from these resources;

- attract new investment into the Honduran productive sector for the purchase of those companies or assets; and,

- reduce the administrative burden presently confronted by the GOH in managing a wide-range of commercial enterprises.

The purpose and goal statements are linked by two critical assumptions: the continued support for the program by the GOH and demand for SOEs by private sector investors. As dicussed below, it is reasonable to expect that the GOH will maintain its present commitment to the program and that an adequate investor base will be identified. It is also assumed that other USAID and donor programs will continue to improve the policy and regulatory environment in Honduras, so as to make investment attractive and allow privatized firms to operate efficiently.

B. Project Strategy

USAID/H is aware of the complex nature of the privatization program and the high risks involved in this undertaking. Privatization, despite the obvious economic and financial implications, is essentially a political issue (a fact recognized in the recent A.I.D. guidance cable on privatization). Moreover, A.I.D. and other donors have little accumulated experience in carrying out divestiture programs. The complexity and risks have become all the more apparent during intensive review.

In light of the sensitive nature of conducting a privatization program, the Mission judges that the most appropriate approach is a strategy of phased privatization, of which this Project represents the first segment. During the proposed three-year funding period, an initial set of SOEs will be sold to private investors or liquidated, thereby setting in motion a process that will stimulate future divestments. Simultaneously, the administrative and analytical framework necessary to plan and implement a comprehensive program will be established within the GOH. Once this framework is in place, an expansion of the divestiture program to cover a wider array of firms can begin.

Yearly evaluations will be conducted (including quarterly reviews with the GOH) to gauge the progress made toward achieving stated objectives and to provide the information to structure a second phase effort. This phased approach will afford the opportunity to apply lessons learned to make mid-course adjustments in Project design, thereby reducing the risks associated with divestiture interventions.

A second important tenet of the Project strategy is the initial attention directed to firms in the CONADI portfolio. CONADI firms were selected because the Corporation's original charter of promoting private sector investment has created little ideological opposition to divestiture of these firms. Recent accusations regarding GOH management of the CONADI enterprises have further strengthened the case for centering our efforts on CONADI. The Project will nonetheless focus on targets of opportunity whereever they may present themselves. The Mission has identified many CONADI enterprises as such targets and this will be the main focus of this Project. And, the Project will also respond to opportunities outside the CONADI portfolio. For example, as indicated above, the newly appointed COHDEFOR director has expressed considerable interest in the divestment of various enterprises. The Mission is currently providing support to divest three of these. One COHDEFOR sawmill

was privatized in May 1986. Likewise, assistance has been requested by the Ministry of Natural Resources for support in the privatization of seed production and agricultural mechanization enterprises.

A third key element of the strategy is the demonstration of early success (i.e., privatizing as many companies during the shortest time frame possible) so as to demonstrate the validity of the process and generate experience to subsequently take on the bigger and more complex enterprises. A ranking of firms to be privatized was carried out during intensive review (described in detail in section V.B.2) under which "ease of divestiture" is weighed slightly more than other criteria. Nonetheless, under the ranking criteria chosen during intensive review (in comparison to the PID discussion) more emphasis was assigned to economic and fiscal impact. This modification responds to a greater understanding that Project success will be measured by the GOH (and A.I.D.) not only in terms of number of firms divested but on the economic and fiscal benefits resulting from these efforts, given that these are critical factors to the overall success of the long-term strategic goals of stabilization and private sector-led sustained economic growth.

C. Overview of the Privatization Process

An overview of the divestiture process, as established by Law 161-85, is presented in Exhibit 1. Each component/step in the process, as described in the law, is briefly discussed below.

1. Supervising Authority.

The law established the CONADI Board of Directors as the highest and principal authority responsible for the divestiture of CONADI's assets.* The Board has responsibility for: (a) selecting the sales strategy for each divestiture (e.g., whether to sell by public auction or by direct negotiation), (b) approving all conditions of sale, including sales terms and prices, and (c) approving all public auction and negotiated sales. Although the Board is assisted in this process by various commissions, ultimate authority rests with the Board.

2. Pre-Privatization Planning

The privatization law requires that certain global planning steps be completed prior to the initiation of activities leading to the divestiture of individual companies. These steps involve the preparation of two comprehensive studies of CONADI's portfolio to give the GOH a global picture of the privatization process.

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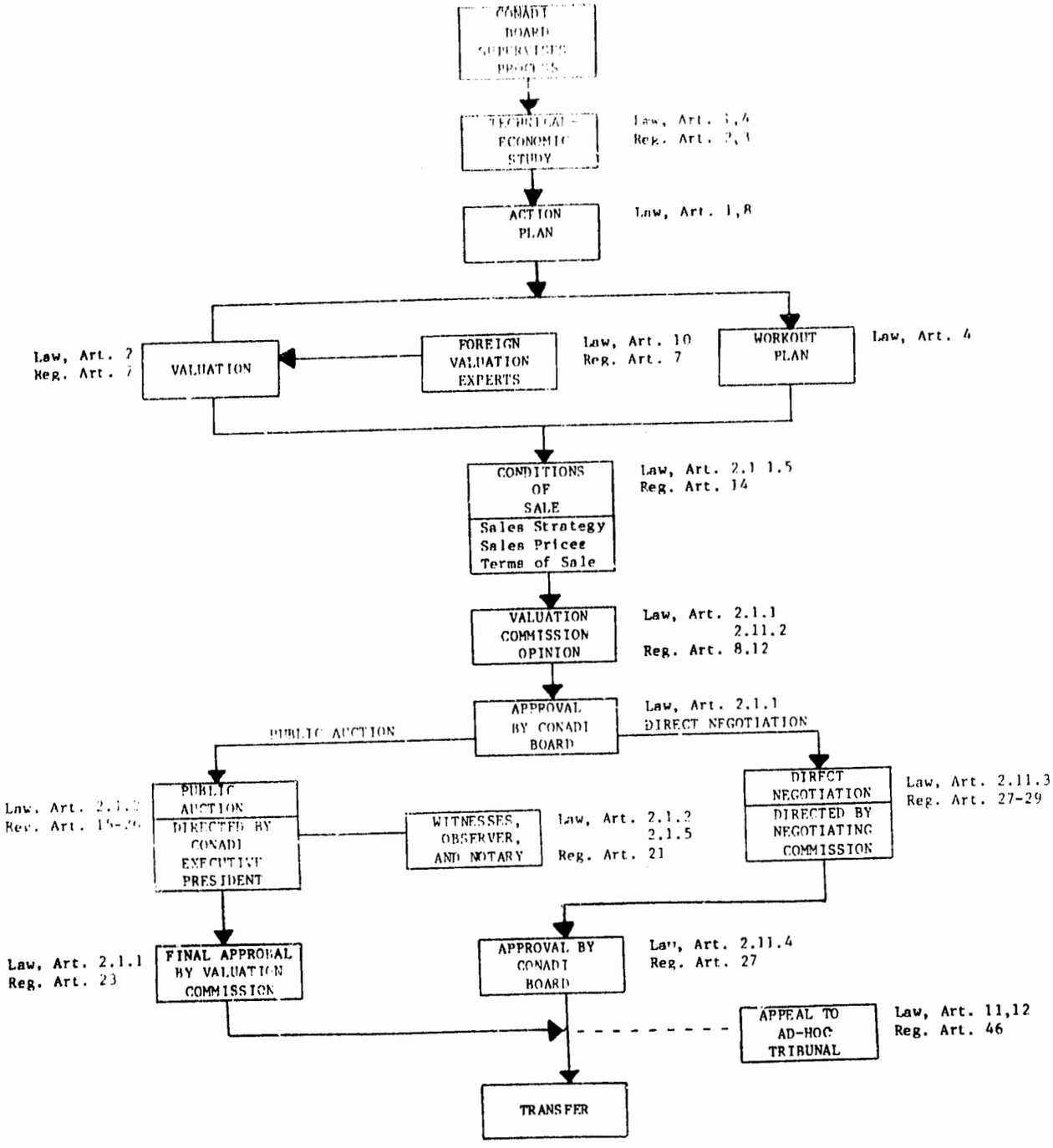
* The law also refers to BANADESA, COHDEFOR and other GOH entities which according to Article 14 of the Decree and Article 49 of the implementing regulations may use the law as a basis for their transfers but with special regulations adapted to the characteristics of these entities to be issued by the Ministry responsible for overseeing them.

EXHIBIT 1

OVERVIEW OF DIVESTITURE PROCESS
ACCORDING TO LAW 101 85 AND REGULATION 907 85



a. Technical/Economic Study (Estudio Técnico Económico)

This study presents the basis for a global privatization strategy. It will contain the following elements: (a) an analysis of CONADI's financial situation; (b) the nature of companies and assets in CONADI's portfolio, including a description of the financial and legal status of these assets and companies; and (c) an analysis of CONADI's capacity to manage this portfolio.

b. Privatization Plan (Plan de Traspaso)

Based upon the technical/economic study, an action plan will be prepared that will include: (a) an implementation schedule to carry out divestiture actions; (b) a statement of annual goals and objectives; and (c) the criteria for ranking of privatization activities. It will make additional recommendations such as when to use public auctions and when to use direct negotiations as the method of sale. The plan will also provide specific strategies for the privatization of the top-ranked firms.

3. Privatization Activities

Both the comprehensive technical-economic study and the divestiture plan are global in nature; they treat the entire loan and investment portfolio. The privatization law also outlines a number of specific entities that will participate and tasks that will have to be performed in the process of privatizing specific companies or assets.

a. Technical Analyses

The technical analyses will include a detailed description of the company or goods to be sold including: a statement of the company or asset book and market value; an analysis of outstanding liabilities and capital position; and the minimum sale price and recommended conditions of sale and sale strategy and other conclusions and recommendations. The law provides for the use of domestic and/or foreign technical assistance in this area and specifically mentions the use of foreign valuation specialists.

b. Workout/Clean-up Plan (Plan de Saneamiento)

Parallel to the completion of the technical-economic study, the law requires that CONADI prepare a workout/clean-up plan for each company. These plans are to contain: (1) proposals for undertaking the financial/legal clean-up of the firm. This could include recommendations regarding the writing-off of debt, capitalization of debt (debt to equity conversion) in order to privatize that equity, and foreclosure recommendations; (2) a program for the recovery of investment; and (3) identification of the parties whose actions were of a negligent or unlawful nature and were detrimental to the interests of the Corporation.*

* For obvious reasons, the Project Agreement will indicate that this requirement is the responsibility of CONADI and Project assistance will not be used for this purpose.

c. Conditions of Sale

The technical-economic study, together with the results of the workout/clean-up plan, should result in a set of recommendations concerning the proposed conditions of sale. These conditions should include the recommended sales strategy (i.e., the use of public auction or direct negotiation), the specific terms of the sale and the base sales price. In general, all companies are to be sold for cash (Regulation 347-85, Article 14) but credit sales are permited if they meet the following criteria: (1) at least 20 percent of the purchase price is paid in cash; (2) guarantees in favor of CONADI are issued and backed by collateral or by bank guarantees in amounts acceptable to the Board of Directors; and (3) the credit repayment period does not exceed five years. Nonetheless, one of the attributes of the law is its flexibility: the Board may modify conditions if, in its opinion, this is necessary to facilitate the divestiture process.

d. Valuation Commission (Comisiôn de Avalûo). A special valuation commission is established by the law and charged with the responsibility of reviewing the conditions of sale, particularly the sale price and strategy. The commission is permanent in nature and is composed of representatives from the Controller General, Superintendencies of Decentralized Institutions and Banking, Director General of Administrative Probity, and a representative from the private sector to be selected by the GOH from a list provided by the Honduran Council of Private Enterprise (COHEP).

e. Public Auctions and Direct Negotiations

After the Valuation Commission has accepted the conditions of sale, these must then be approved by a majority of the CONADI Board of Directors. Following this approval, the sale may proceed through public auction or direct negotiation. The legislature considered the former the preferred approach but gave the Board of Directors the flexibility to use direct negotiations whenever this route appeared to be in the best interest of the State. The public auction approach is likely to be cumbersome and, given the limited demand for the distressed properties involved, is unlikely to yield results commensurate with the associated effort. A step-by-step outline of the procedures to be followed during the public auction and direct negotiation processes is presented in Annex III K.

f. Negotiation Commissions (Comisiones Negociadoras)

Sales which take place via the direct negotiation route are to be coordinated by negotiating commissions specifically created to oversee each divestiture. The commissions are not empowered to finalize any agreement or sale. The law provides for the use of "foreign advisors" to the commissions if so desired by the Board.

g. Ad-Hoc Appeals Tribunal

An ad-hoc appeals tribunal is to settle appeals regarding public auctions. The tribunal is composed of a representative from the Central Bank of Honduras (BCH), and two private sector representatives.

Intensive review suggests that the privatization process described above is indeed workable and can lead to effective implementation. The various commissions and entities involved in the process (which may give the appearance of cumbersomeness) are intended to provide the checks and balances to the process which the Mission recognizes to be of critical importance, given the sensitive nature of the task.

D. Project Activities

The Project will support two components designed to assist the GOH privatization program as structured under Decree 161-85. The first will be the establishment of the institutional framework to oversee the program and to provide the necessary analytical support. Project D.A. funds will be used to contract long-term technical assistance (TA) to assist CONADI and other GOH entities in the implementation of the privatization program. The second component, to be funded with ESF-generated local currencies, will finance a number of activities designed to support the sale of enterprises and assets and, where required, initially enhance the efficiency of privatized enterprises.

1. Institutional Configuration/Analytical Support

a. Institutional Configuration

The CONADI Board of Directors is charged with overall responsibility for the privatization program of CONADI assets and companies. Likewise, the Board of Directors of other GOH entities managing SOEs are responsible for their respective privatization programs under the guidelines established by the Privatization Law. To assist the Boards of Directors in this task, the President of the Republic will establish a National Privatization Commission (NPC) to coordinate privatization efforts and to ameliorate political constraints to the program. The objectives of the TPC are three-fold: (1) to oversee the privatization of assets and enterprises owned by the public sector through numerous institutions; (2) to serve as an advisory body to the Economic Cabinet* and to the Board of Directors of CONADI and other institutions regarding enterprise valuations, terms of sale, and other privatization decisions; and (3) to enhance the transparency of actions related to the privatization process (avoiding allegations of impropriety) and enhance the political acceptance of the program by establishing direct links to a broad spectrum of Honduran society represented in the NPC. Consistent with Decree 161-85, final decisions regarding privatization actions will rest with the Board of CONADI and with the Boards of other institutions in enterprises under their authority.

* The Economic Cabinet is composed of the Minister of Economy, Minister of Finance and Public Credit, President of the Central Bank, the Minister Advsior to the President, the Minister of the Presidency, and a representative from the armed forces.

The Commission will be made up of high level sector representatives not associated with past SOE operations and representatives of the private sector. While the exact composition of the NPC has not yet been determined. Possible representatives include: two high level government representatives (possibly the Minister Advisor to the Presidency and the President of the Central Bank); two private sector representatives; and a representative from the agrarian/labor movement. The chief executive officer of each institution involved (e.g., CONADI's Executive President) will be a non-voting member of the Commission on privatization actions regarding that institution. The NPC will be chaired one of the high level GOH representatives who will call meetings as required to carry out Commission functions.

To conduct the analyses required and to develop a sound analytical framework on which to base decisions, the CONADI Board and the Commission will require the services of a higly qualified full-time staff. Consequently, the Project will finance the establishment and operation of a Technical Working Group (TWG), with its own budget, to serve this staff function for the NTC and the Board(s). The objective of the TWG is to serve as the critical cadre of experienced international and Honduran personnel that will provide analytical and marketing assistance to CONADI and other GOH entities to implement the privatization program. The TWG will be staffed primarily by long-term technical experts, although short-term specialists will provide specific analyses of companies and assets undergoing divestiture. Section IV.F. describes the likey composition of this long-term TA team. Both long- and short-term international TA will be financed with D.A. funds. In addition, local currency resources will fund Honduran technical expertise including legal, accounting, and financial assistance. Local currency will also fund administrative support and secretarial staff.

The TWG will serve as the technical staff of the Commission, which, in turn, will report directly to the Economic Cabinet and the President. While the Cabinet will not play an active role in the process, it is responsible for monitoring overall ESF compliance implementation for which privatization is a key element. It is also the lead advisory institution to the President of the Republic on economic issues and, as such, will play an important role in the process. Although the unit will initially work closely with CONADI, it will function as a separate "module" which will assist other GOH entities in privatization transactions as required. Exhibit 2 illustrates the relationship between the Commission, the TWG, CONADI, and other institutions involved in the privatization process as described in section IV.C.

One of the first tasks of the TWG will be to prepare, with CONADI staff, the economic/technical study and the divestiture plan. The plans will be reviewed and approved by the Commission and submitted to the CONADI Board for approval and will serve as the blueprint that will guide the program.*

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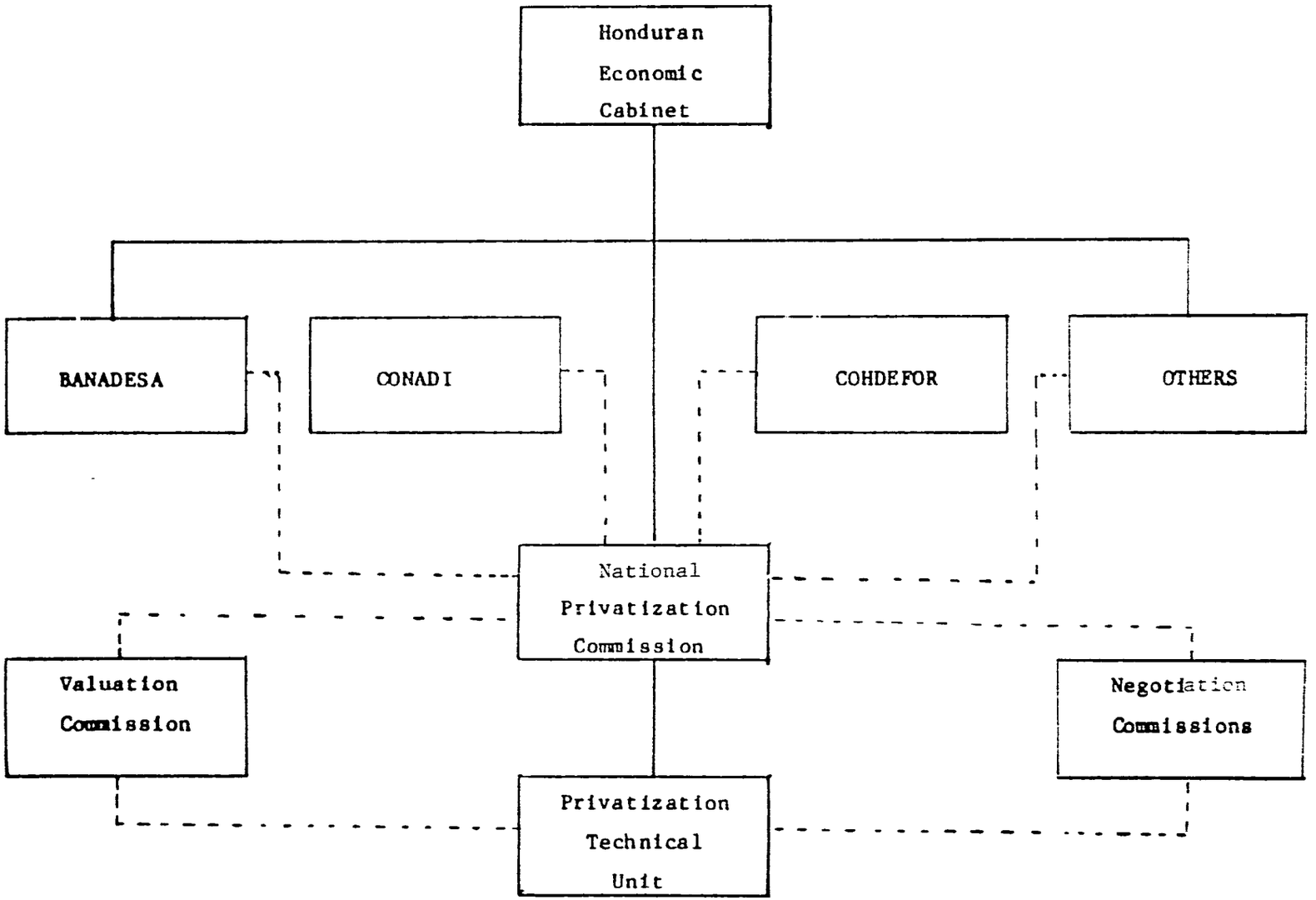
* Much of the work required for this effort has been carried out during intensive review. Consequently, these plans will be completed by October 1986.

EXHIBIT 2
HONDURAS PRIVATIZATION PROGRAM
RELATIONSHIP OF PARTICIPATING ENTITIES



On an operational basis, TWG assistance will be requested by the CONADI Board, or that of other institutions, through the chairman of the Tripartite Commission who will be a member of the Economic Cabinet as described above. The TWG will consequently work directly with the CONADI staff in preparing the workout plan for each of the top ranked firms for which privatization strategies were previously approved through the divestiture plan. The TWG will gather enterprise information, valuations, and take other steps required to package an enterprise for eventual sale.

In line with Exhibit I presented earlier, the TWG will also work with the Negotiation Commissions appointed by the CONADI Board in dealing with potential investors (the Chief of Party to the TWG will be an advisor to the Negotiation Commissions). When a privatization package is completed or is near completion, the TWG will present the conditions of sale to the Valuation Commission and to the Privatization Commission. After the Valuation Commission issues its sales term and price determination, the package will be presented to the TPC for review and recommendation to the CONADI Board for final approval. Annex III.L. presents the steps required for an illustrative divestment of a CONADI firm under two different scenarios.

b. Analytical Support

Successful implementation of the privatization process will require a broad range of professional skills and capabilities. CONADI's portfolio is a heterogenous group of firms which experience a variety of unique problems. While the difficulties of certain companies can be addressed with similar treatment, for the most part it would be imprudent and inefficient to attempt to apply common solutions.

The coordination and management of the privatization of 50 to 60 different companies is analogous to the simultaneous management of this number of independent technical projects where each company demands specialized attention. Although decision-making authority will rest with the CONADI Board, the TWG will be responsible for overall management of this considerable effort, and for coordinating the participation of, and bringing to bear, the skills required. The principal skills and capacities that will be employed by the TWG are discussed below.

(1) Financial Analysis. The TWG will review company financial statements and cash flow and profitability in order to assess the financial condition of companies under consideration, with a focus on capital adequacy, ability to service debt, working capital needs, and other financial concerns. This analysis will provide the basis for the recommendations regarding debt capitalization, debt rescheduling, and other measures. Auditing services will also be required to examine, reconstruct, and certify the books, accounting reports, and financial statements of the firms, in accordance with generally acceptable accounting principles and practices. In addition, other financial support services will be required to assure the completion of company and asset valuations, as well as for the design of financial packages for specific privatization candidates such as the execution of physical inventories of property, plant and equipment.

(2) Financial Engineering. The TWG will play a key role in the design and implementation of financial packages for specific enterprises in order to expedite divestiture. This capability will draw heavily on the financial analysis skills discussed above, as well as on an in-depth understanding of commercial and investment banking practices. Procedures and instruments will be tailored to each transaction. These may include capital write-downs, debt-for-equity swaps, buy-outs of loans at discounts, quasi-equity instruments such as convertible debentures which can be collateralized for working capital draw-downs. The TWG will work closely with the A.I.D. liaison officer in the design of additional credit lines if these are required.

(3) Enterprise Valuations. Of key importance to the success of the privatization program will be assistance with enterprise valuations, i.e., determining public offering (sales) prices. To the extent that "historical" or book values are used, the GOH will find itself in the position of having no takers for over-valued assets and enterprises. Law 161-85 requires that sales price be established through the Valuation Commission. However, because such valuations require skills currently not available to the Commission, they will be prepared by expert appraisers contracted by the TWG which will present to the Valuation Commission estimated asset values for their approval. Local appraisers and real estate specialists, supported by international specialists, will provide realistic market appraisals.

(4) Buyer Identification/Closing Transactions: The TWG will assist in the marketing of firms and advise the GOH and the Negotiation Commissions on appropriate marketing and negotiating strategies. Beyond "technical" considerations, the PTV will play an active role as broker between buyer and seller. This role will be of critical importance given the contrasting outlooks associated with privatization programs. Investors are often initially attracted at the prospect of "fire sales" while the public sector is concerned about recuperating investments and public perceptions. Bringing these perspectives together is of key importance.

Within Honduras, the TWG will maintain broad contact with local banking and investment groups. Internationally, the TWG will provide links to formal and informal business affiliations such as those maintained by investment banks, venture capital firms, and the international accounting/consulting firms. These institutions maintain broad-based commercial networks through which companies or assets could be marketed. Section V.B.3. and Annex III.M. provide more detail on the marketing of SOEs.

The TWG will also assist the Negotiation Commissions on contract negotiations and the closing of transactions. While the CONADI Board of Directors will approve all privatization decisions, the TWG will assist in the process by ensuring that offers are accurately reviewed and by providing day-to-day direction to the negotiation and transaction closing process.

(5) Legal Assistance. Assistance will be required to support the clean-up of outstanding legal impediments to privatization. Specific issues to be addressed include: review of titles, amendments,

franchise agreements, loan documents; examination of lawsuits pending against or on behalf of the company; and formulating of strategies to resolve unsettled conflicts.

(6) Production/Operations Analysis. The TWG team will require the services of production and operations specialists who are familiar with the specific industries involved as well as the nuances of doing business in Central America. Specialists will provide assistance in areas such as: plant layout and process flow planning; processing equipment and technologies; production scheduling and control techniques; materials management methods; operating capacities and their relationship to product flows and plant profitability; and equipment maintenance.

2. Privatization Support Mechanisms

a. Rationale

While the thrust of the Project is to provide GOH/CONADI with the institutional and technical capability to implement the process, support mechanisms (e.g., credit, support for severance payments) will be provided when required to close the sale of a SOE.

Support mechanisms are needed not only to close transactions, but to contribute, in select cases, to one of the Project's objectives -- increasing the efficiency of the Honduran economy. This support should be seen in the context of ensuring the overall success of the privatization program. The GOH and Hondurans in general, will favor the privatization process to the extent that clear and quantifiable benefits can be attributed to the transfer of a firm to the private sector, e.g., increased output and employment levels. In line with A.I.D. policy, support mechanisms will be geared to assist investors (rather than public sector vendors). All Project-related support mechanisms will be financed exclusively with ESF-generated local currency. The provision of DA resources is not envisioned.

As further described below, USAID/Honduras and other donors already have in place a support infrastructure of credit lines, technical assistance, and training programs open to a broad range of firms (e.g., export firms, small- and medium-scale enterprises, and agricultural groups) that will make it unneccessary to establish new programs in many cases. These established programs will receive priority as support mechanisms. Moreover, it is anticipated that some investors will have the resources needed to purchase and operate enterprises efficiently and will require no external assistance other than that provided by the TWG through its "facilitator" role (i.e., assist investors in presenting proposals and in understanding local business conditions). The component will be managed on the principle that private investors should provide all the required resources on their own and should manage the entire range of activities related to privatization without Project assistance. Nonetheless, there will be cases in which the support resources will not only expedite the process, but can be the determining factor between privatization and continued public sector involvement in operations.

Financing under this component will be administered independently by the Mission and the Minister of Finance and Public Credit through establish A.I.D.- GOH procedures on the management of ESF local currency funds. The USAID/Honduras Liaison Officer will establish close relations with the TWG team to ensure that the support mechanisms are integrated effectively into the privatization process.

b. Description

The privatization process for each firm is unique, and will require a different mix of resources. Consequently, it is presently difficult, if not impossible, to make a specific calculation of the resources which will be required. By necessity, the Privatization Support Component will require a "rolling design" in which specific support mechanisms will be established in the course of Project implementation.* At this juncture, it is more appropriate to: describe the type of support mechanism envisioned; present parameters as to the resources that are likely to be required; and define the criteria that will be used in establishing them. Support mechanisms in all cases will be consistent with A.I.D.'s Policy Guidance on Implementing A.I.D. Privatization Objectives (STATE 189806).

To establish general levels of magnitude, a review was undertaken of the ten highest CONADI firms selected under the ranking criteria as described in Section V.B.1., as well as two COHDEFOR enterprises. Annex III.N. illustrates the kinds and amounts of resouces, which a preliminary analysis suggests might exist for these firms. These needs are based on certain assumptions about sale prices, presumed purchaser, and legal standing that could change during the actual privatization process. For example, credit needs and source of funding (e.g., established lines or special lines of credit) will differ in accordance with the particular characteristic of the investor (e.g., a multinational investor or a group of workers). In sum, the 12 firms would represent a combined sales transaction of approximately L87 million; a credit need for purchases not less than 80-90 percent of the sales value; additional or new credit needs of approximately L23 million; modest amounts of working capital; and a small but critical amount of severance pay, training, and clean-up components.

(1) Credit. Additional lines of credit should not be required in many cases because of the availability of alternative credit lines in Honduras.** Nonetheless, access to credit for purchases of SOEs could be a constraint, particularly in those cases involving non traditional investors such as workers. While the GOH may in some cases provide for the scheduling of payments for the purchase of an SOE, it is important whenever possible to

*As noted in a recent A.I.D. impact evaluation, this type of design effort is appropriate in cases where little previous experience exists and where establishing concrete paramaters is likely to be unproductive.

** Annex III.F. presents a listing of these lines available through USAID and other donor programs.

sever the links between privatized firms and the public sector. CONADI has proved it does not have the capacity to effectively manage a large credit portfolio. Hence, credit for the purchase of an SOE and for necessary investment and working capital outlays should be provided through means independent from the public sector.

Criteria for establishing of additional credit lines will include the following: (a) commercial banks or other private institutions should channel credit resources; (b) additional credit lines will not include GOH commitments and further exposure (e.g., guarantees); (c) investors should provide the largest downpayment possible (i.e. maximize their exposure) -- in the case of workers, this may include capitalizing accumulated severance payments and other benefits; (4) interest rates will be at commercial rates.

Implementation of credit facilities following these criteria will require creative financial engineering during Project implementation. For example, to reduce GOH exposure in facilitating credit, one approach will be for the GOH to discount loans to commercial banks at a price that would compensate for the banks' risk for assuming the loan.

(2) Severance payments. Given the importance of labor perceptions to the privatization process, it will be neccessary to provide the resources to meet legal severance obligations.* In most operational CONADI enterprises, there exist obligations for severance payments for which reserves have not been provided. Consequently, many enterprises will not have the liquidity to cover this obligation and an investor will be unwilling to assume this burden. Prior to a liquidation or sale to a new owner, however, workers have a call on company assets which must be compensated according to Honduran law.

Criteria for the use of local currency for severance payments will include: (a) resources will only be provided for claims required by Honduran law. (b) where labor is purchasing part or all of an enterprise, due severance payments will represent their contribution to the purchase, which could, incidently, represent a considerable portion of the sales price in many cases. (c) in line with Agency policy recommendations, local currency resources used for severance payments will be attributed as a grant from the A.I.D. to the investor and from the investor to the seller (included in the sales price and initial payment), although the transfer will be made directly to the GOH; and (d) support will only be provided on a one-time basis.

(3) Management Contracting. Given worker, suppliers and other non-traditional investor interest in purchasing many SOEs, a need may arise to contract experienced management to temporarily assist workers in running enterprises. An example is an industrial company like Productos Lacteos Sula where dairy farmer cooperatives do not have the know-how to run

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* Under Honduran law, the amount of severance payments equals one month pay for each year worked up to 8 years as well as 2 month notice (auto aviso), a "13th month" bonus, and vacation due.

an operation as a commercial firm responding to market forces rather than to their special interests. In such a case, an entity such as Land-O-Lakes could be contracted on a short-term basis to provide management assistance and know-how.

One alternative way to compensate expatriate experts under a management contracting agreement will be through a profit-sharing arrangement. The specialized company would take charge of the firm, would reorganize its production and commercialization functions, and would share the firm's profits once the company is profitable.

Criteria for management contracts are: (1) they will only be used as a mechanism of last resort, where it is clearly needed to ensure an effective transfer; (2) potential contracts will be targeted to international companies or cooperatives, and similar groups which have commercial interest in performing these services but which are familiar with the nature of the enterprises to be managed; (3) contracts will be for a period no longer than two years; (4) resources will be provided on a cost-sharing and/or loan basis; and (5) only local currency will be provided, -- to the extent that foreign exchange is required, the interested parties will assume the burden of foreign exchange transactions.

Training, managerial, and technology-related assistance mechanisms will also be facilitated through the Project to make the "incentives package" for SOE buyouts more attractive and to improve the productivity of these firms. Most of the programs are already available to the Honduran private sector through USAID projects such as GEMAH and CADERH and through other GOH and donor programs.

In sum, the Project will establish the institutional framework, analytical support, and supplementary resources necessary to respond to the constraints to privatization program and to carry out an effective transfer of enterprises from the public sector to independent private enterprises. The TWG, through the long-term TA team will provide the necessary analytical skills and marker links which are currently lacking to implement the program. Parallel to this effort, the Tripartite Commission will provide for the legitimacy of the process and assist in maintaining a political consensus regarding the program. Finally, support resources will ensure that there is a complete resource package to ensure the closing of transactions.

E. Outputs/Expected Accomplishments

Project Outputs include:

1. The establishment of appropriate institutional mechanisms for privatization and an operating Privatization Technical Unit to assist CONADI and the GOH in all facets of privatization.

2. An effective support program for privatized enterprises in place, including the provision of credit, technical assistance, and other support mechanisms.

3. Approximately 12-15 enterprises privatized, including divestitures, sales of assets, and liquidations, resulting in approximately L100 Million in generated revenue and private sector investment.

4. Improved economic and fiscal performance as a result of privatization actions. Quantifiable targets include:

   - present value of future income or GDP flows originating in privatized enterprises increases by approximately L50 million by 1992 by 1992;

   - tax revenues as a result of privatization increased by approximately L45 million;

   - GOH interest payments to service debt decreased by no less than L15 million by 1992.

These quantifiable targets are derived from the extrapolation of the economic analysis of three firms and by the review of financial data of an additional seven firms for which in-depth profiles were prepared. Even if these firms are not privatized under these conditions, at least 12-15 firms will be privatized through Project resources and contribute to the achievement of these quantifiable outputs.

It should be noted that these are direct accomplishments. Much harder to quantify, but equally important, are indirect benefits related to less reliance on the public sector as the catalyst of private sector capital formation. The reduction of CONADI and/or its eventual elimination or transformation to a completly private investment bank could play a very significant role in establishing a more efficient and productive Honduran economy. Other benefits will be increased direct and indirect employment as firms return or establish market-oriented, efficient management, , and reduction of significant public sector fiscal losses which would be incurred through continued management of SOEs.

F. Project Inputs

As discussed above, the primary input of the Project is technical assistance. A combination of long-term and short-term technical expertise will be provided through the Privatization Technical Unit to the Tripartite Privatization Commission, CONADI and other GOH entities that require assistance to privatize SOEs. Technical assistance to privatized firms will be channeled through ongoing Mission programs. The long-term and short-term TA to form the nucleus of the TWG will be procured through an institutional contract with an international accounting or investment banking firm or a consortium of these and other specialized consulting firms.

1. Technical Assistance

a. Long-term

- Chief of Party (TWG Director). This individual should be a non-Honduran with broad private sector experience (10-15 years) preferably in investment banking and/or venture capital operations. Experience in workout situations including business rehabilitation and/or liquidation proceedings is also desirable. This experience should have been in Central or South America. She/he should be fluent in Spanish and have proven management and interpersonal skills. The Chief of Party will act as Director of the TWG, and be the principal liaison person between the TWG and other entities such as the TPC, CONADI, other GOH institutions, and AID. She/he will be responsible for overall TA efforts related to the Honduras privatization program. In addition NPC will play a key role in closing transactions by leading SOE marketing efforts and serving as an advisor to the Negotiation Commissions to be established by CONADI.

- Financial Specialist. This individual will help coordinate the in-depth technical and financial studies required. He/she should have a degree in financial analysis and five or more years experience in private sector business and/or consulting.

- Other Specialists. The Chief of Party will contract for the long-term services of additional technical personnel, including Honduran financial specialists and the services of full-time legal counsel.

b. Short-term

Successful implementation will require access to numerous short-term technical specialists on a "quick response" basis. Approximately 75 person months will be required in the areas listed in Section III.D.1.b.

c. Project Liaison Officer

The TA package will also include a Project liaison officer to support Mission Project implementation efforts and facilitate institutional coordination of participating institutions. It is expected that this individual will be contracted through the life of the Project and devote his or her time exclusively to Project implementation. The liaison officer will play an important role in coordinating support mechanisms such as credit, severance payments, training, and other components that will be coordinated by the Mission. She/he will be physically located in USAID/H although will spend much of her/his time working directly with the TWG.

2. Commodities

It is anticipated that the TWG will need to acquire a micro-computer and some basic software to facilitate the efficient execution of activities. The recommended hardware is a personal computer IBM PC XT (or AT). Software packages may include, but will not be limited to: Valuesoft for valuation of assets, AY Fastplan for financial projections, DBase III for data

bases, Lotus 1-2-3 for spreadsheets, and Wordstar for word processing. A vehicle will also be procured for in-country travel, including technical and marketing-related visits to SOEs.

3. Other Inputs

Project D.A. funds will finance yearly evaluations, a monitoring/tracking program, as well as miscellaneous activities and contingency. The Mission is budgetting a small amount of funds for non-federal contract audit coverage of the technical assistance contract. All Project dollar funds will be administered through A.I.D.-issued documentation such as contract for technical assistance procurement documents for the commodities. Audit coverage for dollar funds under these circumstances is best provided by the Inspector General but the audit money will be available to contract audit coverage in the event the IG cannot devote staff resources to this review. The technical assistance contract will be administering ESF lempiras in a fiduciary account for salaries of Honduran staff and other local expenses of the contract. An annual audit of this account will be required as a condition of the contract and funds will be made available in the fiduciary account to cover this expenses.

V. PROJECT ANALYSES

A. Financial Plan

1. Project Budget

The total cost of the Project is approximately $17 million over a three-year implementation period. A.I.D. will contribute $4 million in grant funds to finance the foreign exchange costs of technical assistance, evaluation, and travel, while the GOH will contribute the equivalent in local currency of approximately $13 million to finance expenses for the local technical assistance, TWG operating expenses, other miscellaneous items, and privatization support costs such as credit, severance payments, and other items.

Regarding privatization support costs, it was previously stated that it is difficult, if not impossible, to establish the exact amount of resources that will be required at this time. Nonetheless, Annex III.N presents an estimate of the resources that are likely to be needed for the privatization of the ten first-ranked CONADI firms and two COHDEFOR enterprises. As indicated earlier these estimates are based on assumptions regarding worker participation, possible buyers and, their potential need for additional credit resources, and several other factors. Changes in actual privatization from those assumed will obviously affect the resources required. For example, severance payments will be higher if workers do not purchase all or part of the stock in firms in which they have expressed interest. Likewise, credit requirements will be less if established international or Honduran investors (with access to credit) play a larger role in acquisitions.

Not included in GOH counterpart estimates are in-kind contributions by CONADI and other GOH entities such as office space, telex services, secretarial services, and other means of support.

Prior to the start-up of the Institutional TA contract, technical assistance from PRE's Center for Privatization will be financed from Project funds as described in Section VI.

TABLE 4
PRIVATIZATION OF STATE-OWNED ENTERPRISES
PROJECT BUDGET
(US$000 EQUIVALENT)

	A.I.D.		G.O.H.		TOTAL
	FX	LC	FX	LC	
I. Institutional Confituration/ Analytical Assistance					
A. Bridge Technical Assistance	225	-	-	50	225
B. Long-Term T.A.*					
1. International	1,600	-	-	-	1,600
2. Domestic	-	-	-	780	780
C. Short-Term T.A.	1,125	-	-	-	1,125
D. Travel & Transportation Expenses	60	-		30	90
E. TWG Operations	-	-	-	100	100
F. Commodities	50	-	-	-	50
II. Privatization Support					
A. Travel and Training	-	-	-	20	20
B. Other Support Components	-	-	-	12,000	12,000
III. Project Liaison Officer	380	-	-		380
IV. Evaluation/Audits	100	-	-	20	120
V. Contingency	460	-	-	-	455
TOTAL	4,000	-	-	13,000	17,000

* Long-term technical assistance costs have been estimated using FS-1 level salaries, and all expected allowances and benefits including housing, education allowances, transfer expenses and other related costs for a family of six Short-term T.A. costs have been estimated using a figure of $15,000/person month, inclusive of overhead which was also estimated for the long-term TA.

2. Obligation Schedule

Given the delicate and experimental nature of the Project, Project obligations will be made on an incremental basis. One million dollars will be obligated in FY 86 on signing of the ProAg to cover TA costs for one calendar year. Two million dollars will be obligated in the third quarter of FY 87, and the remaining one million dollars will be obligated in the first quarter of FY 89.

B. Arrangements for Privatization

Arrangements for privatization include the design of an institutional framework to carry out the program; a ranking of target firms, and a preliminary marketing plan, including the proposed sale of enterprises as going concerns, assets, as well as the potential sale of liabilities (loans and guarantees) to financial institutions. This section describes and/or analyzes these arrangements.

1. Institutional Framework

The institutional framework to implement the Project, i.e. the creation of a Privatization Commission and a Privatization Technical Working Group, was described in Section IV.D. This Section presents a brief analysis of the feasibility of this mechanism.

During the course of Project design, the Mission reviewed a number of alternative institutional mechanisms, consisting primarily in the creation of a supra-GOH entity to directly implement the program with full decision-making power, and the establishment of private or semi-private institutions to absorb CONADI's assets and companies.* Since the initiation of discussions within the Mission and with GOH officials regarding an effective institutional mechanism to implement the privatization program, several variables have selected the selection of a mechanism. These variables include the following, oftentimes conflicting, considerations:

- A workable privatization law exists in Honduras. Establishing this legal framework is a major constraint in undertaking privatization programs in many countries. To the extent that the legal framework is already in place, a mechanism should be established which builds on this accomplishment. Institutional mechanisms requiring extensive changes in the existing law could be counterproductive, as the political capital and goodwill invested in making these changes may not provide an adequate return on the expected level of effort required to implement them.

* One proposal that has the support of some GOH officials and private sector groups is turning CONADI into a private "second tier" investment bank. While attractive in theory, there are key issues to be worked out before such a program can result in a market-oriented bank. Nonetheless, such alternatives will continue to be explored and are not inconsistent with the proposed privatization program.

- To implement the program, and specifically to obtain the information necessary to carry out financial analyses, sound valuations, and other required tasks, it will be necessary to establish a good working relationship with CONADI staff and those of other SOEs, as they are the only ones with detailed, adequate information. Short of a sound working relationship, the process could be sabotaged by bureaucratic inertia.

- CONADI has been totally discredited. Working exclusively with CONADI would probably result in a cloud of suspicion over the entire privatization program.

- Privatization is a highly political process.

These considerations have led the Mission and key GOH officials involved in Project design to opt for the National Privatization Commission, Technical Working Group arrangement described earlier. The institutional mechanism deals with the above indicated considerations in several ways.

First, it maintains the Board of Directors of CONADI and the Board of Directors of other GOH entities undergoing divestiture programs as the final decision-makers in privatization actions. This is consistent with Decree 161-85 and with the bylaws of CONADI and other institutions. While an executive decree will be required to establish the NPC and the TWG, the arrangement falls within the law and will not require legislative changes.

Second, it establishes a means for the TWG to work directly with CONADI staff while at the same time maintaining a clear separation between both entities.

Third, this arrangement will establish a decision-making process oriented at technical considerations, approved by two independent organizations (the Valuation Commission as called for by the decree and the Commission) which will make it difficult for the Board of Directors to make non technical decisions.

Finally, the broad representation on the Commission should give credibility to the government's determination to carry out a privatization program free of impropriety. This should facilitate politically sensitive decisions.

It is recognized that the design has some potential liabilities. If improperly managed and if the correct people are not chosen, the Commission could politicize the program even more. High level CONADI staff could resent the mechanism as a limitation on their authority. Given the numerous entities involved, without proper management the program could be bogged down in bureaucratic delays.

While these are legitimate risks, the Mission believes that they can be overcome or avoided. The TWG and a full-time Project liaison officer will be instrumental in reducing bureaucratic delay. Because there are numerous agencies involved in the program the result is a defacto system of checks and

balances necessary, for successful implementation. Moreover, the mechanism chosen has the full support of key GOH officials who see it as necessary to deal with the considerations raised earlier. Ultimately, it is the commitment of these officials, including the commitment of the President of the Republic, that will determine the success of the program.

2. Ranking of Firms

a. Background

Shortly after the passage of Decree 161-85, the Mission and CONADI staff initiated a ranking system of CONADI's 60 plus enterprises in order to effectively concentrate efforts on those firms with the most potential for successful privatization. Annex III.H. presents in detail the methodology and the results of this effort. In summary, profiles were prepared for all enterprises including brief histories, operating status, capital structure, main creditors, and other financial data. The profiles also include a description of existing and/or potential legal/political constraints to privatization as well as known expressions of interest from potential investors. Annex III.P. contains a sample profile.

b. Methodology. Based on the enterprise profiles and additional information obtained through discussions with GOH, CONADI, and local businessmen, a ranking of firms was prepared which considered two principal factors: ease of divestment and potential economic impact of privatization (or of not privatizing). A total of nine variables were developed, each of which was assigned a point total ranging from zero to three point total (for a maximum score of 27), with the highest point total considered positive for privatization. Five of the variables (or 15 points) corresponded to "ease" criteria including: (1) known investor interest, (2) commercial viability of the enterprise, (3) degree of GOH/CONADI control of the enterprise, (4) known or potential legal impediments, and (5) political impediments (involvement of influential public or private sector individual or groups or enterprises of "strategic" value). The remaining four variables correspond to potential impact: (6) total asset value (7) GOH/CONADI exposure, (8) budgetary impact, and (9) employment impact.

According to this point system, "ease of divestment" weighed slightly higher than "impact." But each of the nine criteria was in principle given equal weight under the premise that the selection process would be complemented with further discussions with individuals familiar with the enterprises, in order to incorporate other aspects not included here or difficult to quantify. This included, for example, discussions related to competition, GOH policies affecting the particular industry, and present GOH plans for these firms.

c. Selection of Firms. These discussions led to a revised ranking of priority companies. This, in essence, constitutes a modified

"Delphi" model of analysis.* After refinement, companies were initially assigned to one of three groups: short-term, medium-term, and longer-term privatization candidates. Based on the ranking and discussions, the first group of companies that will receive CONADI privatization attention is presented in Table 5.

Table 5
FIRST-RANKED CONADI FIRMS SELECTED FOR CONADI PRIVATIZATION**

Enterprise and Category	Points for: Ease	Impact	Total
Azucarera Yojoa (sugar industry)	13	10	23
Mejores Alimentos (agro-industry)	11	10	21
Agrícola de Honduras (agriculture)	10	9	19
Productos Lácteos Sula (dairy ind.)	13	8	21
Papeles y Cartones S.A. (pulp and paper)	14	6	20
INACERO S.A. (steel/iron)	12	7	19
Aceros Industriales (steel/iron)	11	8	19
Industrias Quimicas Conrad (chemicals)	12	7	19
Sistemas Intnls. de Construccion (Const.)	14	4	18

** The prioritization plan reviewed only CONADI firms. Nonetheless, the first-ranked target firms also include two COHDEFOR firms, LOCOMAPA and SEMSA, in which CONADI has no exposure. The ranking presented here excludes one firm for which a legal claim is currently pending.

The selection of these firms accurately reflects ease of divestment and impact considerations as well as the wide range of enterprises contemplated for privatization. Three of the firms, Azucarera Yojoa, Mejores Alimentos/Agricola de Honduras, and Aceros Industriales are major enterprises and jointly account for a quarter of CONADI's total exposure.

* Delphi is a technique for structuring "group communication process" for the joint resolution of a complex problem. While quantitative approaches are used to a certain point, but because accurate and specific data is unavailable (or is very expensive to obtain), the evaluation model makes use of non-quantitative inputs by combining the expert opinion of selected individuals. Although the methodology used here is not meant to be a true application of the Delphi technique, it clearly applies some of its main principles.

Sistemas Internacionales de la Construccion is a small firm that has attracted considerable investor interest. Papeles y Cartones has been shut down for several years, though there is also considerable interest in buying its assets and/or purchase it as a whole.

Although short-term efforts will concentrate on the small number of companies selected, the GOH, CONADI, and the contracted long-term technical assistance team will also respond to targets of opportunity, particularly where potential investors have expressed interest in a firm. In this regard, the selection of privatization candidates should be seen as a dynamic, continuing process.

3. Marketing and Transfer Mechanisms

Two key privatization issues are: to whom will these enterprises be sold and what mechanisms will be used to achieve such transfers. The privatization of each firm is unique and each case will require specific solutions. Nonetheless, during intensive review, a broad range of companies (including but not limited to the ten first-rated enterprises) were selected and analyzed, with regard to what they might represent to potential buyers and how they might be sold. Soundings were also taken selectively in the local market and abroad to gauge investor reception. Annex III.4.2 presents a description of this task which is summarized below.

a. Marketing

There are numerous constraints to the successful marketing of SOEs in Honduras. In summary, these include, but are not limited to: (1) the state of the Honduran economy, including international and domestic perception of the investment climate in Central America; (2) the limited size and structure of domestic private capital; (3) the performance and negative image of many of the SOEs to be privatized; and (4) the absence of an organized market or vehicles to facilitate acquisitions and spin-offs to investor groups. These constraints are significant and the inescapable conclusion is that marketing will not be an easy undertaking.

Despite these constraints, however, preliminary market searches during intensive review have revealed that there appears to be considerable interest in many of these firms. In part, this is due to a realization among domestic and international businessmen familiar with the enterprises that they have been mismanaged in many cases, that the underdeveloped nature of the Honduran private sector offers some unique opportunities, and that many of these firms can be turned around if they are bought free and clear of liabilities and legal and other impediments, unburdened by CONADI/GOH involvement in direction/management, and valued at realistic prices (i.e. prices which reflect the profit-generating potential of the enterprise). It is clear, however, that the marketing program will require imagination and persistence (completely lacking to date in CONADI efforts to sell firms). Moreover, much creativity will have to go into designing the financial restructuring and mechanisms by which transfers are achieved on a basis mutually acceptable to buyer and seller.

A starting point for a marketing campaign is the identification of a block of firms to be put for sale (e.g. the first ten-ranked firms or even a smaller number). An alternative could be to group companies according to industry. This alternative strategy does not appear valid, however, given the near impossibility of making meaningful groupings. CONADI hotels come closest to a separate class. Yet in reality each is so different and appeals to such differing interests that grouping them for sale presents no particular advantage. Likewise, grouping industrial or agro-industrial companies does not improve their sales possibilities and, in fact, would require allocation of resources to the least worthy along with the highly worthy divestiture opportunities. The one exception in developing an industry approach might be the grouping of assets of companies being liquidated.

A second principle of the proposed marketing strategy is that a high profile and highly sophisticated marketing campaign should be avoided. Money and energy could easily be dissipated by attempting to sell companies off in global financial centers. The investors likely to invest in these companies are a specialized group, knowledgeble of the Central America region. What is needed is to strike a balance between adequate dissemination of information and promotion and an overly restricted approach that would limit divestiture chances and give rise to criticism. A selective promotion approach should not be confused with a passive one. As noted above, a key task of the TWG and the long-term technical assistance team will be to aggressively identify buyers and assist in the structuring of deals favorable to both parties.

The key element of the recommended approach will be to identify potential buyers by discerning what needs can be fulfilled by each company or asset and then seek out, within the universe of investors who may be identified as willing to invest in Honduras, those that have such needs or interest. For example, current shareholders may have an interest in gaining complete control of the firm; international or domestic investors may be interested in a particular firm to gain access to CBI export benefits; creditors may be willing to exchange debt for equity to enhance collectibility of unpaid debt. Annex III.M. presents a matrix that illustrates these potential investor groups and their presumed motives for investment. Likely investor groups include:

(1) Present Shareholders. As most of the first-ranked CONADI firms are wholly owned by the Corporation, this is not a viable option for these firms. However, Azucarera Yojoa shareholders (who own 48% of stock) have expressed strong interest in purchasing the CONADI share. There also appears to be strong interest among shareholders for no less than five of the second-ranked ten firms. In promoting shareholder interest, CONADI representatives on the Board of these companies will directly inform them that the Corporation's stock is for sale and negotiate a price with TWG assistance.

(2) Worker/Employees. Strong expressions of interest have been received in writing from the employees of several enterprises, including large enterprises such as Mejores Alimentos, Productos Lacteos Sula as well as smaller firms such as Industrias Quimicas Conrad and LOCOMAPA (COHDEFOR). Moreover, representatives of organized labor and the Honduran Congress have voiced positive interest in the program divesting firms to workers.

During intensive review, a specialist in Employee Stock Ownership Programs (ESOPs) was contracted to delve deeper into the twin issues of interest in and support for ESOPs as a means to privatize firms (see Annex III.A.4.b.). While the emphasis on tax incentives that has characterized ESOP programs in the U.S. may not be applicable to Honduras, some forms of employee ownership are possible. For example, several employee groups have expressed interest in capitalizing considerable amounts in severance payments (legally owed to them by CONADI or COHDEFOR if the firm is sold) in order to acquire companies. Employee ownership is perceived to be very attractive not only because it is a means to broaden the capital base of the country, but also because it will shield the privatization program from suspicions that it is a mechanism to enrich already powerful elites. One caveat concerning ESOPs is the generally paternalistic attitude that has characterized public sector/organized labor relations in Honduras and the implications for future public sector involvement in these firms.

(3) Interest of Local and Foreign Groups. There has been surprisingly broad interest on the part of Central American investor groups in purchasing CONADI firms. Most are groups or individuals are interested in developing a source for their inputs and/or an opportunity to diversify within the region. For example, Central American businessmen have expressed what could be regarded as serious expressions of interest in steel rolling (El Salvador); hotel expansion (Costa Rica and Guatemala); sugar milling (El Salvador, Guatemala); construcction (Costa Rica). Exiled Nicaraguan businessmen have also expressed interest in companies offering good turn around opportunities. U.S. and European investors familiar with the region have also presented written offers for some enterprises.

The key in promoting firms to international investors will be to try to address specific markets through specific channels. The Central American market is well known and additional investor groups in specific industries can be readily identified. More challenging, the Far East should be looked to for specific investors who have encountered quota limits for the U.S. market and who could locate in CBI countries to continue their growth. For example, numerous Taiwanese groups appear to be very interested in agro-industrial expansion, and one investment group is reviewing Mejores Alimentos. There are many private and public sector information channels which can be used to identify international investors which the TWG will work with.

Honduran individuals and investment groups are also interested. While some of these groups have been previously associated with CONADI firms and sale to them could present serious political obstacles, it is encouraging that Hondurans not associated with these groups also envision some good investment opportunities. Marketing efforts should be presented through professional associations and the investment departments of local banks which have access to business/investment circles.

(4) Creditors. Soundings with local and foreign banks revealed interest in collaborating with the privatization process in various ways. Local banks appear willing to work out arrangements for renegotiating debt, swapping debt for equity, and providing credit for some types of transactions. Foreign banks, mainly U.S. non money center banks which hold

private sector debt of CONADI or CONADI-backed companies, have also expressed some interest in swapping debt for equity, particularly for 1987-88 maturities which they feel will not be met. Some banks, particulary European lenders, have been willing to accept deep discounts for cash.

Local industries also appear willing to exchange CONADI Certificates of Participation (involuntary contributions to CONADI) for shares in specific companies. CONADI's Board recently approved a plan whereby certificate shareholders who do not owe money to CONADI may exchange stock in any of the companies in which CONADI has interests. These new owners could in turn sell these shares in the open market. While the plan is in the preliminary stages, it could be an attractive mechanism to privatization.

b. Transfer Mechanisms

CONADI/GOH holdings will be transferred through four mechanisms: (1) transfer of enterprises as going concerns; (2) sale of assets; (3) liquidation; and, (4) leasing-with-option-to-buy arrangements.

(1) Sale of Viable Companies. The transfer mechanism for the sale of enterprises will be carried out either through public bidding or direct negotiations. Companies for which there are numerous expressions of interest may be appropriate for public bidding. It should be recognized, however, that while public auction may have attractive features from the seller's point of view, serious investors are much less likely to respond to public bidding for ongoing concerns than they are for assets. The bidding process is particularly inappropriate when the company being sold has considerable debt since the assumption of the debt by the owner could only be done through negotiation. In most cases, the TWG will assist CONADI in direct negotiations with investors after obtaining an idea of investor interest in the firm.

Sale of firms may also involve different asset mix flexibility, i.e., where one component of a firm's operations may be sold as an operating enterprise while other components may be sold as assets. Examples include Mejores Alimentos, Industrias Conrad, and several others. The preferred financial instrument in this and all other transactions is, of course, cash up front. But, given market constraints, this will seldom be the case unless firms are sold with some liabilities at very low prices. It is for this reason that the use of local currency credit resources are contemplated in the Project insofar as they are in line with the criteria established in Section IV.D.2. While not an ideal situation, it is also anticipated that the GOH will sell firms on credit (with no additional GOH and/or CONADI credit or guarantees provided for working capital or investment credit). In these cases, terms should be in line with the possibility of discounting these loans to commercial banks as quickly as possible. As discussed above, the swapping of financial paper represents another option to finance sales of firms (and assets).

(2) Sale of Assets. Assets should be sold with clear title, completely separate from the entity from which they were extracted, with accurate and descriptive inventory (which can be used as a sales

brochure), and on the basis of a businessman's valuation of their worth. In some cases observed, the total recuperation of GOH investments may actually prove higher if machinery and equipment are sold separate from property.

(3) Liquidation. While getting sunk investments off CONADI's books is attractive, liquidation is a process that can be complicated in many cases and less preferable to sale as an ongoing enterprise. However, CONADI does have some 17 firms which are currently not operational. Some of these can be sold as enterprises (including two of the ten first-ranked firms) avoiding the tedium and expense of first going through liquidation. The remaining companies generally represent minor costs to CONADI and minor opportunities for significant recuperations in the near term. Nonetheless, the TWG will examine the legal and financial steps required for liquidation of specific firms and make a determination as to whether the costs (financial and in human resources) involved in liquidation merit direct participation by the TWG in this process or whether CONADI staff should manage the liquidation process with periodic assistance from TWG staff.

(4) Leasing with Option to Buy. Again, this presents a much less favorable option than direct sale. Nonetheless, there may be a few, very specific cases in which it may present an option favorable to continued GOH participation if complete transfer is not possible over the short run. This may be the case where the investment in physical assets is substantial and where the viability of the enterprise is questionable enough that investors may want to operate the enterprises for a specific period of time before committing themselves to a large investment. Examples might be the cement companies and several of the larger hotels. Leasing arrangements require careful selection of operators and continuous supervision—attributes not associated with CONADI management. Nevertheless, it is an option which should remain open under very specific circumstances.

C. Economic Analysis Summary

The Project's Economic Analysis is presented in Annex III.A.4.(c). This Annex is not attached because of its length. Annex III.J, however, summarizes this analyses, more briefly summarized below, including the methodology employed and analyses findings.

The economic analysis was carried out for three firms included in the ten first-ranked firms. These three firms consist of two major enterprises (Mejores Alimentos, Productos Lacteos Sula) and an intermediate size firm, INACERO. Whether or not the firms will in fact be the ones privatized, they are representative of the asset-mix that is likely to be privatized during the first year of implementation. Another scenario would be the privatization of one major firm with three or four smaller firms with similar total exposure and assets. The purpose of the analysis was to explore the potential economic impact of the privatization process under plausible assumptions and whether it made economic sense for the GOH and AID to allocate productive resources to such a process.

The results show that the Project makes economic sense; the net economic benefits from privatization could be substantial.

1. Methodology

The analysis proceeded in two phases. The first phase applied criteria conventionally used in the economic evaluation of projects - private profitability and internal rate of return, for instance - to gauge the worthiness of privatization, estimate its impact on GDP. The second phase consisted of analyzing the impact on other selected macroeconomic variables.

The analysis assumed that once privatized, the present CONADI firms would behave as profit maximizers and would compete in the free market without recourse to financial bailouts by the GOH. The essential implication derived from these assumptions is that under such conditions the firms would be operated efficiently. In addition to the fundamental assumptions, a set of firm-specific assumptions was adopted. The latter assumptions are feasible and realistic. They were established after an evaluation of the firms' financial reports and in consultation with their management and technicians. Essentially, such firm-specific assumptions spell conditions for becoming competitive and viable, and relate to the following aspects:*

a. New owners will add resources to enable the firms to install appropriate equipment and obtain needed raw materials on a timely basis.

b. Firms will reduce average production costs through more effective planning, better organization, and better utilization of installed productive capacity.

c. Expansion of sales, in part, through the recovery of lost markets or market shares.

The analysis is based on the comparison of two scenarios: (1) continuation of existing conditions, i.e., firms are not privatized; (2) firms are privatized. For each scenario income statements were projected for five years. Projections for the no-privatization scenario reflect current trends; the ones for the privatized scenario reflect the impact of the assumptions relating to the achievable and realistic efficiency improvements mentioned above.

2. Results

Once forced to compete and under efficient management, the firms will expand sales, achieve wider net operating margins and increased profits. In this scenario, the changes brought about through the privatization process entail the following impacts:

- The firms' direct contribution to the present value of value added (that is GDP) increases by approximately US$18 million (equivalent in local currency) by 1991. Compared to the no privatization scenario,

such an increase in GDP originating in these firms means a rise by a factor of 1.64.

- Firms will be profitable and attractive investments for individual entrepreneurs. The firms analyzed will bring after tax profits ranging from 11 to 17% of sales and internal rates of return ranging from 26% to 13.1%.

- The economic internal rates of return (from the country's point of view) indicate that investment in privatization benefits the Honduran economy. From an economic point of view, the exception may be any firm that requires tariff protection to generate positive financial returns.

- Privatization will have a positive impact on jobs. It is estimated that employment in the three firms analyzed alone would increase by 352 additional jobs.

- Privatization will have a positive impact on the country's fiscal accounts as a result of increased tax revenue, reduction of debt with third parties through income generated from privatization.

- Privatization is likely to have a positive net impact on net export earnings. The increase in the net foreign exchange earnings of the firms analyzed is estimated at over $5 million per annum.

3. Conclusions

The economic rate of return analysis shows that the net economic benefits from privatization could be substantial and, therefore, the project makes economic sense. The review of trends and problems in the Honduran economy indicated a need for faster economic growth, decreasing the fiscal deficit, expanding its export potential, and generating productive employment at higher levels of real wages. It also underlined the need for higher private sector investment, entrepreneurial dynamism, and a more efficient allocation of its productive resources. The present study's examination of the project's potential impact on private profitability, GDP, the fiscal accounts, employment and foreign exchange, shows that the privatization of state owned or controlled enterprises, in a setting that induces competition, is a policy move which has a potential for substantially contributing to such objectives.

D. Social Analysis Summary

This section briefly summarizes the Project social analysis presented in Annex III.A.4. The analysis examined the obstacles and opportunities confronting the CONADI privatization process in Honduras, and made recommendations as to how these obstacles might be overcome.

1. Socio-political Setting

While Honduras recently elected its second constitutional government, democratic institutions are nascent and fragile. Socio-political life still

is influenced by a set of informal arrangements which provide the environment in which the privatization of CONADI holdings will take place. Several characteristics are worthy of mention.

First, centralization, authoritarianism, and personalism remain as important characteristics of Honduran society. In particular, power tends to be concentrated at the top of the political system. Second, political life in Honduras is not yet governed by regulations which prevent the arbitrary exercise of power. Third, and related to the above, Honduran politics during the last three decades has been primarily characterized by a personal struggle to control the national government or to influence it through the search for stable, but often short-lived political coalitions. This effort is characterized by private and tacit agreements, and personal ties and dependencies rather than by public rules and institutions. Moreover, the necessity of meeting specific client needs, and the intensity of those clients' expectations and demands, mitigates against general pressure for responsive government. Within this context, the state becomes the object of power, not so much because of its ability to promote the public good, but because it is the mechanism through which private needs can be addressed.

State power in Honduras has historically been the major arena of privilege, far exceeding in importance the economic, social or religious arenas where elites normally interact. Beginning in the late 1960s and accelerated in the 1970s by growing state involvement in economic sectors (in large part through CONADI), businessmen began to play a direct role in politics for the first time.

The significance of CONADI can be understood within this context. The historical weakness of the Honduran economy created a situation where there were few sources of economic growth in the country other than the state. When it was formed in the 1970s, CONADI reinforced this popular belief, loaning massive amounts to the private sector. Its very existence strengthed the private sector's tendency to depend on the state for privileges and special attention. In some instances, CONADI became the ward of important investment groups. In some cases, it victimized others. Moreover, CONADI created a significant base for even well intentioned GOH officials to give (and take) from important political and economic groups in building and maintaining short term coalitions.

2. Socio-political Constraints to Privatization

Because privatization is essentially a political process, the major decision regarding implementation and how far the process will go will be taken at the highest political levels of the executive branch, and involve a constellation of relations between the executive and other groups including the legislative branch, private sector groups, organized labor, and the media.

President Azcona, as did his predecessor, has not only given his tacit support for the program, but has publicly and privately stated his commitment to it. The extent of this commitment, and how it is applied

in a case-by-case basis, however, must be seen in the context of coalition-building process that has characterized the political system. The shifting nature of political coalitions in the country works against sustained presidential attention because of the momentary exigencies of maintaining alliances and shoring up power. While privatization has intrinsic merit, in the final analysis the President's willingness to move ahead will be determined by the specific political forces (internally) and by relations with the United States.

In the former, several issues will be important. The status of the Pact of National Unity, a working agreement between the Liberal and National parties to coalesce on legislative and patronage issues is one. The pact should serve to reduce power group requests for special favors regarding CONADI enterprises since both parties are vigilant regarding arrangements which favor one party group over the other. If the pact is dissolved, however, the privatization program could be used by the Executive, including key advisors to the President, as a means to strengthen alliances within his own party, including efforts to discredit past Nationalist association with CONADI. And while the Nationalists have expressed full commitment to privatization, their tune would change if it was seen as a politicized Liberal Party program. In this light, as long as the Pact is operational, privatization should not become an issue of debate between the two parties. Should the Pact collapse, a major and difficult effort would have to be taken to maintain its depolitization.

Other groups will play important roles in the process, including the military, labor and the media. While individual officers may be involved in some enterprises and the military may have specific interest in a few enterprises, if viewed in terms of national security (i.e. the need for economic growth to maintain stability), the military could actually play an important mediation role (which it frequently plays) should the present political pact collapse.

Private sector groups will play a key role not only as investors but as businessmen cum political actors. Like other institutions in Honduras, the private sector is not a monolith. There are splits, some considerable, between groups: industrialist vs. merchants; exporters vs. importers; Tegucigalpa vs. San Pedro Sula; and, importantly, arabs (Turcos) vs. "native" Hondurans. Discussions during intensive review indicated that the private sector is anxious for the privatization program to be implemented. Nonetheless, there are concerns regarding the access of "favorite" groups to information and resources, and general politicization of the process. To the extent that any one group is favored over another, other key groups will strongly critize the program.

The same is true, of course, for other groups such as labor. Discussions with labor leaders have also indicated endorsement of the privatization program. Discussions carried out during the preparation of the social analysis did not reveal a strong concern with displacement of workers (in part because many of the enterprises operate at low capacity and employ few workers. More concern was expressed about worker access to capital to invest in enterprises, about elite groups receiving

preferential access, and about the private sector's ability to turn companies around. Some labor unions, particularly those of the extreme left, could use the privatization program as a means to demonstrate that they are more nationalist than their competitors.

The media is also likely to play a major role in the outcome of the program. As witnessed by the recent CONADI allegations which were kept on the front page and on the air for weeks, it can be a powerful stabilizing or destabilizing role.

Finally, there is a common perception that the USG's involvement in the program can play a legitimizing role and keep program objectives on track. In fact, numerous private individuals have stated that the program cannot succeed without A.I.D.'s active involvement. Some general conclusions regarding overcoming socio-political constraints can be drawn from the social analysis. These include:

- GOH officials at all levels and all other groups which can influence the privatization process should be given thorough briefings on privatization, what it can and cannot accomplish, what level of resources will be provided by A.I.D., and the multiplicity of steps related to the process. In the case of labor unions, these consultations should be on an informal, individual basis.

- A serious public education program about the need for privatization should be mounted as soon as possible to inform the public about the objectives of the privatization program.

- Every effort should be made to separate the privatization program from CONADI itself, which is totally discredited.

- A good working relationship should be established with the media.

- Every effort should be made to keep the privatization efforts as a source of consensus among the major parties through direct contacts by the U.S. Ambassador and the A.I.D. Director.

E. Summary Response to Constraints

Section II identified several important constraints to successfully implementing a privatization program in Honduras. This section briefly summarizes how the Project will address them.

The most readily identifiable constraint addressed by the Project is the lack of analytical and managerial skills within CONADI or the GOH to implement the privatization program. Through the TWG, and specifically through the contracted TA team, CONADI and other entities will be provided the skills required to implement the process. Likewise, the limited investment base of the Honduran economy and Central America's political turmoil will not make successful marketing and sale of SOEs an easy task. But the interest in these enterprises identified to date

leads the Mission to conclude that with sound marketing techniques and a commitment to seriously negotiate with potential investors, sale of a considerable number of enterprises can be carried out. Again, the TWG and Project resources will play a key role in the process.

Of more concern is the resource base (i.e. long-term credit funds) required to allow investors to purchase numerous companies. Despite the availability of credit through present sources, existing terms will make it difficult for many investors to have access to such financing or to obtain it at reasonable costs. Credit could constitute a serious problem if mechanisms are not established that will allow potential investors to expediently draw upon required resources. The Project deals with this issue through the establishment, if necessary, of additional credit lines to finance divestitures. A "cleaner" method would be, of course, for the Mission to simply rule out credit and assume that all investors will have access to their own financing. While certainly attractive from a presentational point of view, this would constitute a totally unrealistic approach that would seriously hamper privatization in Honduras.

Finally, the key constraint in successful implementation of the privatization program is maintaining GOH commitment and political will to carry out the process. The Project deals with this constraint in several ways.

First, the institutional mechanism chosen, the Tripartite Privatization Commission approach, brings to bear an important sense of transparency of decision-making and legitimacy that will be of key importance in maintaining overall political support from a broad spectrum of Honduran society. In bringing together representatives from the leading political parties and other important groups, the mechanism will achieve a degree of concensus regarding privatization that is political necessary.

Second, the Project will adopt the recommendations noted in the social analysis, including the implementation of workshops and informal conversations with GOH leaders, private sector groups, labor unions, the media, and other groups to ensure that the objectives of the privatization program are fully understood.

Finally, the Mission will maintain an active role in Project monitoring through quarterly performance review meetings with the Economic Cabinet, through direct A.I.D. Director and U.S. Ambassador contacts with key GOH officials, and through the ESF-policy dialogue process. In this regard, it is important to emphasize that it is the political will of the government that will largely determine Project success. But the Mission can strengthen the position of privatization allie within the GOH through this dialogue process.

F. Environmental Impact

A negative determination was approved by the LAC/DR Environmental Officer which is included in Annex III.E.

VI. PROJECT IMPLEMENTATION

A. Host Country Arrangements

The Project Agreement will be signed by the President of the Republic, the Ministry of Finance and Public Credit and the Ministry of Economy, which has overall responsibility for CONADI. Given the nature of the Project -- both in terms of its sensitive nature and the fact that non-CONADI SOEs will also request assistance -- other GOH bodies and institutions will be closely involved in implementation. These include the Economic Cabinet, as well as the CONADI Board of Directors, and other bodies established under the privatization program.

1. Presidency of the Republic

The GOH Project representative will be the person holding the position of Minister Advisor to the President of the Republic. Immediately upon signing of the ProAg, the President will proceed to establish and name the members of the National Privatization Commission

2. Economic Cabinet

While the Board of CONADI is composed primarily of Economic Cabinet members, the latter will be directly involved in reviewing quarterly progress under the project as noted above. In addition, requests from non-CONADI institutions to receive assistance from the TWG will be channeled through this entity.

3. National Privatization Commission

The NPC will be an advisory body to the GOH entities privatizing SOEs and to the President of the Republic, through the Economic Cabinet, on privatization issues. The NPC will be chaired by a Government representative from the Economic Cabinet who will call meetings and be responsible for overseeing the presentation of recommendations to the GOH entities and to the Economic Cabinet. The chairman will be named by the President within 30 days of Project Agreement signature and will coordinate the establishment of the TPC.

4. Privatization Technical Working Group

The TWG will carry out technical analyses related to privatizations and make recommendations to the NPC and to CONADI and other GOH entities regarding privatization. The TWG will have its own office facilities but on a day-to-day basis it will work physically with CONADI and other GOH line staff as requested.

Until the arrival of the long-term T.A. team, the TWG will be staffed by a T.A. team from the Center for Privatization and Honduran staff contracted on a temporary basis. A modus operandi for this working group will be established through a Project Implementation Letter.

5. CONADI Board of Directors

The CONADI Board will have overall responsibility for decision-making with respect to privatization actions. Within 30 days of the signing of the Project Agreement, per instructions from the Economic Cabinet, the Board will name and/or request the naming of the Valuation Commission and other support groups required by the law.

The Board will also formally request technical assistance from the TPC and the TWG as soon as these entities are established.

6. Other GOH Entities

As noted above, the Board of CONADI will authorize the establishment of negotiating commissions. It should also request the Executive to form the Valuation Commissions as required by Decree 161-85. The latter will solicit the cooperation of the TWG in determining prices and other conditions of sale and will approve TWG recommendations.

B. A.I.D. Arrangements

Project management responsibility will rest with the Office of Private Sector Programs who will contract a Project Liason Officer to assist in day-to-day implementation. The Project is expected to require very close monitoring, constant negotiations and trouble shooting and investor/buyer coordination on almost a daily basis. The Project Officer and Liaison Officers will establish operational contact with the TWG, and will be responsible for implementing the Privatization Support Component. Given expected requests from different sectors and the complexity of the program, a Privatization Working Group will be established in the Mission. It will be chaired by the Project Officer and representatives from the Office of Development Finance, and the Office of Rural Development. As required representatives from the Office of Economic Program and Analysis, Human Resources Development, and other offices will participate in Group discussions. The Privatization Working Group will act as a problem solving unit and a sounding board for discussions on various phases and issues of the program.

1. Methods of Implementation and Financing

Implementation and payment methods are well defined and follow the traditional approaches used by A.I.D. All dollars will be disbursed directly by USAID based on A.I.D.-issued contracts, purchase orders, and other documentation. The following table indicates the implementation and financing method for each major type of assistance.

TABLE 6
METHODS OF FINANCING

TYPE OF ASSISTANCE	METHOD OF IMPLEMENTATION	METHOD OF PAYMENT	APPROX. AMT. OF ASSISTANCE ($000)
TA-Inst. Cont.	Direct AID Contracts	Direct Payment	$ 2,950.0
TA-PSC	Direct AID Contracts	Direct Payment	380.0
Travel & Trans.	Direct AID Purchase	Direct Payment	60.0
Commodities	Direct AID Purchase	Direct Payment	50.0
Evaluation/Audit	Direct AID Contract	Direct Payment	100.0
Contingency	To be Determined	Direct Payment	460.0
Total Project			$ 4,000.0

The limited funds budgeted for audit coverage are for non-federal contract audit coverage of the technical assistance contract. Since all Project dollar funds will be administered through A.I.D.-issued documentation, we feel that audit coverage is best provided by the Inspector General but the audit funds will be available to contract audit coverage in the event the IG cannot devote its staff resources to this review. Financial reviews will be performed as needed on the local currency supplied by the GOH for privatization support.

2. Procurement

Procurement under the Project is limited to the technical assistance, and the purchase of a small computer and software, and a project vehicle for the TWG. The Mission will procure the required technical assistance (including long- and short-term assistance) with an institutional contract through an investment banking, business assistance or accounting firm or a consortium of these. To cover the gap between the time that the TA team comes on board and Project obligation, the Mission will extend its buy-in to the Center for Privatization (CFP) to approximately January 1987. Center TA will assist CONADI in drafting the pre-privatization planning documents necessary to implement the program; will assist in the marketing/sale of approximately 4 SOEs; and, will assist the Mission in carrying out the workshops and informal conversations noted earlier. CONADI will provide support facilities for this group.

Procurement of a project vehicle will be initiated immediately on signature of the Project Agreement. Computer procurement will be initiated once the long-term T.A. team is choosen.

3. Disbursements

No deviation from established A.I.D. disbursement procedures is anticipated for TA and computer purchase. Local currency disbursements for the Privatization Support Component, will be carried out in accordance with established procedures between the GOH and A.I.D. regarding the programming and disbursement of these resources. To provide operational funding for the TWG, including salaries for local full-time staff and local TA, a fiduciary account will be established with a local commercial bank. This account will be managed directly by the TWG chief of party in accordance with reporting procedures established with USAID/Honduras.

4. Gray Amendment Considerations

The Mission will take fully into account Gray Amendment considerations in the procurement of goods and services. To date, TA contracted through the Center for Privatization has been under a minority firm contract. The Mission will continue to use this facility for the short-term "bridge" assistance and for part of evaluation-related expenditures.

C. Project Tracking and Evaluations

Given its experimental and delicate nature, the Project will carryout a comprehensive tracking and evaluation program. Emphasis in this program will be on operational/implementation issues as well as broader considerations regarding "lessons learned", while implementing the privatization program. At a tracking level, as a condition to the agreement, a comprehensive stocktaking exercise will be carried out with the GOH (Honduran participants will include representatives at the highest level of government) to analyze progress to date (including progress on meeting specific target), identification of bottlenecks and other constraints, and recommend necessary actions to improve the program's implementation, if necessary. Specific criteria to be analyzed will be identified with government officials soon after the signing of the Agreement but will include:

- Progress towards completing no less than two privatization packages before December 31, 1986. While completion of a actual divestiture may be influenced by external factors outside of CONADI/GOH control, these two packages should be complete and ready, including the preparation of all analyses (valuation, proposed terms of sale, approval by the Valuation Commission, TPC, etc.).

- A review of Decree 161-85 and its regulations and of the institutional framework established through the Decree and through the Project to determine its effectiveness and to make specific recommendations to resolve problems identified, if necessary.

- A review of the terms of sales and valuations undertaken to determine the effectiveness of the program in recommending sales strategies consistent with GOH privatization objectives. including and will include .arly evaluations will be undertaken to measure progress towards privatization targets, lessons learned, required changes in

Project structure, and other required information. These evaluations will build upon quarterly consultations/progress reports with the Economic Cabinet by Mission management. The purpose of the consultations will be to review progress during the quarter of specific actions, including the number of investor proposals acted upon, the number of privatizations that occurred or are planned, etc.

- Other implementation factors which may influence the effectiveness of the program over the long term, including propriety in the selection of investors.

The Mission and the GOH will continue to track Project implementation through quarterly meetings with the Economic Cabinet and other GOH officials. Progress toward meeting privatization objectives will continue to be part of ESF policy dialogue/conditionality concerns.

More comprehensive evaluations will be undertaken after the first and second years of implementation. These will continue to review progress to date and, as noted above, focus on "lessons learned" of importance to this Project as well as those lessons that may serve A.I.D. in general. At a technical level, these evaluations will focus on the mechanics of workout vehicles, issues related to the valuation of firms, and the financial packages that have been implemented to close transactions. More generally, they will focus on the Project's success in dealing with socio-political, limited markets, and other constraints. Finally, an end-of-Project evaluation will draw conclusions about overall Project success and make recommendations about A.I.D. involvement in subsequent phases of the Honduran privatization program.

As discussed with PRE's Center for Privatization staff, the Mission envisions an important role for the Center in this evaluation process. Center involvement in these evaluations and in overall tracking system will be important in ensuring that lessons learned are dissiminated through the Agency.

VII. NEGOTIATION STATUS, CONDITIONS AND COVENANTS

A. Negotiating Status

The Embassy and Mission and the GOH carried out extensive discussions on the privatization of SOEs during the last two years. This dialogue has been carried out at the highest levels (President of the Republic, Ambassador, Mission Director, key Ministers) as well as at working levels geared to drafting a blue print for a comprehensive privatization program. As noted earlier, movement on establishing such a program was incorporated into the FY 85 ESF Agreement signed by the GOH and resulted in the drafting of Decree 161-85 in September of 1985.

More recent ESF negotiations have focused on actions to be taken by the GOH in implementing the program. This has resulted in specific targets (4 divestitures by December 31, 1986) and, more importantly, in conveying the GOH's commitment to the program to all levels of the bureaucracy. GOH and CONADI staff at all levels have participated in intensive review, including

draft Project Agreements. The Mission expects that the Project will be obligated shortly after it is authorized. Furthermore, close GOH/A.I.D. dialogue and consultations will continue during implementation as well as the quarterly progress meetings described below.

B. Conditions Precedent to Disbursement and Covenants

1. Conditions Precedent to Disbursement

To continue the momentum established to date through the Center for Privatization TA team, conditions precedent to disbursement will exclude this assistance. The following conditions precedent to disbursement for other Project components will be incorporated in the Grant Agreement:

- standard conditions, including legal opinion and representatives;

- establish and make operational the National Privatization Commission, its Technical Working Group, the Valuation Commission, Negotiating Commissions, and all other entities required to implement the program;

- complete and approve by the appropriate GOH entities, the global privatization plans called for by the Honduran Privatization Law.

The intent of these CPs is to have all institutional mechanisms necessary to implement the program in place within 60 days of the signing of the Project Agreement.

2. Covenants

Through the Project Agreement, the GOH will agree to the following covenants:

- conduct within six months of the signing of the Agreement, the Project stocktaking exercise described in Section VI.C.;

- ensure the autonomy and independence of action of entities established to implement the Honduran privatization program.

All conditions and covenants will be reviewed through project implementation, including the quarterly progress meetings, as well as through ESF-related policy dialogue.

ANNEX 1 A

PRIVATIZATION OF STATE OWNED ENTERPRISES

LOGICAL FRAMEWORK

SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
A.1 Goal To contribute to the achievement of long-term equitable growth	A.2 Measurement of Goal Achievement Improved economic and fiscal performance as a result of privatization actions, measured by: a. Present value of GOH flows originating in privatized enterprises increases by L50 million by 1997. b. Tax revenues increase by approximately L45 million by 1990. c. Interest payments to service GOH SOE-related debt increased by no less than L15 million by 1997.	A.3 (As related to goal) - Central Bank - Project monitoring - IMF Country Reports - GOH Reports	A.4 (as related to goal) - Continued economic, social, and political stability in Honduras and Central America. - Continued improvement in policy environment for new investment.
B.1 Purpose To support GOH initiatives to plan and implement the privatization of state-owned enterprises	B.2 End of Project Status Between 12-15 companies privatized through divestiture; sale of assets; liquidation; and management contracts.	B.3 (as related to purpose) - Project monitoring - Consulting reports - Project Evaluations	B.4 (as related to purpose) - Existence of potential private sector buyers of the companies and assets being divested. - Availability of credit and capital to facilitate the acquisition of companies and assets being divested. - Continued GOH support to the divestiture process. - GOH/private sector willingness and committment to establish appropriate infrastructure in support of companies being divested.
C.1 Outputs 1. Institutional Framework (Analytical support framework established. 2. Privatization suppor Components established.	C.2 Output Indicators C.1.a. TPC and PTU staffed and operational C.1.b. GOH establishes valuation Commission, Negotiating Commissions and other entities required by Decree 161-85 C.1.c. Global privatization plans approved C.1.d. Credit, severance payments, training and other support assistance provided to 8-10 firms.	C.3 (as related to outputs) - Project Monitoring - Project USAID records - GOH records - Audits	C.4 (as related to outputs) - Highly qualified T.A. available. - Local banks willing to participate in financing. - Valuable short-term training opportunities in U.S., Latin American, and other countries will be identified.

D.1 Inputs

D.2 Budget/Schedule (US$000,000)

		A.I.D.	GOH	TOTAL
1. Technical Assistance	1.	2,925	850	3,775
2. PTU Operations	2.	-	100	125
3. Commodities	3.	50	-	50
4. Training and Travel	4.	60	50	11
5. Support Components	5.	-	12,000	12,000
6. Project Liaison Officer	6.	380	-	380
7. Evaluation and Audits	7.	75	-	85
8. Contingency	8.	480	-	500
Totals		4,000	13,000	17,000

D.3 (as related to inputs)

A.I.D. disbursement records and audit repots.

D.4 (as related to inputs)

- Project authorized and funds alloted.
- Project Agreement executed.

Best Available Document

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ACTION: AID-2 INFO: AMB DCM ECON/5

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DE RUEHC #1910/01 3610349
ZNR UUUUU ZZH
O 270345Z DEC 85
FM SECSTATE WASHDC
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UNCLAS SECTION 01 OF 03 STATE 391910

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27 DEC 1985 16 39
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27-DEC-85 TOR: 13:44
CN: 18530
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AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: PRIVATIZATION OF STATE-OWNED COMMERCIAL ENTITIES PID (522-0289)

1. THE ISSUES MEETING FOR THE SUBJECT PID WAS HELD NOVEMBER 25, 1985, FOLLOWED BY A DAEC REVIEW ON NOVEMBER 27, 1985. THE DAEC WAS CHAIRED BY THE DEPUTY ASSISTANT ADMINISTRATOR FOR THE LAC BUREAU. MISSION REPRESENTATIVES CLARIFIED DISIGN ASPECTS OF THE PROJECT AND THE DAEC DISCUSSED SEVERAL ISSUES WHICH SHOULD BE ADDRESSED DURING THE PROJECT'S INTENSIVE REVIEW.

DURING INTENSIVE REVIEW, THE MISSION SHOULD EXAMINE THE EXPERIENCES OF OTHER MISSIONS IN THE BUREAU, PARTICULARL COSTA RICA, AND CONSULT WITH THE PRE BUREAU AND FIRMS AND CONSULTANTS WITH EXPERIENCE IN TIS AREA. WE URGE THAT MEMBERS OF THE PROJECT TEAM VISIT COSTA RICA TO BECOME CONVERSANT WITH SOME OF THE CONCEPTUAL AND PRACTICAL PROBLEMS EXPERIENCED IN COSTA RICA.

ACTION No.
INFO OFFICES
D
DMD
MGT
DP
DF
CONT
IG
HRD/2
HRD/3
HRD/4
HRD/5
I
PA
EXO
LEG
EXCD
JAC
CHRON
READER
COMPUT
OTHER

2. OBJECTIVE.

PRIVATIZATION IS A RELATIVELY NEW AREA FOR PROJECT ACTIVITY IN THE LAC BUREAU, AND MUCH OF WHAT WILL BE UNDERTAKEN IN THE PROPOSED PROJECT WILL BE A LEARNING EXPERIENCE FOR THE BUREAU AND THE AGENCY.

DAEC PARTICIPANTS NOTED THAT WHILE FULL DIVESTITURE IS THE OBJECTIVE OF THE PROJECT, REALITY WILL DICTATE THAT SOME ENTITIES DO NOT EASILY LEND THEMSELVES TO FULL DIVESTITURE AND THAT OTHER SOLUTIONS, SUCH AS LEASE BACKS, MANAGEMENT CONTRACTS, PARTIAL DIVESTITURE, OR PHASED DIVESTITURE MIGHT BE ACCEPTABLE BUT ONLY UNDER EXCEPTIONAL CONDITIONS.

3. GOVERNMENT COMMITMENT.

MISSION REPRESENTATIVES AND DAEC PARTICIPANTS AGREED THAT THE NEW GOVERNMENT'S COMMITMENT WILL BE KEY TO THE PROJECT'S SUCCESS AND THE MISSION'S DECISION TO PROCEED WITH THE PROJECT.

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4. SCOPE AND PACE.

THE CHAIRMAN AND OTHERS STATED A PREFERENCE FOR AN APPROACH THAT WOULD HAVE A GREATER IMPACT (THROUGH TAKING ON SOME OF THE LARGER CONADI SOE'S OR SOF'S NOT UNDER CONADI AND BY ACCELERATING THE PROJECT). THIS PREFERENCE WAS BASED ON THE DESIRE TO PRODUCE A MAJOR IMPACT AND STRONG MOMENTUM ASAP. IT WAS AGREED, HOWEVER, THAT WHILE THE MISSION IS TO RE-EXAMINE THIS APPROACH, THE MISSION WILL MAKE THE FINAL DECISION. IT WAS NOTED THAT UNDER EITHER APPROACH THE MISSION COULD CONDITION ESF (AND PROVIDE RELATED TECHNICAL ASSISTANCE) ON SPECIAL DIVESTITURE TARGETS NOT INCLUDED IN THIS PROJECT.

5. ECONOMIC ANALYSIS.

THE VERY BRIEF ECONOMIC DISCUSSION IN THE PID JUSTIFIES THE PROJECT ON THE GROUNDS THAT REAL GDP WILL RISE AS A RESULT OF MORE EFFICIENT USE OF EXISTING REAL RESOURCES CURRENTLY TIED UP IN SEVERAL CONADI"CONTROLLED FIRMS. FROM A FINANCIAL STANDPOINT, THIS PROJECT IS JUSTIFIED ON THE GROUNDS THAT THE DOLS 15 MILLION EXPENDITURE OVER THE THREE YEAR PERIOD WILL LEAD TO AT LEAST A DOLS 6 MILLION ANNUAL REDUCTION IN GOVERNMENT SUBSIDIES TO CONADI.

WHILE IT IS QUITE LIKELY THAT THE ABOVE RESULTS WILL OCCUR AND THAT THE RATES OF RETURN WILL BE QUITE SIGNIFICANT, IT DOES NOT NECESSARILY FOLLOW THAT THE SALE AND/OR CLOSURE OF ENTERPRISES WILL PRODUCE POSITIVE, ACCEPTABLE FINANCIAL AND ECONOMIC RATES OF RETURN; CERTAIN MACROECONOMIC AS WELL AS MICROECONOMIC CONDITIONS MUST EXIST FOR THE PID'S ASSERTION TO BE REALIZED. FOR EXAMPLE, A CLOSURE AT THE PRESENT TIME MIGHT MEAN THAT THE EMPLOYEES WOULD BE WARDS OF THE GOVERNMENT FOR AN INDEFINITE TIME, THUS INCREASING THE ECONOMIC COST TO THE GOVERNMENT.

THE ECONOMIC AND FINANCIAL ANALYSIS, THEREFORE, SHOULD INCLUDE SOME ILLUSTRATIVE EXAMPLES REPRESENTING CASES WHICH THE PROJECT DESIGN TEAM CONSIDERS LIKELY TO OCCUR. FOR EXAMPLE, AT A MINIMUM, IT XWOULD SEEM APPROPRIATE: (1) TO CONSIDER A CASE OF SALE TO A PRIVATE FIRM AND A CASE OF CLOSURE; (2) TO DEMONSTRATE FOR EACH CASE THE FINANCIAL IMPACT ON THE BUDGET OF THE GOE AND THE ECONOMIC IMPACT ON THE ECONOMY; AND (3) TO DESCRIBE THE CONDITIONS NECESSARY FOR THESE IMPACTS TO OCCUR. WITH THESE ILLUSTRATIVE CASES, THE PP SHOULD BE ABLE TO CLEARLY ESTIMATE THE IMPACT OF THE PROJECT AND TO PROVIDE A RATE-OF-RETURN ANALYSIS IN ORDER TO DEMONSTRATE THAT THE EXPENDITURES REQUIRED BY THE PROJECT ARE JUSTIFIED.

GIVEN THE LIMITED RESOURCES OF THE PROJECT, ILLUSTRATIVE

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EXAMPLES ALSO SHOULD BE USED IN THE PP TO SPECIFY AND DEMONSTRATE THE CRITERIA AND PROCESS TO BE USED TO EVALUATE ALTERNATIVE ASSISTANCE PACKAGE NEEDS, IF ANY, THE COSTS OF THE ASSISTANCE, AND THE EXPECTED BENEFITS OF PROVIDING EACH ALTERNATIVE ASSISTANCE PACKAGE. THIS IS A CRUCIAL ELEMENT IN THE ANALYSIS BECAUSE THE PID, ON AN A PRIORI BASIS, APPEARS TO ASSUME THAT ASSISTANCE WILL BE GIVEN TO THE PUBLIC ENTITIES IN ORDER TO: (1) MAKE THEM ATTRACTIVE FOR BUY-OUTS; (2) ASSURE THAT PROPER CONSIDERATION BE GIVEN TO EMPLOYEE RIGHTS; AND (3) TO AVOID THE ISSUE OF QUOTE FIRE SALES UNQUOTE TO THE ELITE IN THE COUNTRY, AND SO FORTH. IN THE RESOURCE ALLOCATION DECISION, THE POSSIBILITY THAT IMMEDIATE AUCTION WITHOUT ANY QUOTE DRESSING UP UNQUOTE EXPENDITURES MAY BE MORE COST-EFFECTIVE SEEMS TO HAVE BEEN IGNORED, AND THIS ALTERNATIVE SHOULD BE EXAMINED IN THE PP.

6. INSTITUTIONAL ARRANGEMENTS.

THE PLACEMENT OF THE IMPLEMENTING INSTITUTION IN CONADI SHOULD BE ANALYZED, ALONG WITH ALTERNATIVE INSTITUTIONAL ARRANGEMENTS THAT MIGHT PROVIDE MORE DECISION MAKING AUTHORITY AND MORE PROTECTION FROM SPECIAL INTERESTS.

7. FINANCIAL AND TECHNICAL ASSISTANCE.

THE DAEC RECOGNIZED THE NEED FOR SOE'S TO BE ATTRACTIVE, BUT RECOMMMENED THAT THE PROJECT NOT SPEND LARGE AMOUNTS OVER SUSTAINED PERIODS TO MAKE THEM VIABLE CONCERNS PRIOR TO SALE. IN THIS REGARD, SINCE CONADI HAS ALREADY FAILED IN THIS EFFORT, IT WOULD APPEAR RISKY FOR AID AND/OR THE DIU TO UNDERTAKE THIS TASK. THE MISSION IS THEREFORE REQUESTED TO CAREFULLY EXAMINE THIS ISSUE DURING PP PREPARATION. POST-DIVESTITURE ASSISTANCE ALSO PRESENTED PROBLEMS FOR THE DAEC WHICH INDICATED A PREFERENCE FOR CONCENTRATING THE DIU ON DIVESTITURE AS OPPOSED TO PRE AND POST DIVESTITURE ASSISTANCE WHICH MIGHT TEND TO ENSNARL THE DIU IN MANAGEMENT ISSUES AS OPPOSED TO DIVESTITURE. WE REQUEST THAT THIS ISSUE BE CLOSELY EXAMINED IN PP PREPARATION. ONE SUGGESTION FOR COST DIVESTITURE ASSISTANCE WAS THAT IT BE LIMITED TO AN IFSCO CONSULTANT WHO COULD LAY OUT A PLAN FOR PAID TECHNICAL ASSISTANCE FOR THE FIRM IN QUESTION. FINALLY, THE PROJECT PAPER SHOULD EXAMINE THE POTENTIAL FOR USING EMPLOYEE STOCK OWNERSHIP PLANS (ESOP) WHERE APPROPRIATE.

8. TRAINING.

MISSION REPRESENTATIVES NOTED THAT IN ADDITION TO SEVERANCE PAYMENTS PROVIDED THROUGH THE LABOR COMPENSATION FUND, THE PROJECT PROPOSES TO SUPPORT JOB RETRAINING AND PLACEMENT. WE UNDERSTAND THE PROJECT PAPER WILL INCLUDE SPECIFIC ESTIMATES OF THE POTENTIAL DEMAND FOR COMPENSATION, RETRAINING, AND PLACEMENT IN THE TARGET BENEFICIARY GROUP AND THE MECHANISMS FOR ADMINISTERING THE EMPLOYEE BENEFITS.

9. PUBLIC RELATIONS/EDUCATION.

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DUE TO THE POLITICAL SENSITIVITIES REGARDING PRIVATIZATION, THE MISSION REPRESENTATIVES NOTED THEIR INTENTION TO INCLUDE IN THE PROJECT DESIGN A PUBLIC RELATIONS COMPONENT TO FACILITATE THE PRIVATIZATION EFFORT. THE PROJECT SHOULD BUDGET APPROPRIATE RESOURCES FOR THE EDUCATION OF PUBLIC SECTOR DECISION MAKERS AS WELL AS FOR GENERAL PUBLIC AWARENESS ACTIVITIES. WE UNDERSTAND THAT THE PP WILL CONTAIN A FULLER EXPLANATION OF THIS PROJECT COMPONENT.

10. FORMAT.

(A) LENGTH. THE PID SUBMISSION WAS 26 PAGES. THE DAEC REQUESTS THAT THE MISSION ADHERE TO THE 15 PAGE LIMITATION IN FUTURE PID SUBMISSIONS.

(B) BENCHMARKS. THE PP SHOULD INCLUDE A SCHEDULE FOR PROJECT ACTIVITIES WITH APPROPRIATE DATES TO SERVE AS BENCHMARKS FOR THE ACHIEVEMENT OF PRIVATIZATION TASKS.

(C) ENVIRONMENTAL CONCERNS. THE APPROVED PID SHOULD INCLUDE A REQUEST FOR A QUOTE CATEGORICAL EXCLUSION UNQUOTE SIGNED BY THE MISSION DIRECTOR.

(D) PAYMENT VERIFICATION. THE MISSION IS REMINDED THAT ALL PROJECT PAPERS MUST FOLLOW THE GUIDANCE PROVIDED ON PAYMENT VERIFICATION POLICY PROVIDED BY AA/M TO MISSION DIRECTORS ON DECEMBER 30, 1983, PARTICULARLY PP. 6-8, WHICH DEAL SPECIFICALLY WITH PP.

(E) GRAY AMENDMENT. GRAY AMENDMENT PRESCRIPTIONS AND PROSCRIPTIONS SHOULD BE CAREFULLY CONSIDERED DURING PP PREPARATION. A PLAN FOR THE UTILIZATION OF MINORITY- AND WOMEN- OWNED BUSINESSES SHOULD BE PRESENTED IN THE PP.

11. STATUTORY CHECKLISTS.

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HE PROJECT PAPER SHOULD INCLUDE THE APPROPRIATE STATUTORY CHECKLISTS IN ACCORDANCE WITH GUIDANCE PROVIDED TO THE MISSIONS IN A MEMORANDUM DATED DECEMBER 2, 19[illegible].

12. APPROVAL AUTHORITY.

THE MISSION HAS AUTHORITY TO APPROVE THE PROJECT PAPER.
ARMACOST
BT
#1910

NNNN

SUMMARY RESPONSE TO PID CABLE CONCERNS

1. During intensive review, the Mission has taken a number of steps to build upon the experiences of othe privatization efforts. A Project Design Committee group visited USAID/Costa Rica in December 1985 and met with Mission representatives involved in the USAID/CR privatization program as well as with representatives of FINTRA (the trust that oversees the sale of CODESA subsidiaries), with the National Commission, and with representatives of the TA team that is assisting FINTRA to implement the project. The visit was extremely useful is assising the USAID/H Project Design Committee to become conversant with some of the practical and conceptual problems of privatization.

2. As discussed in Sections II.B.3. and IV.D.2, and in other sections of the Project, divestiture is the objective of the Project. The broader term is used througout the document to reflect the fact that it is realized that full divestiture may not be possible in every case - but partial or phased divestiture will be considered only under exceptional conditions.

3. The issue of GOH commitment is discussed in mumerous sections. The Mission agrees that it is the will of the GOH that will ultimately determine Project success. Despite the growing awareness of the sensitive nature of undertaking a privatization program, key GOH leaders, including President Azcona, have continued to express their commitment to the program.

4. As noted in Section IV.B., the enterprise ranking strategy developed in the PP places more emphasis on "impact" that what was described in the PID. Ease of divestment, i.e., demonstrating results as quickly as possible, is still considered an important strategy element. But the Project will result in the privatization of several major enterprises and in significant economic and financial impact.

5. The Project's Economic Analysis addresses these concerns.

6. The institutional mechanism selected and described in Section IV.D.1. gives the Board of CONADI decision-making authority. But the PTU is placed outside of CONADI and the oversight responsibilities of the Tripartite Privatization Commission will make it politically difficult for the CONADI Board to make non-technical decisions. As noted in Section V.E, there are some risks in this strategy. But the Mission feel that the expressed concern are addressed.

7. The PP does not contemplate pre-divestiture assistance except in the case of financial restructuring and other workout arrangements where it is deemed necessary to put together privatization packages. Management contracting will be provided only as a transfer vehicle, and only if absolutely necessary. The Project will not make resources available to "privatize" an SOE short of a clear divestiture target through managment contracting. Post-divestiture assistance to will be provided through ongoing USAID programs available to other private sector enterprises such as the

Internal Executive Service Corps. This assistance - with the possible exception of short-term management contracts - will not be administered by the PTU but rather through ongoing USAID programs.

8. Training for displaced workers is not contemplated except through ongoing USAID and GOH programs as noted above. The provision of severance payments should cover worker concerns.

9. Annex III.A.5 contains a description of the opinion-building seminars and workshops that the Mission will carry out shortly after the ProAg is signed.

10. The PP deals with the noted format suggestions, including benchmarks (Sections IV.E., VI.B.4, and Annex I.D); environmental concerns (Section V.); Payment Verification (Section V.); and Gray Amendment (Section V.). The Statutory Check List is attached as Annex II.C.

ANEX I D

USAID/HONDURAS

PRIVATIZATION OF STATE-OWNED ENTERPRISES

IMPLEMENTATION PLAN

1. BRIDGING PERIOD JULY-DECEMBER 1986

1986

JULY:	AID drafts PP, with assistance from Ctr TA team
BY JULY 31:	PP is reviewed in-house and approved in principle
AUG 4:	AID initiates drafting of Technical Assistance Agreement (sends copy to Ctr TA team)
AUG 13:	AID (supported by Ctr TA team) begins negotiations with GOH on the TA agreement
AUG 18-28:	1. Ctr TA team drafts modus operandi of PTU (with input from CONADI) and delivers to AID 2. Ctr TA team plans workshop-seminars 3. Ctr TA team continues marketing activities in cooperation with CONADI
BY AUG 29:	AID and GOH sign agreement
BY SEPT 6:	AID achieves temporary working agreement with CONADI to permit functioning of PTU on ad-hoc basis until official Government sanction
SEPT 15:	AID goes out for bids on TA contract
SEPT 16-27:	Ctr TA team conducts privatization workshops and conferences
SEPT 16-OCT 31:	1. PTU prepares Estudio Tecnico-Economico and Plan de Traspaso 2. PTU selects from the ranked firms the 4 for 1986 divestiture plus 4 for back-up; -prepares and implements plans for pre-sale clean-up (see Annex A for complete steps in a divestiture) -sees to contracting valuation experts and, in collaboration with Valuation Commission, makes valuations -prepares prospectuses and does marketing program -develops sales strategy

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BY SEPT 30:	GOH establishes Tripartite Commission and designates Chairman
	GOH establishes PTU (incl responsibilities)
	Economic Cabinet, in consultation with CONADI, names representatives to PTU
	CONADI Board calls for installation of Valuation Commission
	CONADI Board names Negotiating Commission
NOV 1-DEC 31:	PTU assists Negotiating Commission(s) in achieving deals for the targeted companies
	PTU maintains contact with TPC to apprise them of progress
DEC 1-30:	AID selects winning bid and negotiates a contract
BY DEC 31:	4 divestitures terminated or well in process

II. POST-AGREEMENT IMPLEMENTATION 1987-1990

1987

BY JAN 30:	Technical Assistance Agreement is operative
FEB:	L. T Assistance contractor staffs PTU
	PTU does commodity procurement: for computer, vehicle, etc.
MAR 30:	Check Point for stock taking
JULY:	Mid-term review
	In accordance with progress add more firms for in-depth analysis
SEPT:	Quarterly Review
BY YEAR END:	6 privatizations achieved during 1987
DEC:	Semester Review

1988

MAR 30:	Check Point for stock taking
JULY:	Mid-term review
	In accordance with progress add more firms for in-depth analysis
SEPT:	Quarterly Review
BY YEAR END:	6 privatizations achieved during 1987
DEC:	Semester Review

1989

JAN:	in accordance with progress add more firms for in-depth analysis
MAR 30:	Check Point for stock taking
JULY:	Mid-term review
SEPT:	Quarterly Review
BY YEAR END:	6 privatizations achieved during 1987
DEC:	Semester Review

ANNEX I.E.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

LAC/DR-IEE-86-3

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Honduras
Project Title	:	Privatization of State-Owned Commercial Enterprizes
and Number	:	522-0289
Funding	:	$6,000,000 (G)
Life of Project	:	4 years
IEE Prepared by	:	USAID/Honduras
Recommended Threshold Decision	:	Negative Determination
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	None
Copy to	:	Anthony J. Cauterucci, Director USAID/Honduras
Copy to	:	Lars Klassen, LAC/DR/CEN
Copy to	:	IEE File

James S. Hester Date FEB 11 1986

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

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ANEX I F

Las empresas de CONADI

Al negociar el incremento de la cooperación de los Estados Unidos hacia Honduras, nuestro país se comprometió a introducir una serie de modificaciones a algunas de sus políticas que, a todas luces, han venido impidiendo el desarrollo del país.

Una de esas políticas ha sido la existencia de una entidad que, concebida originalmente para impulsar la producción y fomentar las inversiones, especialmente en los campos industrial y turístico, se convirtió con el correr de los años (especialmente en el régimen de facto) en una de las instituciones más corruptas, ineptas y endeudadas de la nación.

La Corporación Nacional de Inversiones (CONADI) fue literalmente saqueada por burócratas, políticos y empresarios de notoria inmoralidad, y hoy por hoy se encuentra virtualmente desmantelada.

Pero hay algunas cuestiones pendientes de solución, que --hipotéticamente al menos-- han de ser abordadas a corto plazo por el Congreso Nacional.

Una de esas cuestiones es la petición expresa, hecha por el Gobierno norteamericano, en el sentido de que las empresas que CONADI fue haciendo suyas a través de la acumulación de préstamos y garantías crecientes sean vendidas al sector privado para que vuelvan a operar, ya que en su mayoría se encuentran descapitalizadas y en total estado de parálisis.

El problema crucial para la venta de tales empresas es que sus deudas son muy superiores a su valor de mercado. Hay compañías que tienen, por ejemplo, un valor real de tres millones de lempiras, pero en los libros de contabilidad, y particularmente en los registros de CONADI, aparecen con adeudos de trece millones.

Obviamente, nadie dará semejante suma por una empresa que vale una décima parte de lo que debe a la tristemente célebre corporación pública creada por el populismo.

La CONADI, en cuya junta directiva hay varios ministros del Gobierno, necesita un respaldo legal para vender las empresas por su precio real, sin que ello dé lugar a reparos de Contraloría o a eventuales reclamaciones judiciales.

Para ello ha preparado un proyecto de decreto que hasta la fecha no ha trascendido al público, el cual --en su parte medular-- contiene una autorización expresa del poder legislativo en la que se establece que el Estado cargará con la pérdida de estas transacciones, cuya finalidad última es reactivar las empresas paralizadas y ponerlas nuevamente en estado de producción.

Como dejamos dicho en las líneas iniciales, existe un compromiso con Washington para darle solución a este problema, y el proyecto de ley respectivo fue enviado hace ya muchas semanas al parlamento.

Este, sin embargo, ha eludido enfrentar el asunto, y le viene dando largas sin ninguna explicación.

Entre tanto, la ayuda ha comenzado a llegar, y por lo menos dos desembolsos de la misma ya se han ejecutado, pero los representantes norteamericanos están a la espera de que Honduras cumpla con su palabra.

De igual manera, hay numerosos empresarios interesados en adquirir las empresas en cuestión, incluidos entre éstos algunos de los que (hasta la intervención administrativa de CONADI) venían manejando las aludidas firmas.

Aparentemente, hay muchos intereses en pugna, y quizás el Congreso Nacional desea hacer una investigación a fondo con el propósito de evitar que los mismos que quebraron la CONADI y saquearon las empresas, se terminen quedando con las mismas a precios concesionados y con financiamiento público.

Pero, independientemente de las salvaguardas que al respecto se adopten, el asunto debe ser abordado con seriedad y resuelto con decisión y responsabilidad.

Hay muchos puestos de trabajo que podrían abrirse nuevamente si las fábricas, hoteles, etc., se abrieran de nuevo. Hay muchos dineros que el Estado podría recibir. Inclusive, hay deudas que se han vuelto incobrables, pero que con un financiamiento realista podrían ser recuperadas por el sector público.

Este es un tema complejo, toca muchas aristas sensitivas y su total esclarecimiento posiblemente rompería muchos tejados de cristal.

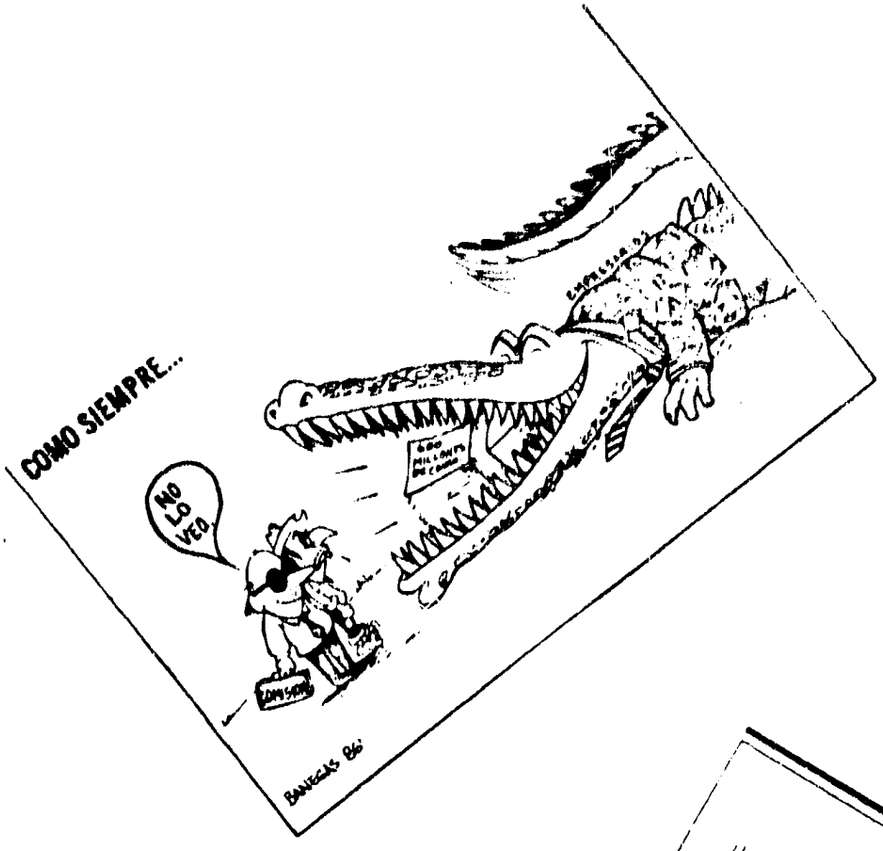
Pero LA PRENSA le dedicará, a partir de la fecha, una serie de editoriales y reportajes, a efecto de contribuir no sólo al esclarecimiento de la madeja de CONADI sino, sobre todo, a acelerar la toma de decisión respecto a la venta de las empresas y su reactivación en el más corto plazo posible.

Sólo así resolveremos uno de los engorros financieros más onerosos e infortunados de la nación, a la vez que abrimos el paso a decisiones rectificadoras que fortalezcan la moral, incrementen la producción y ayuden al logro del objetivo crucial de todo país: su desarrollo económico y social, fundamento insustituible de estabilidad a largo plazo, democracia y paz...

Best Available Document

"ENCUBADORAS"

LA MEJOR AYUDA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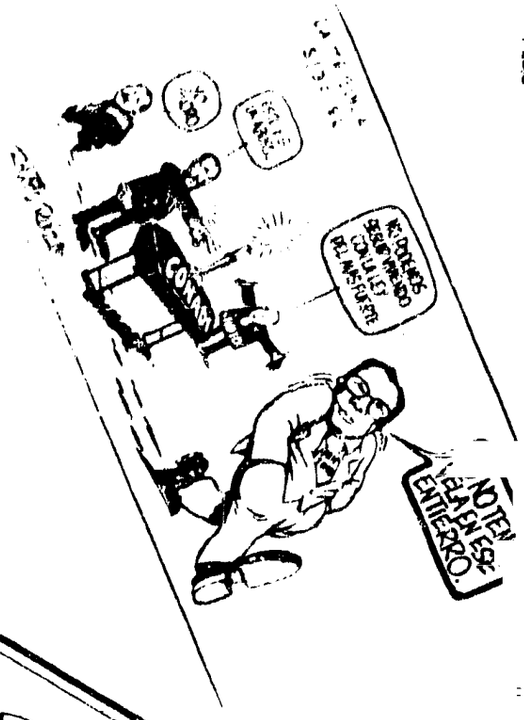
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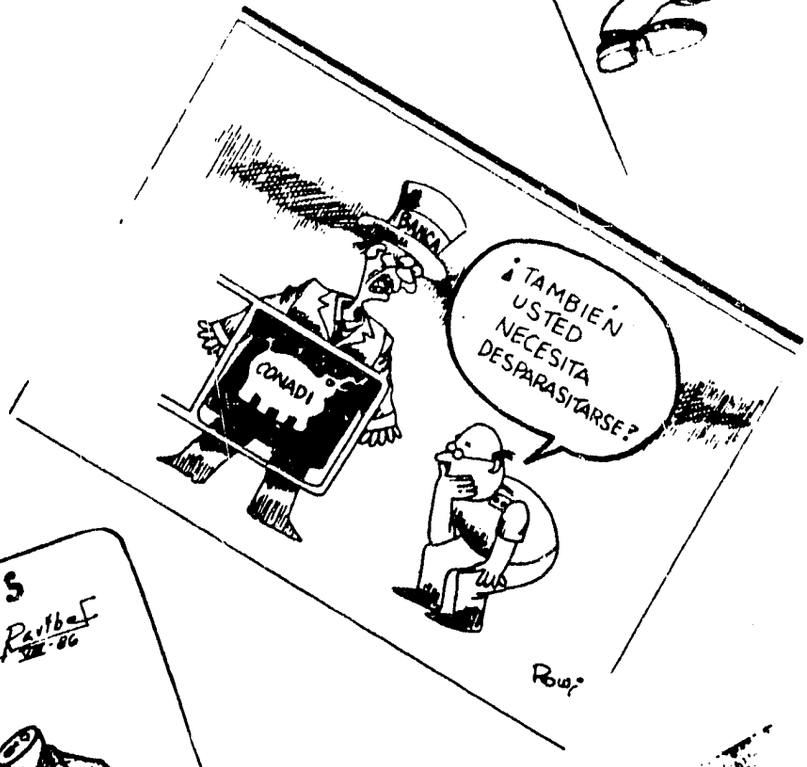
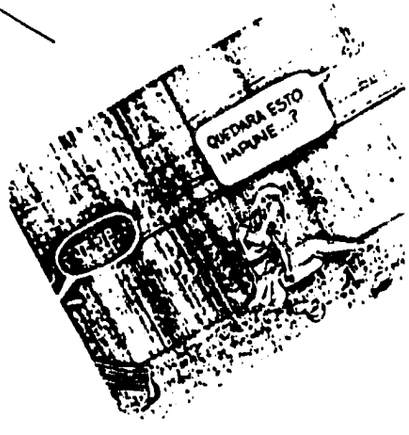

BANCA
CONADI
¿TAMBIÉN USTED NECESITA DESPARASITARSE?

SOCIEDAD CON ACEFALOS
PARECE QUE LA INVESTIGACION SOBRE LA CONADI FINALMENTE VA EN SERIO Y LE CORTARAN LA CABEZA A LOS CULPABLES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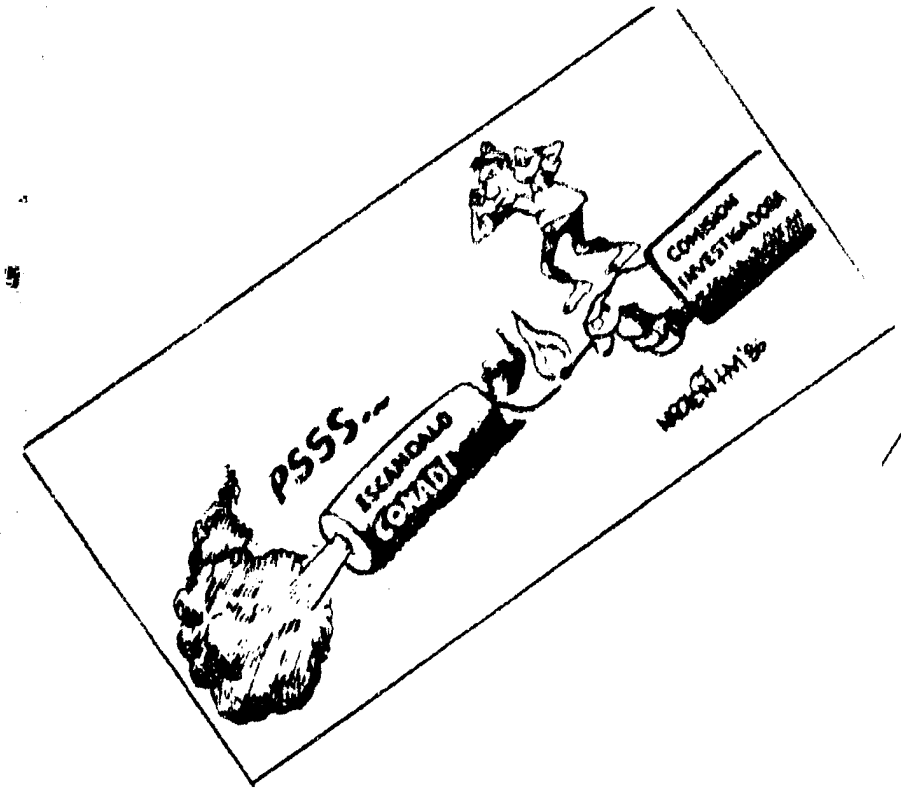

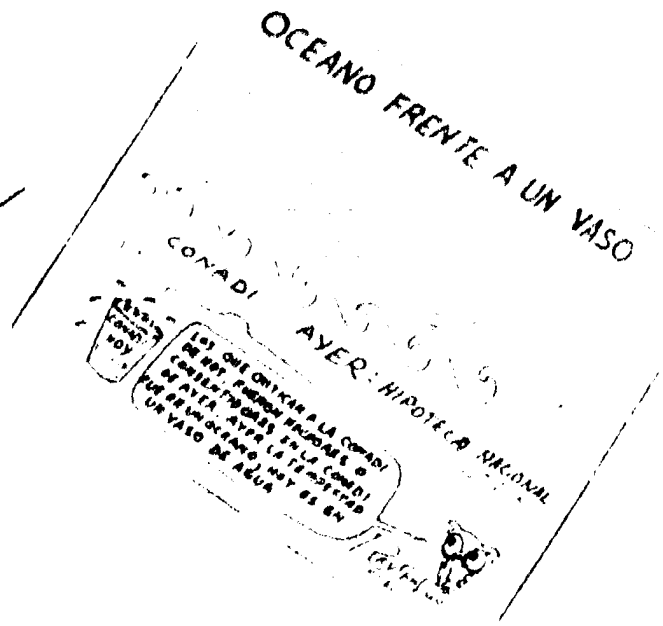

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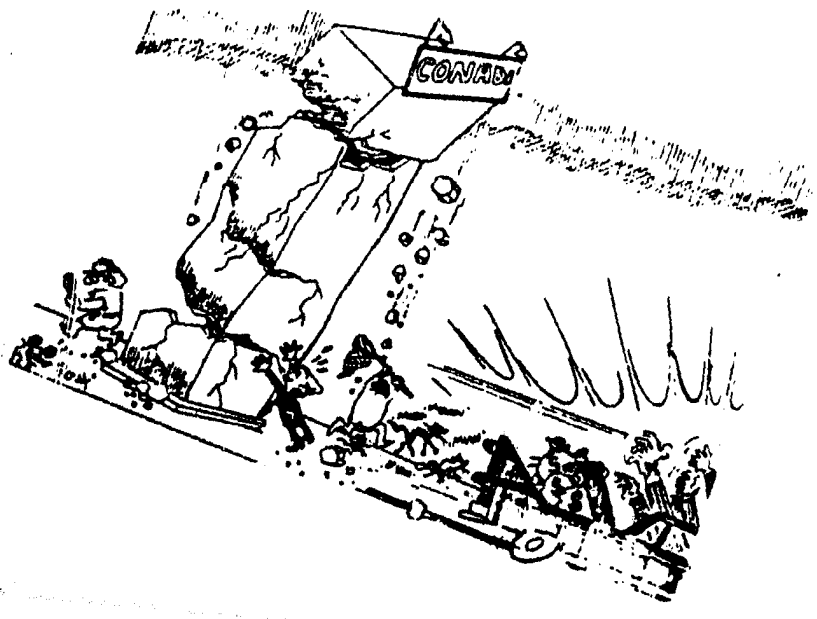

Comisión tripartita investigará a responsables del fracaso de CONADI

LLEGO LA HORA DE LA PRIVATIZACION

Angel Eduardo Ramos

NO SE RECUPERARAN 350 MILLONES DE "CONADI", NI HACIENDO EL INTENTO

La CONADI y sus millones

MAS DE 600 MILLONES EN JUEGO EN LA CORPORACION DE INVERSIONES

Hernán

¡PRIVATIZACION!

Revelan otro "negocio" de CONADI

Sobre quiebra de CONADI

RESPONSABLES PAGARAN SUS DELITOS EN LA PC

Corte Suprema actuará con severidad, dijo su presidente

Políticos y empresarios saquearon a la "CONADI"

Comisión Investigadora

Corte Suprema lista para proceder contra quebradores de CONADI

PAGINA 3

Las empresas de CONADI

Otro brillante "negocio" descubren la CONADI

Tres primeros presidentes de CONADI usaron influencia contra directiva

CONADI y la corrupción

Editorial

El presidente José Azcona decidió, en uso las de opresión (Irán) o a regímenes totalita-

Más tiempo necesitarán para investigar CONADI

Reunión convocada por el presidente

Empresa privada, Gabinete Económico y los trabajadores analizarán crisis de CONADI

Secretaría de Prensa:

José Azcona jamás callará averiguaciones en la CONADI

TEGUCIGALPA

tada con la mayor responsabilidad por parte del Poder Ejecutivo y que el gobierno

PUDRICION EN CONADI

JIMENEZ CASTRO PIDE "PC" PARA LADRONES DE "CONADI"

• 100 Lps. tendrá que pagar cada hondureño por el saqueo, dice Economía

Azcona: CONADI hundió la economía nacional

★ De los 600 millones que adeudan a la corporación, 300 son irrecuperables.

Inf. en la Pág. 1

Ofrece Valladares:

CASTIGO PARA CULPABLES DE DESASTRE EN CONADI

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Tendrá que CONSIDERAR DEPREDADORES I RECIBIR TODO E

"CONADI" DEBEN DE LA LEY

"Movidas" de CONADI conocerá Azcona Hoyo el lunes próximo

El Copant rentable, a es negocio Banco Sogerin

Partido Nacional también investigará a la CONADI

No se debe cancelar CONADI

Privatization: Right Step, Right Time

No son todos los empresarios los sinvergüenzas: Rosenthal

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Panting no viola ley de la CONADI

Allanamiento contra supuestos implicados en letra de CONADI

RUINA ESTATALES

Editoriales

CONADI arriesga nueve millones en fracasada empresa de HONDULAC

GOBIERNO DISPONE PRIVATIZAR EMPRESAS EN PODER DE ESTADO

"No hay memorias del desastre financiero

CAPTURA CONTRA IMPLICADOS EN CAMBIO DE LETRA DE LA "CONADI"

CAPTURA CONTRA IMPLICADOS EN CAMBIO DE LETRA DE LA "CONADI"

Editorial

¿QUE HACER CON LA CONADI?

Con el gobierno del doctor Roberto Suazo Córdova, removieron las formas primitivas de ciosas. Y no pierden tiempo para apoderarse de sus mecanismos vitales. El dinero se entrega

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Sostiene la CGT
GOBIERN... ...BE ACLARAR SITUACI... ...DE LA "CONADI"

NO SE RECUPERARAN 350 MILLONES DE "CONADI", NI HACIENDO EL INTENTO

UNC responde a Luna Mejía
EMPRESARIOS SAQUEARON LA CORPORACION DE INVERSIONES
La Unión Nacional de Campesinos (UNC) dijo que "muchos

Corruptos de "CONADI" serán denunciados por sus nombres

¿En siete empresas CONADI ha perdido 65 millones de lempiras

Por "estafa contra el Estado"
JUEZ ORDENA CAPTURA DE EX PRESIDENTE "CONADI"

Según Betancourt:
Negligencia de CONADI provocó su destrucción
«No supervisó a algunas empresas que alteraron sus balances financieros para obtener préstamos

Las empresas de CONADI
al negociar el incremento de la cooperación en estado de producción.

COHEP exige nombres de empresarios acusados de actos dolosos en CONADI

PROCURADOR PIDE QUE LE PERMITA INVESTIGAR CORRUPCION EN "CONADI"

Comisión enredada entre tanto acreedor de CONADI

Aprueban en primer debate ley para que CONADI venda empr

Anualmente 35 MILLONES DE INTERESES PAGA EL PUEBLO POR MORA DE "CONADI"

Estudios de factibilidad adulterados y créditos fantasmas descubren en CONAD

Estudios de factibilidad adulterados y créditos fantasmas descubren en CONAD

CAMPESINOS NO PAGARAN SI ESTADO NO RECUPERA EL DINERO DE "CONADI"

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Presidencia de la República
Honduras, C. A.

Tegucigalpa,D.C.,1 agosto,1986.

Señor
Anthony Cauterucci
Director Agencia Internacional
para el Desarrollo (A.I.D.)
Tegucigalpa,D.C.

Señor Director:

Tengo el agrado de dirigirme a usted con el objeto de someter a su consideración una solicitud formal del Gobierno Hondureño para el financiamiento del Proyecto denominado "Privatización de Empresas Estatales", mediante una donación de la A.I.D. de US. $. 4,000,000. Esta donación tendrá el fin de proveer, conjuntamente con recursos de contraparte nacional, la asistencia técnica requerida para apoyar iniciativa del Gobierno de Honduras para planificar y ejecutar la privatización de empresas propiedad del estado.

Los esfuerzos del Proyecto se concentrarán en la privatización de compañías y activos de la Corporación Nacional de Inversiones (CONADI). También se proporcionará asistencia a otras instituciones del Gobierno de Honduras responsables de la operación de empresas públicas a ser privatizadas tal como COHDEFOR, BANADESA y otras. El objeto es eliminar o reducir el involucramiento del sector público en actividades que pueden ser desarrolladas más eficazmente por el sector privado y, por este medio, contribuir al logro de un crecimiento económico a largo plazo.

Aprovecho la oportunidad para expresarle los sentimientos de mi mayor consideración.

Atentamente,

ABOG.CARLOS FALCK CONTRERAS
MINISTRO ASESOR DEL SEÑOR PRESIDENTE

ANNEX II
Exhibit A

CERTIFICATION PURSUANT TO SECTION 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 the human resources capability to effectively maintain and utilize the capital assistance project: PRIVATIZATION OF STATE-OWNED ENTERPRISES.

This judgement is based upon the implementation record of the previous projects implemented in Honduras, and the quality of the planning which has gone into this new project.

Anthony J. Cauterucci
Director, USAID/Honduras

Date: August 8, 1986

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 loans, and B.3. applies to projects funded from ESF.

The country's checklist for FY86 is included in the Primary Education Efficiency Project Paper.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

   Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

   A Congressional Notification was submitted by A.I.D. on June 17, 1986.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimte of the cost to the U.S. of the assistance?

   Items 2(a) and 2(b) have been completed.

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?

   No further legislative actions required.

4.	FAA Sec. 611(b); FY 1986 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)	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?	N/A
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.	No
7.	FAA Sec. 601(a). Information and conclusions whether projects 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.	The project will encourage 7(a),(b) and (e); will be neutral on 7(c) and (f); and will take measures to prevent 7(d).

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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).	A major portion of the technical assistance will be procured from U.S. sources.
9. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution 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.	Honduras has agreed to provide counterpart financing 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?	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?	Yes
12. FY 1986 Continuing Resolution Sec. 522. 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?	N/A

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16. Does the project or program take into consideration the problem of the destruction of tropical forests?	A.I.D. Environmental regulations have been followed. The Project received a negative determination for the Threshold Decision.
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate sysem for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?	N/A
15. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	No
16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?	Competitive procedures will encourage participation of these groups. Part of TA package to be provided by 8(a) firm.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(a), 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 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, (e) utilize and encourage regional cooperation by developing countries?

The project will result in increased employment opportunities for the poor. Workers (including women) and other non-traditional investors will be encouraged and asserted in the purchase of enterprise equity. By promoting efficient, market-oriented private enterprise, the Project will support Honduran help-self efforts.

b.	FAA Sec. 101, 101A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?	Yes
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)?	Efficient, market-oriented enterprises, require the use of appropriate technology to compete in the market place.
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 whch the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)?	Yes
e.	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?	Yes

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?	Besides direct Project benefits, the poor majority will bene. it through the increased availability of resources to meet their needs as a result of the improved fiscal position of the public sector.
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.	The country's intellectual resources will be used in managing the privatization and divestiture of several publicly held companies.

2. Development Assistance Project Criteria (Loans Only)

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

The assistance is in form of a grant.

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?

The Honduran productive entreprises will be competing primarily with local businesses and with other non-U.S. international investors.

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

Yes

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

No

c. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified

No

that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

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?

Yes

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?	Yes, normal A.I.D. procedures will be followed.
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??	Yes
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?	Honduras does not practice such discrimination.
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	No offshore procurement of agricultural commodities or products are contemplated.

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5.	FAA Sec. 604(a). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?	No construction or engineering activities are contemplated.
6.	FAA Sec. 603. Is the shipping excluded from compliance with requirement 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 such vessels are available at fair and reasonable rates?	No
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?	Yes

8.	International Air Transportation 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?	Yes
9.	FY 1986 Continuing Resolution 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?	Yes

B. Construction

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

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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? — Yes

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? — N/A

3. FAA Sec. 620(h). Do arrangements exist 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? — Yes

4. Will arrangements preclude use of financing: — Yes

   a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526. (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 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 sterilizations as a means of family planning; (4) to lobby for abortion?

b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? — Yes

c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? — Yes

d. 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? — Yes

e. FAA Sec. 662. For CIA activities? — Yes

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

g.	FY 1986 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?	Yes
h.	FY 1986 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues?	Yes
i.	FY 1986 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?	Yes
j.	FY 1986 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology?	Yes
k.	FY 1986 Continuing Resolution, Sec. 511. 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?	Yes
l.	FY 1986 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	Yes

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ANNEX III

TECHNICAL

EXHIBITS

ANNEX III - A. TECHNICAL EXHIBITS CENTER FOR PRIVATIZATION TASK REPORTS

The Technical Assistance Team prepared a number of reports that covered every aspect of the project and layed the foundation for designing the various phases to implement the privatization plan. The work consists of eight major studies which are listed below. Except for one which deals with the criteria for design and implementation, the rest are not attached to avoid having a bulky package. These reports can be found in the files of USAID/Honduras/PSO, and the Center for Privatization.

A brief description of these reports will provide an overview of the scope of work that was undertaken:

Task 1 Report - Prioritization of CONADI Firms - This report deals with the methodology used to select the firms and explains the process that was followed to arrive at a list of targets for the initial phase of privatization.

Task 2 Report - In-Depth Review of Selected Firms - Consists of the methodology used plus ten individual reports on the firms which have been identified as priority candidates for the project.

Task 3 Report - Report on Deal-Making Activities - This is basically a marketing report that covers results to date, points out real and potential impediments to concluding sales and cites specific cases.

Task 4 Report - Consists of the following five studies:

a) CONADI Institutional Profile
b) Economic Impact of Privatization
c) Market Demand Assessment
d) Legal Aspects - Emphasis on Review of Privatization Law
e) Privatization in Honduras - Obstacles and Opportunities.

Task 5 Report - Privatization Seminar Program - This report outlines the course of action recommended to explain the process of privatization to as wide a sector as possible and promote public support for same.

Task 6 Report - CONADI Privatization Action Plans - This is a blueprint for the transfer of CONADI holdings to the private sector and includes a description of portfolio and assets and a transfer implementation schedule.

Task 7 Report - Institutional Configuration - This is a blueprint of the project and outlines the steps and procedures to be followed to implement the project.

ANNEX III - B DECREE LAW 161-81 AND REGULATORY BYLAWS

AÑO CIX TEGUCIGALPA, D. C., HONDURAS, SABADO 7 DE DICIEMBRE DE 1985 NUM. 24.792

PODER LEGISLATIVO

DECRETO NUMERO 197-85

EL CONGRESO NACIONAL,

CONSIDERANDO: Que la Corporación Nacional de Inversiones (CONADI), necesita disponer de todas las facilidades para cumplir con sus obligaciones establecidas en el Decreto Nº 161-85.

CONSIDERANDO: Que el plazo de cuatro años, para posibles operaciones de traspaso, establecido en el Artículo 3 del Decreto en mención, limita mucho la capacidad operativa ya puesta en marcha, según lo han manifestado funcionarios de la Corporación Nacional de Inversiones (CONADI).

CONSIDERANDO: Que el Artículo 4, número 5 del susodicho Decreto, se refiere a "donaciones en pago" en vez de "daciones en pago" como es lo correcto.

POR TANTO:

D E C R E T A :

Artículo 1.—Reformar el Artículo 3 del Decreto Nº 161-85, el cual deberá leerse de la manera siguiente:

"ARTICULO 3.—Todos los activos del Sector Turismo en poder de la Corporación Nacional de Inversiones (CONADI), se venderán a compradores cuyo propósito de adquisición sea destinar dichos bienes al servicio del turismo.

Si transcurrido un plazo de cuatro meses no son posibles las operaciones de traspaso en la forma señalada en este Artículo la Corporación Nacional de Inversiones (CONADI) podrá traspasarlos para un fin diferente.

Artículo 2.—Reformar el numeral 5 del Artículo 4, el cual deberá leerse:

"5) Daciones en pago; y".

Artículo 3.—El presente Decreto entrará en vigencia a partir del día de su publicación en el Diario Oficial "La Gaceta".

CONTENIDO

DECRETO NUMERO 197-85
Octubre de 1985

COMUNICACIONES, OBRAS PUBLICAS Y TRANSPORTE
Acuerdo Número 186 — Marzo de 1976

A V I S O S

Dado en la ciudad de Tegucigalpa, Distrito Central, en el Salón de Sesiones del Congreso Nacional, a los treinta y un días del mes de octubre de mil novecientos ochenta y cinco.

JOSE EFRAIN BU GIRON,
Presidente

MARIO ENRIQUE PRIETO ALVARADO,
Secretario

JUAN PABLO URRUTIA RAUDALES,
Secretario

Al Poder Ejecutivo,

Por Tanto: Ejecútese.

Tegucigalpa, D. C., 12 de noviembre de 1985.

ROBERTO SUAZO CORDOVA
P R E S I D E N T E

El Secretario de Estado en los Despachos de Hacienda y Crédito Público,

Manuel Antonio Fontecha Ferrari

El Secretario de Estado en los Despachos de Economía y Comercio,

Juan Miguel Orellana Maldonado

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ACUERDO Nº 947

Tegucigalpa D. C., 30 de diciembre, 1985.

El Presidente Constitucional de la República

Considerando: Que el 26 de septiembre de 1985, el Congreso Nacional aprobó el Decreto Número 161-85, mediante el cual se autoriza a la Junta Directiva de la Corporación Nacional de Inversiones (CONADI), para que realice un plan de traspaso al Sector Privado de las empresas, participación accionaria y otros activos en poder de la Corporación.

Considerando: Que el 31 de octubre de 1985, el Congreso Nacional aprobó el Decreto Nº 197-85, para reformar el plazo a que se refiere el Artículo 3. y la expresión "Daciones en Pago" del numeral 5, Artículo 4 del Decreto Nº 161-85.

Considerando: Que es objetivo importante del Gobierno abatir la crisis que ha venido afectando la economía nacional en los últimos tiempos, siendo el mecanismo contemplado en el Decreto Nº 161-85 un medio adecuado para motivar al Sector Privado a que invierta en la reactivación y desarrollo de las actividades productivas.

Considerando: Que la Junta Directiva de la Corporación Nacional de Inversiones conoció el presente documento en sesión celebrada el 18 de diciembre de 1985, dándole su aprobación por unanimidad.

Por tanto: En aplicación de los Artículos 245, numeral 11 de la Constitución de la República y 15 del Decreto Nº 161-85 citado.

A C U E R D A :

Aprobar en todas y cada una de las partes el Reglamento de los Decretos Números 161-85 y 197-85, que literalmente dice:

REGLAMENTO DE LOS DECRETOS 161-85 Y 197-85

Artículo 1.—El presente Reglamento contiene las disposiciones para la ejecución de las normas creadas por el Congreso Nacional mediante el Decreto Nº 161-85 el 26 de septiembre de 1985 y su reforma (El Decreto) y, en consecuencia, para desarrollar, aclarar y detallar el proceso a que se ajustará el plan de traspaso al Sector Privado de las empresas, participación accionaria y otros activos en poder de la Corporación Nacional de Inversiones (CONADI).

Artículo 2.—El estudio técnico-económico que deberá ser elaborado por la Administración de CONADI, será la base general que oriente el proceso de traspaso, el plan que se apruebe proveerá los criterios a la Junta Directiva de CONADI para decidir cuando se utilizará el procedimiento de subasta pública y cuando el procedimiento de negociación directa. En todo caso, se atenderá al criterio general de la necesidad de reactivar la industria nacional y recuperar las inversiones o minimizar las pérdidas de CONADI en el menor plazo que sea posible y conveniente.

Artículo 3.—El estudio técnico-económico deberá ser aprobado por la Junta Directiva de CONADI dentro de un plazo de tres meses a partir de la vigencia del presente Reglamento. El mismo contendrá una estrategia global que considerará entre otros, los siguientes elementos:

a) Descripción de los bienes a transferir, con especificación de los que son empresas, bienes corporales, créditos, participación en sociedades mercantiles y cualesquiera otros bienes distintos a los anteriores;

b) La descripción de la situación jurídica de los activos, los arreglos legales que se hayan de realizar para su saneamiento cuando procediere y los demás aspectos legales pertinentes que eviten demoras o tropiezos en la ejecución del plan;

c) El tiempo de ejecución del plan

d) Estimado de los valores líquidos que se pretende obtener;

e) Las metas que deben alcanzarse anualmente;

f) Los criterios que servirán para establecer prioridades en las transferencias, tales como:

I. Conservar la unidad productiva como fuente generadora de empleo.

II. Facilidad de liquidación de los activos.

III. Rentabilidad de los activos

IV. Costo de mantenimiento y custodia de los activos.

V. Necesidad de mantener la integración sectorial de la industria.

g) Los métodos y criterios que se utilizarán para hacer efectivas las transferencias;

h) Los requerimientos de asistencia técnica y financieros para la ejecución del plan;

i) Los métodos de control y evaluación de la ejecución del plan; y,

j) Todos aquellos demás datos que sean necesarios para orientar la ejecución del plan.

Artículo 4.—La transferencia a que se refiere el Artículo 1 de este Reglamento se hará siempre a título oneroso y gastos y honorarios que ocasione, correran por cuenta del adquirente, quién tendrá derecho a seleccionar el Notario autorizante en su caso. La Junta Directiva cuidará que el proceso de traspaso no sea desnaturalizado; velará por su pureza y vigilará que éste se realice dentro de parámetros que le provean seguridad jurídica, consistencia moral y confiabilidad pública.

Artículo 5.—En virtud del Decreto, CONADI no traspasará el inventario de todos aquellos bienes muebles e inmuebles que sirven para su normal funcionamiento administrativo.

Artículo 6.—El interés real y la capacidad económica para pretender adquirir los bienes de CONADI deberán ser evidentes y por lo tanto demostrados a satisfacción de la Corporación.

Artículo 7.—Cada subasta pública o negociación directa estará precedida y sustentada en un avalúo técnico financiero que considere el valor de mercado de los activos.

Los avalúos serán formulados por CANADI. No obstante la Junta Directiva podrá decidir la contratación de consultores especializados que asesoren a la Corporación en dicha labor o que formulen avalúos en aquellos casos cuya complejidad y magnitud así lo justifique.

Los consultores especializados extranjeros solamente podrán actuar representados por empresas consultoras nacionales.

Los consultores, como parte de sus ofertas de servicio, deberán presentar fianza de fiel cumplimiento en base a los términos de referencia que se contraten, para asegurar la calidad técnica y solvencia moral de los trabajos que realicen.

El monto de la fianza será convenido mediante contrato y la fianza deberá ser válida hasta seis meses después de aprobado el estudio respectivo.

Artículo 8.—La Comisión de dictamen de avalúos, a que se refiere el Artículo 2 (I.1) de la Ley, será nombrada mediante Resolución de la Junta Directiva de CONADI con los representantes que acrediten las dependencias en que la integran y el representante del Sector Privado que será designado por el Ministerio de Economía y Comercio de una terna

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que al efecto propondrá el Consejo Hondureño de la Empresa Privada, (COHEP). La calificación de los representantes del Sector Privado será solicitada a la Contraloría General de la República por el Presidente Ejecutivo de CONADI.

La Comisión tendrá carácter permanente respecto del proceso de traspaso y sus miembros podrán durar en su encargo hasta por un período de dos años, prorrogables por un período adicional. Cada representante tendrá su respectivo suplente.

Artículo 9.—Una vez nombrada y juramentada, la Comisión de Dictamen elegirá de su seno un Presidente; un Secretario y vocales en orden del uno al tres. Los vocales suplirán, por su orden, al Presidente y Secretario en sus ausencias temporales.

Artículo 10.—Los dictámenes de la Comisión se aprobarán con el voto favorable de por lo menos tres de sus miembros; no obstante, se harán constar en los mismos, la opinión y fundamentos de los que votaren en contra. Todos los dictámenes serán suscritos por la totalidad de los miembros participantes.

No obstante lo anterior, no podrán participar en la discusión, elaboración y aprobación de los dictámenes, aquellos miembros que tuvieren interés particular en el asunto, sea éste personal, de su cónyuge de sus parientes dentro del cuarto grado de consanguinidad o segundo de afinidad o cuando fuere socio o administrador él, su cónyuge o sus parientes en el mismo grado, de una sociedad interesada en el asunto. De presentarse cualesquiera de dichas circunstancias en un miembro, éste deberá excusarse del conocimiento del caso y ser sustituido por un suplente.

Artículo 11.—Los representantes del Sector Público integrantes de la Comisión, por sus actuaciones en la misma no devengarán ningún sobre-sueldo, dietas, honorarios, ni en general ninguna prestación económica que no sean las necesarias para sufragar los viáticos y gastos de viaje que correspondan conforme al reglamento vigente en CONADI, corriendo los mismos por cuenta de ésta. Los representantes del Sector Privado devengarán, además, una dieta que fijará la Junta Directiva de CONADI.

Artículo 12.—Visto el dictamen de la Comisión de Avalúo, la Junta Directiva de CONADI resolverá por simple mayoría aceptar, rechazar o modificar los resultados de los avalúos, pudiendo en estos dos últimos casos ordenar que se elaboren nuevos avalúos.

Artículo 13.—Para proceder a la transferencia de bienes al Sector Privado se utilizará el procedimiento de subasta pública o el de negociación directa a criterio de la Junta Directiva, tomando en cuenta las mejores condiciones que la opción ofrezca para los intereses del país.

Artículo 14.—El principio general será el de venta al contado. Unicamente se podrán transferir los activos al crédito cuando se cumplan las siguientes condiciones:

a) Se pague en efectivo cuando menos el 20% del valor de los bienes previamente evaluados.

b) Se rinda a favor de CONADI garantía real de primer grado sobre los mismos bienes y sobre otros hasta alcanzar los porcentajes establecidos por la Junta Directiva, o garantía bancaria por el saldo.

c) Que los plazos para el pago de los créditos no exceda de cinco años.

d) Que los cesionarios acrediten capacidad técnica, financiera y administrativa para reactivar las operaciones de las empresas o para darle continuidad a su funcionamiento.

e) Que cumpla las demás condiciones que apruebe la Junta Directiva de CONADI para la protección y recuperación de los créditos.

Para los efectos de las condiciones referidas en los incisos a) y c) anteriores, la Junta Directiva de CONADI podrá aprobar términos más flexibles a su discreción, atendiendo las consideraciones que cada caso que sean razonables y convenientes para el proceso.

Artículo 15.—La subasta estará dirigida por el Presidente Ejecutivo de CONADI y, en su defecto por el Vice-Presidente Ejecutivo. Los representantes que deberán actuar como testigos y el observador serán acreditados por la respectiva entidad que representan.

Cada testigo y el observador tendrán su respectivo suplente.

Artículo 16.—Los avisos para anunciar la subasta, se insertarán una vez en el Diario Oficial "La Gaceta" y hasta por cuatro veces en los diarios de mayor circulación en el país. Entre cada publicación mediará cuando menos un intervalo de tres días.

A criterio de la Junta Directiva podrá ordenarse la inserción del aviso en una publicación especializada del extranjero de circulación internacional. Cuando el valor de los bienes no exceda de Quinientos Mil Lempiras la publicación de los avisos en diarios nacionales se hará solamente por dos veces.

Artículo 17.—De la fecha de publicación del último aviso se contará el plazo mínimo de treinta días calendario para la presentación de ofertas. Las ofertas deberán ser presentadas en sobres cerrados dentro del plazo que indique el aviso de subasta.

Artículo 18.—Los avisos de subasta deberán contener la siguiente información:

a) El nombre "CORPORACION NACIONAL DE INVERSIONES" (CONADI) inserto en caracteres que lo resalten;

b) La invitación para que se presenten ofertas de compra de los bienes a subastar;

c) La descripción detallada de los bienes a subastar;

d) La dirección de los locales o la ubicación en que los bienes se encuentren;

e) Los días, las horas y lugares en que los interesados puedan examinar los bienes a subastar;

f) El precio base de los bienes a subastar;

g) La circunstancia de tratarse de primera o segunda subasta;

h) El plazo máximo para presentar las ofertas;

i) La dirección en que deberá presentarse la oferta;

j) Los requisitos que deberá reunir la oferta;

k) La fecha, hora y lugar en que se abrirán las ofertas;

l) Valor de los documentos base de la subasta y lugar y horas en que estarán disponibles;

m) Lugar en que el interesado podrá obtener información adicional;

n) Las demás circunstancias que hagan más atractiva la subasta.

Artículo 19.—Las ofertas deberán reunir los siguientes requisitos:

a) El nombre completo, nacionalidad y demás generales del oferente. En caso de tratarse de una sociedad deberá expresarse su denominación o razón social, su nacionalidad, su domicilio, finalidad, capital suscrito y pagado y el listado certificado de los socios que la integran con la expresión del valor real y porcentual de su participación en el capital social;

b) Documentación que acredite su identidad o constitución, así como solvencia con el Estado.

c) Garantía bancaria de sostenimiento de oferta por el cinco por ciento del precio base, la cual será devuelta

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en caso de que no se le adjudicaren los bienes. Si se le adjudicaren, la garantía será devuelta hasta que se suscriba el contrato de venta;

d) El valor de la oferta. Si la subasta comprendiere más de un lote de bienes, deberá expresar el valor de su oferta para cada lote. En caso que la Junta Directiva autorice transferencias al crédito la oferta contendrá además la especificación de las condiciones de pago.

e) Los demás que señale el aviso de subasta.

Artículo 20.—Para obtener los documentos de la subasta el interesado deberá pagar los derechos que para cada caso establezca la Junta Directiva de CONADI.

Artículo 21.—Las ofertas serán abiertas por el Presidente o Vice-Presidente Ejecutivo de CONADI en acto público y solemne en el que participarán además los testigos y el observador a que se refiere el numeral 3 del Artículo 2 del Decreto. Una vez abiertas todas las ofertas se levantará acta notarial en que se dejará constancia de las ofertas recibidas y demás circunstancias y resultados que se produzcan la cual será firmada por el que presida el acto, los oferentes que quisieren, los testigos y por el observador. El acta se levantará aunque no se presentaren ofertas. Las ofertas que no reúnan los requisitos establecidos en el Decreto, este Reglamento y las bases de subasta, serán descalificadas.

Artículo 22.—A los fines del Artículo 9 del Decreto no se admitirán ofertas que provengan de:

1) Los funcionarios públicos y empresas gubernamentales.

2) Los representantes del Sector Privado acreditados como miembros de la Junta Directiva de CONADI y de la Comisión mencionada en el numeral 1) del Artículo 2 del Decreto.

3) Las sociedades mercantiles en las que participen funcionarios públicos.

4) Las sociedades mercantiles en que participen los miembros de la Junta Directiva de CONADI.

5) Las sociedades mercantiles en que participen los miembros de la Comisión dictaminadora de los avalúos.

Artículo 23.—La Administración de CONADI analizará y evaluará las ofertas recibidas, pudiendo también solicitar dictamen a la Comisión a que se refiere el Artículo 2 (I.1) del Decreto. La evaluación y el dictamen en su caso deberán ser presentados en un plazo que no exceda de treinta días calendario.

Con el informe de evaluación de las ofertas, el dictamen o ambos, se convocará a una nueva audiencia pública para adjudicar los bienes al *mejor postor*.

Artículo 24.—Contra la Resolución que adjudique los bienes cabrá el recurso de apelación que se interpondrá ante el Presidente de la subasta en el mismo acto. Admitida la apelación, de oficio, se elevará al Tribunal Ad-Hoc para que proceda de conformidad con lo establecido en el Artículo 11 del Decreto.

Si no se admitiere el recurso, siendo procedente se actuará de conformidad con lo establecido en el Artículo 12 del Decreto.

Artículo 25.—El adjudicatario cumplirá en el término de treinta días calendario con la obligación de formalizar el documento de Traspaso. En caso debidamente justificado a solicitud del adjudicatario, este plazo podrá prorrogarse por treinta días adicionales.

En caso de que el adjudicatario no cumpla dicha obligación, el bien se adjudicará al oferente que siga según el orden de prelación en que haya quedado, si así le conviniere a CONADI a criterio de su Junta Directiva, sin perjuicio de hacer efectiva la garantía de sostenimiento de oferta. Contra dicha Resolución cabrá igualmente el recurso de apelación, el cual se tramitará según el procedimiento establecido en los Artículos que anteceden.

Artículo 26.—Si dentro del plazo que se fije para la subasta no se presentaren ofertas o si estas no alcanzaren los precios mínimos y demás condiciones de venta, la subasta se repetirá por una sola vez dentro del *plazo máximo* de tres meses contados a partir de la fecha en que se declare desierta la primera subasta.

En este caso las publicaciones podrán reducirse hasta un *mínimo* de dos en dos periódicos de mayor circulación y una en el Diario Oficial "La Gaceta".

Asimismo, la Junta Directiva *previo dictamen favorables* de la Comisión de Avalúo, por unanimidad, podrá modificar el precio y las demás condiciones de venta para la segunda subasta o someter el traspaso al procedimiento de negociación directa si éste fuere factible.

Artículo 27.—La Junta Directiva por unanimidad de votos, determinará para cada caso de negociación directa una estrategia que incluirá medidas de política alternativas y de contingencia. Designará de su seno y del equipo ejecutivo de la Corporación una Comisión Negociadora entre los cuales siempre habrá un representante del Departamento Legal de CONADI.

Artículo 28.—Los miembros de las Comisiones y en general los que participen en el proceso de traspaso de los bienes, deberán actuar con la diligencia de un buen administrador en el cumplimiento de sus atribuciones.

Artículo 29.—La Comisión Negociadora estará facultada para promover la transferencia del bien específico entre el mayor número de personas interesadas. Presentará, si ello es posible, diversas alternativas de venta recomendando la aprobación de la que estime que resguarda mejor los intereses de CONADI. Cada alternativa deberá ser respaldada por una propuesta específica por escrito por parte del interesado. Con fundamento en la recomendación de la Comisión Negociadora, la Junta Directiva aprobará o improbará el acuerdo, autorizando, cuando proceda, la venta y ordenará que previo a su formalización se publiquen por tres veces consecutivas en el Diario Oficial "La Gaceta" los términos del contrato, a más tardar 10 días de aceptado el acuerdo. CONADI comunicará de inmediato a la Procuraduría General de la República los términos de venta que apruebe la Junta Directiva.

Artículo 30.—Durante el término de tres días hábiles a partir de la última publicación a que se refiere el Artículo que antecede, la Procuraduría General de la República podrá oponerse a la negociación ante la Junta Directiva de CONADI, siempre y cuando se fundamente en que se han infringido los procedimientos establecidos en el Decreto, este Reglamento y cualesquiera otra Ley de orden público.

Artículo 31.—Transcurridos tres días hábiles constatándose que las publicaciones se han hecho en la forma ordenada por el Decreto y Reglamento y que no se ha presentado ninguna oposición, el Presidente Ejecutivo de CONADI procederá a formalizar el convenio en que consista la negociación, debiendo informar a la Junta Directiva en su sesión más próxima.

Artículo 32.—Sin perjuicio de lo dispuesto en el Artículo 5 de este Reglamento, en la negociación directa podrá admitirse contratos de compra venta, cesión de créditos, compensación bilateral o multilateral de créditos, dación en pago, así como cualquier otro mecanismo a título oneroso que favorezca la transferencia de bienes de CONADI al Sector Privado.

Artículo 33.—Antes o simultáneamente al proceso de subasta pública o negociación directa, CONADI preparará un plan de saneamiento de la situación financiera de las empresas u otros bienes, de los cuales tenga participación como accionista, como acreedor o ambos, el cual contendrá:

a) Un programa de reprofundación de créditos;

b) Un programa de deducción de responsabilidades a los administradores, liquidadores, comisarios, auditores de las sociedades y a los funcionarios y empleados de

CONADI que hayan actuado con dolo o culpa en decisiones, actuaciones o omisiones que hayan ocasionado directa o indirectamente daños, perjuicios o disminución del patrimonio de CONADI.

Artículo 34.—En caso de resultar una pérdida como consecuencia de la aplicación de las medidas y acciones para sanear la posición financiera de las empresas CONADI absorberá la pérdida incurrida, que se registrará contablemente y se comunicará a los organismos contralores del Estado.

Si como consecuencia de la transferencia al Sector Privado, resultare una diferencia imputable a pérdida, entre el valor registrado en libros y el valor de venta de los activos CONADI también absorberá la pérdida incurrida, la cual se registrará y comunicará en la forma prevista en el párrafo anterior.

Los resultados del saneamiento y subsiguiente transferencia, se ajustarán para establecer la pérdida o ganancia definitiva.

Artículo 35.—A cada empresa deudora se le establecerá un plan de pago, previo al otorgamiento de garantías suficientes y adecuadas al monto del crédito, similares a las que exige el sistema bancario nacional, de manera que se asegure la recuperación de los adeudos.

Artículo 36.—Las Sociedades deudoras que no pudieran adecuarse al plan de pago establecido por CONADI, si no les es aplicable ninguna de las otras medidas a que se refiere el Artículo 4 del Decreto, se le seguirán los trámites judiciales que conduzcan a su remate o a su declaratoria de quiebra.

Artículo 37.—No obstante lo dispuesto en los Artículos 35 y 36, a las Sociedades respecto de las cuales la Corporación sea acreedora y que a la fecha de entrar en vigencia el Decreto y su Reglamento hayan perdido la totalidad de su capital social, se les incoará el respectivo juicio para obtener el pago de sus obligaciones y en su caso el remate de la empresa o la declaratoria de quiebra.

En caso de transacción se actuará de conformidad con lo establecido en el Artículo 38 de este Reglamento.

Artículo 38.—A las Sociedades que no se encontraren en la situación a que se refiere el primer párrafo del Artículo que antecede, podrá otorgárseles readecuación de sus obligaciones, siempre y cuando cumplan las siguientes condiciones:

a) Que se castigue el capital contra las pérdidas acumuladas.

b) Nuevos aportes de capital o recursos frescos, hasta que el capital pagado sea no menor de un tercio del tope de su pasivo;

c) El plazo de la readecuación no sea superior a cinco años;

d) Que se consoliden deudas mediante mecanismos de conversación de créditos y/o compraventa de acreedurías;

e) Que el interés de la readecuación no sea inferior a la tasa ordinaria que cobra CONADI;

f) Que pague en efectivo o en otros bienes de fácil realización previamente tasados cuando menos el 20% del total de la deuda con sus respectivos intereses;

g) Se rinda a favor de CONADI garantía real de primer grado sobre los mismos bienes y sobre otros hasta alcanzar los porcentajes establecidos por la Junta Directiva o garantía bancaria por el saldo;

h) Que se acepte la supervisión de CONADI en la Administración de las empresas mediante el fideicomiso del voto de los accionistas mayoritarios nombrando delegado fiduciario irrevocable a CONADI.

i) Otras condiciones que propendan a proteger los créditos de CONADI.

Para los efectos de las condiciones referidas en los incisos b), c), e) y f) anteriores, la Junta Directiva podrá aprobar términos más flexibles, a su discreción atendiendo las consideraciones de cada caso que sean razonables y convenientes para el proceso.

Artículo 39.—No se podrá acordar readecuaciones financieras sin que previa o simultáneamente se hayan saneado las finanzas de los deudores.

Artículo 40.—CONADI solicitará la aplicación de las medidas conservativas y precautorias que sean necesarias para garantizar las recuperaciones de sus créditos o la deducción de responsabilidad a los funcionarios públicos, administradores, comisarios, liquidadores, síndicos y a cuantas otras personas les sean imputable las pérdidas a que se refiere el Decreto y el presente Reglamento. El término de prescripción de la responsabilidad de dichas personas comenzará a correr a partir del momento en que la pérdida sea definitiva, ésto es, cuando los bienes respectivos hayan sido transferidos al Sector Privado sin perjuicio de lo dispuesto en el Artículo 325 de la Constitución de la República.

Artículo 41.—Con el propósito de elaborar los estudios contemplados en el Decreto y este Reglamento y con el fin de crear las bases necesarias para la toma de decisiones por la Junta Directiva, CONADI deberá dar inicio en el más breve plazo posible a la reconstrucción sistemática de los estados financieros de los deudores o de las sociedades en que tenga o hubiere tenido cualquier clase de inversiones o financiamientos.

La reconstrucción sistemática de los estados financieros servirán para identificar la oportunidad, monto y naturaleza de las pérdidas, así como sus probables causas y además para deducir responsabilidades cuando las hubiere.

Artículo 42.—La Procuraduría General de la República prestará a CONADI toda la asistencia que requiera para la recuperación de los créditos, para la defensa de los juicios que se incoen en su contra y en general en cuanto contribuya a la preservación y defensa de los intereses y bienes de la Corporación.

Artículo 43.—CONADI incluirá en su presupuesto las previsiones necesarias para ejecutar los planes previstos en el Decreto y en el presente Reglamento, así como para cumplir con la contraparte de préstamos y donaciones que reciba para ese mismo propósito.

También podrá contratar servicios de asistencia técnica, de promoción de venta de evaluación de bienes de publicidad y cuantos otros contribuyan al eficaz cumplimiento del plan de traspaso.

Artículo 44.—CONADI prestará apoyo a los consultores especializados que participen en los estudios técnicos, económicos, legales y de avalúo de empresas y otros activos, así como a la Comisión de Dictamen de los avalúos, circunstancia que se tomará en cuenta al [illegible] los respectivos contratos.

Artículo 45.—A los fines de facilitar la [illegible] de venta y [illegible] del Decreto en [illegible]

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zo y en los términos más adecuados no se considerarán como aportes nuevos de financiamiento de organismos del Estado las readecuaciones de deuda, asunción o delegación de deuda, capitalización u otras operaciones financieras similares que no signifiquen un desembolso para CONADI.

Artículo 46.—El Tribunal Ad-Hoc a que se refiere el Artículo 11 del Decreto será nombrado por el Ministerio de Economía y Comercio a propuesta de las instituciones respectivas. A esos efectos, durante el mes de enero de cada año, el Banco Central de Honduras, La Asociación Nacional de Industriales (ANDI) y la Cámara de Comercio Central de Honduras o, en su defecto, la Cámara de Comercio e Industria de Tegucigalpa, presentarán una terna de candidatos. Por cada miembro propietario habrá un miembro suplente. Una vez nombrados rendirán la promesa de Ley y tomarán posesión de su cargo.

Artículo 47.—En cumplimiento de lo dispuesto en el Artículo 13 del Decreto, el Directorio del Banco Central de Honduras oyendo a CONADI, mediante Resolución determinará la forma de operar del fondo a constituirse para atender en forma prioritaria el servicio de la deuda de CONADI garantizada por el Estado.

Artículo 48.—Queda terminantemente prohibido exportar la maquinaria y equipo que en virtud del Decreto y del presente Reglamento sea transferido al Sector Privado.

A este efecto, el Ministerio de Hacienda y Crédito Público vigilará el estricto cumplimiento de la presente disposición.

Artículo 49.—Si las Juntas Directivas de la Corporación Hondureña de Desarrollo Forestal (COHDEFOR), de la Corporación Hondureña del Banano (COHBANA) y del Banco Nacional de Desarrollo Agrícola (BANADESA) acordaren el traspaso de sus inversiones al Sector Privado deberán elaborar Reglamentos Especiales adaptados a las características particulares de cada institución y emitidos a través de la Secretaría de Estado competente.

Artículo 50.—En tanto se elabora el estudio técnico económico y se apruebe el plan de traspaso a que se refiere el Artículo 1º del Decreto, CONADI podrá continuar el curso de las negociaciones y juicios pendientes, pudiendo incluso reformar las respectivas resoluciones adoptadas con anterioridad a la vigencia del Decreto y el Reglamento.

Artículo 51.—El presente Reglamento entrará en vigencia a partir de la fecha de su publicación en el Diario Oficial "La Gaceta".—Comuníquese.

ROBERTO SUAZO ORDOVA

El Secretario de Estado en los Despachos de Economía y Comercio.

Juan Miguel Orellana Malkenado.

El Secretario de Estado en los Despachos de Hacienda y Crédito Público.

Rodolfo Matamoros

25 E. 86.

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AÑO CIX TEGUCIGALPA, D. C., HONDURAS, JUEVES 10 DE OCTUBRE DE 1985 NUM. 24 744

PODER LEGISLATIVO

DECRETO NUMERO 161-85

EL CONGRESO NACIONAL

CONSIDERANDO: Que el Gobierno de la República está empeñado en superar la crisis económica que abate a la Nación, aplicando los mecanismos más viables de incremento de la producción, fomento de las exportaciones y promoción de las inversiones.

CONSIDERANDO: Que la estrategia del Plan de Acción de la Política Económica de Honduras recomienda la participación de todos los sectores en la reactivación de la economía nacional, por lo que corresponde al Estado sentar las bases que induzcan e impulsen al sector privado a desarrollar el papel que le corresponde en la generación de las actividades productivas.

CONSIDERANDO: Que la Corporación Nacional de Inversiones (CONADI) mantiene en cartera inversiones significativas en empresas productivas cuyos niveles de operación y rendimientos financieros no han logrado alcanzar los objetivos previstos en su origen; lo que significa una elevada carga financiera que el Gobierno Central ha debido enfrentar, efectuando pagos a cuenta de (CONADI) hasta el 30 de abril de 1985 por un monto de CIENTO TREINTA Y DOS MILLONES DOSCIENTOS SIETE MIL DOSCIENTOS NOVENTA Y OCHO LEMPIRAS CUARENTA Y CUATRO CENTAVOS (L. 132,207,298 44).

CONSIDERANDO: Que el ejercicio de las actividades económicas corresponde primordialmente a los particulares, por lo que es de conveniencia nacional traspasar al sector privado las empresas participaciones accionarias y demás activos de carácter productivo en poder de la CONADI, mediante la ejecución de un plan técnico-económico ordenado, que tienda a recuperar las inversiones o minimizar las pérdidas así como a reactivar las unidades productivas mediante la dirección empresarial y la inyección de capital privado.

POR TANTO,

D E C R E T A:

ARTICULO 1.—La Junta Directiva de la Corporación Nacional de Inversiones (CONADI), previo estudio técnico económico, deberá proceder a la realización de un plan de traspaso de las empresas de la cartera en poder de la Corporación al sector privado.

El traspaso podrá incluir tanto la venta de empresas de la cartera, como la venta de participación accionaria de la Corporación en las empresas; así como de cualesquiera

CONTENIDO

DECRETO NUMERO 161-85
Septiembre de 1985

HACIENDA Y CREDITO PUBLICO
Acuerdo Nº 1224 — Septiembre de 1985

COMUNICACIONES, OBRAS PUBLICAS Y TRANSPORTE
Acuerdos Nos. 142 y 143 — Febrero de 1976

A V I S O S

otros activos que le pertenezcan o que le hayan sido adjudicados por resolución judicial o arreglo extrajudicial.

Se exceptúan todos aquellos bienes muebles e inmuebles que sirven para el normal funcionamiento de la CONADI.

ARTICULO 2.—Toda venta de activos se hará mediante el procedimiento de subasta pública o de negociación directa, a criterio de la Junta Directiva de CONADI. Los procedimientos se ajustarán a las disposiciones siguientes:

I. SUBASTA:

1. La Corporación deberá establecer el precio mínimo y demás condiciones de venta de cada empresa, participación accionaria u otros bienes en base a un avalúo técnico financiero que considere el valor de mercado de los activos.

   Cada avalúo, así como las condiciones de venta, será aprobado mediante Resolución de la Junta Directiva de la CONADI, previo Dictamen conjunto de una Comisión integrada por un representante de cada una de las instituciones siguientes:

   a) Contaduría General de la República;

   b) Superintendencia de Instituciones Descentralizadas;

   c) Superintendencia de Bancos del Banco Central de Honduras;

   ch) Dirección General de Probidad Administrativa; y,

   d) Un representante del sector privado seleccionado por la Secretaría de Economía y Comercio entre una terna que proponga el Consejo Hondureño de la Empresa Privada (COHEP). Este representante deberá ser calificado por la Contraloría General de la República.

2. La subasta se anunciará al público a través de avisos insertos en el Diario Oficial "La Gaceta", en por lo

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menos dos de los diarios privados de mayor circulación en el país en otros medios especializados y si fuere necesario la Junta Directiva autorizará la publicación en un diario extranjero de circulación internacional con la información suficiente para lograr la mayor participación de interesados en ofertar e indicando el plazo para la presentación de las ofertas, el cual no podrá ser menor de treinta (30) días.

3. La subasta estará dirigida por el Presidente Ejecutivo o Vicepresidente Ejecutivo de la Corporación y actuarán como testigos un representante de la Dirección General de Probidad Administrativa, un representante de la Superintendencia de Bancos del Banco Central de Honduras y un representante del sector privado ante la Junta Directiva de la Corporación. Participará como observador un representante de la Procuraduría General de la República.

4. En igualdad de condiciones se dará preferencia a las ofertas de inversionistas hondureños y entre éstas en aras de la desnacionalización del capital, tendrán preferencia aquellas ofertas presentadas por asociaciones, cooperativas o sociedades mercantiles fundadas por trabajadores de las empresas en venta, que manifiesten interés real y capacidad económica para realizar la respectiva adquisición. Ningún oferente podrá presentar propuestas que incluyan aportes nuevos de financiamiento provenientes de organismos del Estado.

5. Las ofertas se recibirán selladas y serán abiertas en un acto público a celebrarse en un lugar y tiempo predeterminados. Si en el plazo que se fije para la subasta, no se presentaran ofertas o si éstas no alcanzan los niveles mínimos de precio y demás condiciones de venta, la subasta se repetirá por una sola vez dentro del plazo de hasta tres meses.

   Un notario dará fe del acto público de la subasta y hará una relación pormenorizada de las circunstancias y resultados que se produzcan en cada evento; y,

6. Si al celebrarse la segunda subasta no se vendieran los bienes, la Corporación recurrirá a la negociación directa. De lograrse un acuerdo de venta por negociación directa, los términos del mismo deberán ser aprobados por la Junta Directiva de la Corporación previo Dictamen de la Comisión establecida en el numeral 1) del presente Artículo, especificando con claridad las condiciones del acuerdo de venta. De aprobarse el acuerdo de venta, los términos del mismo se harán de conocimiento público por 3 días hábiles.

II. NEGOCIACION DIRECTA:

1. La Junta Directiva de CONADI por unanimidad resolverá utilizar el procedimiento de negociación directa cuando así se juzgue corresponda a los mejores intereses de CONADI como estrategia de venta.

2. La Junta Directiva tomará la decisión basada en el avalúo técnico a que se refiere el Artículo 5 y a las recomendaciones sobre estrategia de venta que haga la Comisión de Avalúo.

3. La Junta Directiva por unanimidad designará de entre sus miembros, o de su personal ejecutivo, con asesoramiento externo en los casos necesarios, la Comisión Negociadora en cada caso específico.

4. Previo dictamen de la Comisión Negociadora, la Junta Directiva por unanimidad aceptará las bases acordadas de la negociación autorizando la venta. Los términos del contrato de venta se harán de conocimiento del público por tres días hábiles.

ARTICULO 3.—Todos los activos del Sector Turismo en poder de CONADI no venderán a compradores cuyo propósito de adquisición sea destinar dichos bienes al servicio del Turismo.

Si transcurrido un plazo de cuatro años no son posibles las operaciones de traspaso en la forma señalada en este Artículo, CONADI podrá traspasarlos para un fin diferente.

ARTICULO 4.—Para los efectos del presente Decreto y en base al Estudio Técnico Económico señalado en el Artículo 1 (uno), se autoriza a la Junta Directiva de CONADI para tomar las medidas y acciones necesarias a efecto de sanear la posición financiera de las empresas.

Dentro de este contexto, se incluyen entre otras las siguientes medidas:

1) Castigo de capital;

2) Capitalización y/o reestructuraciones financieras;

3) Compraventa de acreedurías;

4) Compensación de créditos;

5) Donaciones en pago; y,

6) Remates judiciales.

En caso de resultar una pérdida del patrimonio de la Corporación como consecuencia de la aplicación de las presentes medidas, ésta absorberá la pérdida incurrida la cual deberá registrarse contablemente y comunicarse a los organismos contralores del Estado para los efectos que sean pertinentes.

ARTICULO 5.—El avalúo técnico financiero a que se refiere el Artículo 2 deberá comprender por lo menos los siguientes aspectos:

1) Descripción de las empresas o los bienes;

2) Características generales;

3) Situación financiera (actual y proyectada);

4) Producción y Mercado (actual y proyectada);

5) Inventarios;

6) Valor en libros de los activos;

7) Valor estimado de los activos;

8) Análisis de pasivos;

9) Análisis de capital;

10) Precio base, condiciones y estrategia de venta; y,

11) Conclusiones y recomendaciones.

ARTICULO 6.—Si resulta una diferencia imputable a pérdida entre el valor en libros registrado y el valor de venta de los activos para los efectos del presente Decreto, la Corporación absorberá la pérdida incurrida; procediéndose conforme a lo estipulado en el Artículo 4 de este Decreto.

En consecuencia, los Miembros de la Junta Directiva de la Corporación y los demás funcionarios que aprueban los avalúos, dirijan la subasta y autorizen la venta, no incurren en responsabilidad por la enajenación de los bienes nacionales que comprenden este Decreto, toda vez que cada acto se realice estrictamente de acuerdo al procedimiento especial que señala esta Ley y su Reglamento.

ARTICULO 7.—Lo dispuesto en el Artículo anterior no exime de responsabilidad a los funcionarios públicos, administradores y accionistas de las empresas a nombrar en funciones durante el período de tiempo en que realmente se incurrió en la pérdida del patrimonio de la Corporación.

ARTICULO 8.—La Corporación promoverá de manera amplia e intensiva el plan de traspaso de sus intereses empresariales al sector privado.

ARTICULO 9.—Para los efectos del presente Decreto se abstendrán de presentar ofertas y de participar en las subastas y negociación directa:

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1) Los funcionarios públicos y empresas gubernamentales; y,

2) Los representantes del sector privado acreditados como miembros de la Junta Directiva de CONADI y de la Comisión mencionada en el numeral 1) del Artículo 2.

ARTICULO 10.—La Junta Directiva de la CONADI podrá autorizar la contratación de consultores especializados, nacionales o extranjeros representados por empresas nacionales, para el proceso de valoración de las empresas.

ARTICULO 11.—Los participantes en la subasta que se consideren agraviados y firmen el acta de la misma, podrán hacer uso del recurso de apelación para ante un Tribunal Ad-Hoc integrado por un representante del Banco Central de Honduras, un representante de la Asociación Nacional de Industriales (ANDI), y un representante de la Cámara de Comercio Central de Honduras. Actuará como Secretaría el Banco Central de Honduras. Recurso que interpondrá al momento de la firma del acta de adjudicación y se mejorará ante el Tribunal Ad-Hoc dentro de los tres días porteriores a la firma si la adjudicación se celebrare en esta ciudad capital, y dentro de cinco días, si se celebrare fuera de la misma. El Tribunal Ad-Hoc resolverá dentro del plazo improrrogable de diez días hábiles.

ARTICULO 12.—Si la apelación fuera denegada, siendo procedente, el interesado comparecerá ante el Tribunal Ad-Hoc para que la declare admisible en el término de tres días, para cuyo efecto dicho Tribunal reclamará los antecedentes. En vista de los mismos, declarará su admisibilidad si procediere, ordenando la mejora del recurso y fallará la apelación dentro de los plazos a que se refiere el Artículo anterior.

ARTICULO 13.—Los recursos generados por la venta de las empresas, partes sociales, bienes y otros activos, pasarán a constituir un fondo a favor de CONADI en el Banco Central de Honduras, el cual será utilizado para atender en forma prioritaria el servicio de la deuda garantizada por el Estado.

ARTICULO 14.—Las Juntas Directivas de la Corporación Hondureña de Desarrollo Forestal (COHDEFOR), de la Corporación Hondureña del Banano (COHBANA) y del Banco Nacional de Desarrollo Agrícola (BANADESA), podrán acordar el traspaso de sus inversiones en empresas, participaciones accionarias y otros bienes al sector privado en las mismas condiciones y forma en que se ha establecido para la CONADI, adaptadas a las particulares características de cada organización, por lo que las disposiciones pertinentes de este Decreto se hacen extensivas a las Instituciones mencionadas.

ARTICULO 15.—El Poder Ejecutivo reclamentará este Decreto a través de las Secretarías de Economía y Comercio y de Hacienda y Crédito Público.

ARTICULO 16.—El presente Decreto entrará en vigencia a partir del día de su publicación en el Diario Oficial "La Gaceta".

Dado en la ciudad de Tegucigalpa, Distrito Central, en el Salón de Sesiones del Congreso Nacional, a los veintiséis días del mes de Septiembre de mil novecientos ochenta y cinco.

JOSE EFRAIN BU GIRON
Presidente

MARIO ENRIQUE PRIETO ALVARADO
Secretario

JUAN PABLO URRUTIA RAUDALES
Secretario

Al Poder Ejecutivo.

Por Tanto, Ejecútese.

Tegucigalpa, D. C., 30 de Septiembre de 1985

ROBERTO SUAZO CORDOVA
PRESIDENTE

El Secretario de Estado en los Despachos de Economía y Comercio,

Miguel Orellana Maldonado.

El Secretario de Estado en los Despachos de Hacienda y Crédito Público,

Manuel Antonio Fontecha Ferrari.

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ANNEX III - C NON-CONADI SOE's

The following is a summary of State Owned Enterprises in Honduras, which are engaged in production and/or marketing activities of goods and services.

1. National Bank for Agricultural Development (BANADESA)

BANADESA is the principal financial institution of the GOH in charge of providing credit to the agricultural sector. It was created in 1980 to substitite the Banco Nacional de Fomento (BANAFOM). BANADESA owns shares in the following companies:

Agro Avícola de Honduras
Altos Hornos de Centroamérica
Azucarera Choluteca, S.A. de C.V.
Cartonera Nacional, S.A.
Compania Pino Celulosa de Centro América
Azucarera Cantarranas, S.A. de C.V.
Cooperativa de Empleados-BANAFOM
Exportadora de Café Honduras, S.A.
Fabrica Nacional de Alimentos, S.A.
Compania Agrícola Cafetalera, S.A.
Productos Lacteos Sula, S.A.
Servicios Madereros, S.A. de C.V.
Trefiladora de Centroamérica, S.A.

2. National Foodstuff Supply Agency (BANASUPRO)

BANASUPRO was established to provide low-priced food products to low income consumers in urban areas, through a network of retail outlets serviced by a central wholesale facility. It specializes in the distribution of canned, dry goods, and popular consumer items of long shelf-lives and fixed prices. Unfortunately, after ten years of operation, its contribution to improving the Honduran food distribution system has been limited. By the end of 1984, BANASUPRO has a cumulative deficit of L. 5.9 million, not counting L. 2.5 million in accounts receivable. During 1985, to reduce its operating losses, the entity closed down 18 of its retail stores, placed thirty stores with consignataries, while keeping the central wholesale facility, 65 stores and three mobile shops under its direct management.

3. Honduran Marketing Institute (IHMA)

The GOH established IHMA as a specialized entity in 1978 to formulate agricultural marketing policy, provide technical assistance and information to marketing operators, establish minimum producer prices, assure adequate supplies for the consumer population, and regulate international trade of foodstuffs. In practice, however, IHMA's activities have been concentrated on interventions in the basic grains market, which have basically consisted of corn and bean purchases at harvest time. To support this, the entity has established a network of nineteen storage facilities throughout the country, with an aggregate storage capacity of approximately 110,000 MT of grains. At present IHMA faces a critical financial situation, which arises from the GOH's failure to provide a permanent source of funding, inadequate management, and the very complexity of its role.

4. Honduran Forestry Corporation (COHDEFOR)

COHDEFOR was established in the 1970's to develop the country's forestry industry. It was provided with a broad charter, which included regulatory as well wood production, processing and marketing functions. The entity promoted the establishment of several saw mills, that have resulted in major financial losses. The GOH has recently promoted the sale to private interests of Industria Forestal Agua Fria S.A. (FIAFSA). However, COHDEFOR still retains majority ownership in the following companies:

Corporación Forestal Industrial de Olancho (CORFINO)
Central de Aserrío, S.A. (CASISA)
Industria Maderera Locomapa
Servicio Maderero, S.A. (SEMSA)
Resinas de Honduras, S.A.

5. Honduran Coffee Institute (IHCAFE)

IHCAFE is the GOH entity entrusted with promoting the development and regulating the country's coffee industry. Among the series of activities carried out by IHCAFE, it has established fourteen coffee mills, to improve product quality and allow direct farmer participation in processing. Presently, however, all these mills are paralized.

6. Honduran Banana Corporation (COHBANA)

COHBANA was set up by the GOH to guide and regulate the development of the country's banana activities. To accomplish this purpose, and among a series of other activities, COHBANA promoted the establishment of several banana farms, which are:

Cooperativa Bananera, S.A. (COBASA)
Santa Inés
Finca Tres
Empresa Asociativa de Isletas (EASI)

The first banana farm, COBASA, is the only one presently managed by COHBANA. The latter three farms have been sold already to farmer groups, even though they are still far from fully paid. There is much interest in COHBANA for privatizing COBASA, although it is considered necessary to initially rationalize its operations.

7. Industrial Development Center (CDI)

The CDI is engaged in the provision of financial services and technical support to medium-sized and small companies in the industrial sector. It also provides assistance to independent artisans. The entity is presently engaged in the operation of the following activities and facilities, which could be privatized.

Two Artisanal Shops, one in San Pedro Sula and the other in Tegucigalpa.

Ceramic Factory
The Artisanal Market of Valle de Angeles, in addition to a new one that will be shortly openned in Roatán.
Rural Technologies Project, which has assured USAID support until 1988 but will require new funding sources from that year on.

8. Municipal Governments

Throughout the country, virtually in all urban communities, municipal governments own and operate public retail and wholesale markets, truck terminals, and abbatoirs. Specifically, the Tegucigalpa Municipality owns and administers seven public markets, while the San Pedro Sula Municipality owns and operates five public markets and one slaughterhouse. A major share of the funds allocated to the construction of these facilities by municipalities have been channeled through the Banco Municipal Autônomo.

9. National Child Welfare Institute (PANI)

PANI, the GOH entity in charge of promoting child welfare and basic health, is engaged in the production of a wide range of low-priced basic medicines of massive consumption, including aspirin, amphicillin, cough syrups, and vitamin capsules. All of these products are elaborated in a rather sophisticated plant located in Tegucigalpa, by mixing mostly imported ingredients. About 95 per cent of PANI's medicin output is sold to the Ministry of Health.

10. Ministry of Natural Resources (MNR)

The MNR, the Honduran Ministry entrusted with the development and control of the country's agricultural sector and natural resources, is also engaged in activities associated to the production of goods and services. Specifically, the Ministry plays a dominating role in the production of improved seeds and the provision of farm machinery services.

11. Other GOH Enterprises and Entities

In addition to the above, there exist the following GOH enterprises and entities, engaged in the provision of essential services.

National Electric Enterprise (ENEE)
National Port Enterprise (ENP)
National Railroads of Honduras (FNH)
Honduran Telephone Company (HONDUTEL)
Honduran Social Security Institute (IHSS)
National Training Institute (INFOP)
National Housing Institute (INVA)
Water and Sewer Company (SANAA)
Industrial Development Center (CDI)
Industrial Development Fund (FONDEI)

ANNEX III - D

EXTRACTS FROM CONADI INSTITUTIONAL ANALYSIS

CONADI was created on July 3, 1974, as a tax-exempt public investment corporation. The objectives of CONADI were to: (1) accelerate private and mixed investment in priority economic sectors, (2) strengthen the capital and securities market so as to mobilize savings, and (3) facilitate access by individual Honduras investors to ownership in local enterprises.

The Corporation is governed by a Board of Directors composed of government and private sector representatives. The Board has responsibility for approving all loans and investments and operates with "absolute independence" subject to the general laws of Honduras

During the period 1975-1981, CONADI was a major source of investment capital in Honduras. The Corporation invested in a wide range of companies (66 in total) and was a key instrument in stimulating economic growth. Prior to CONADI's financial crises in 1981, it was estimated that the Corporation's investments accounted for approximately 6 percent of the nation's gross domestic product derived from the manufacturing sector, 6 percent of employment in this sector, 21 percent of the total value of industrial exports and 59 percent of gross investment in manufacturing.

CONADI's investment portfolio consists of loans (30%), equity investments (19%), and loan guarantees (51%) based on audited 1984 figures. Although a reasonably large number of companies are involved, most of the portfolio is concentrated in the agro-industry and construction sectors (63%) and in a relatively small number of companies (4 of which account for 51% of the entire portfolio, 14 for 80% and 28 for 96%). Business linkages among the companies involved further contribute to the narrowing of the portfolio base.

As of December 31, 1984, CONADI's lending and investment portfolio totaled Lps.349.2 million, of which Lps. 171.6 million (49%) were considered uncollectable. In addition, CONADI had contingent liabilities (principally loan guarantees) valued at Lps.212.5 million of which Lps.1213 ((59%) were considered unrecoverable. Nearly 80 percent of CONADI's entire portfolio is in companies which are currently operating at a loss, experiencing severe financial difficulty, or whose future is uncertain. Total losses, as estimated by independent auditors stood at Lps.294.7 million, assuming CONADI's ability to recover at least 60 percent of documented collateral. CONADI's aggressive borrowing policy seriously leveraged its capital base in amounts dangerously in excess of generally accepted investment banking practices. As a result of its borrowing policy and investment practices, CONADI was both excessively leveraged and saddled with a non-performing loan and equity protfolio. This combination resulted in a rapid drain on cash reserves and the inability of the Corporation to continue to independently service its obligations. By 1981, th Corporation recorded its first operating deficit. By 1982 losses had erased all available capital and CONADI was technically bankrupt.

* See unattached Annex III. A. 4 for complete institutional analysis

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Among the principal causes of CONADI's financial crises were:

Inadequate Portfolio Management

There is little evidence that CONADI management exercised due professional care in the selection of its loan and equity clients. This resulted in an excessive concetration of the Corporation's portfolio in a limited number of economic sectors and companies as well as in companies and projects with low earnings and repayment potential.

Absence of Effective Liquidity Management

CONADI management violated elementary rules of liquidity management. Among the most significant weaknesses in this area was management's failure to prepare cash flow forecasts matching the maturity structure of its term obligations agaist the income streams from its loan and investment portfolio. Recognizing that CONADI's asset earning rate was unlikely to meet levels expected by investment banks in industrial countries, and that its liability costs were not proportionally reduced due to the high costs of international commercial borrowing, the likelihood of a serious liquidity drain was predictable.

Excessive Overlending

CONADI management bypassed the Corporation's internal policies with regard to credit limits and collateral requirements and extended credit and/or took equity positions far in excess of available collateral or any reasonable assessment of the ability of the subject companies to repay their obligations. The conversion of delinquent loan and dividend payments into increased equity participation contributed even further to this problem.

Failure to Enforce Repayment Agreements

In most cases, CONADI loans were subject ot sound agreements concerning the terms of repayment. In many instances, however, these terms were not enforce by CONADI. When it was apparent that the borrower's capacity to repay was negligible, the Corporation should have initiated liquidation proceedings as soon as possible. Instead, such difficult decisions were avoided and in certain instances, delinquent interest was capitalized or additional equity was accepted by CONADI. These actions tended to increase, rather than decrease, the exposure of the corporation.

The sale and/or liquidation of major properties and operating businesses is a formidable task. The team's assessment is that CONADI management is capable of assisting in, but not directing, this process. Overall direction should be provided by senior international advisors with previous experience in asset liquidation, mergers/acquisitions, and/or venture capital.

In general, we believe that CONADI does not have the technical capacity to independently direct the divestiture and privatization program nor to operate as a government or private development bank without substantial outside assitance or without organizational restructuring and improvement in operating procedures. While CONADI personnel have many of the technical and

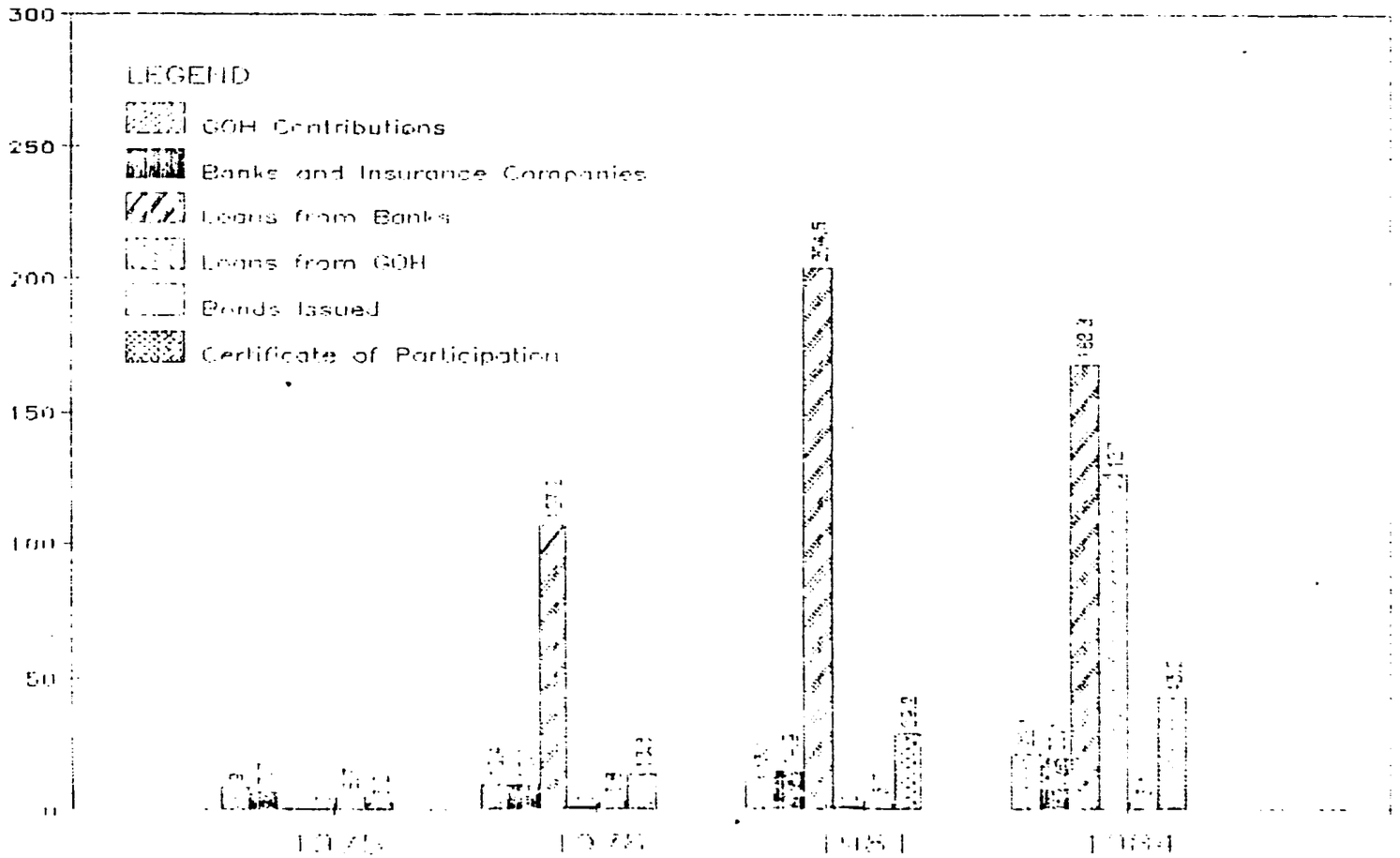
administrative skills needed to assist in the divestiture process, other skills including the ability to prepare realistic financial projections for subject companies, experience in "financial architecture" (i.e., designing creative financial packages), capacity to undertake asset valuations, and experience in bankruptcy proceedings and public auctions are missing.

Divestiture of CONADI's holdings will require both the absorption of substantial losses as well as the attraction of large quantities of new capital. Actual losses (write-offs) are likely to be in the range of LPs. 300 to 450 million depending on the ability of the Corporation to realize the recorded value of loan collateral or to sell its investments and related assets for a reasonable fraction of their recorded value.

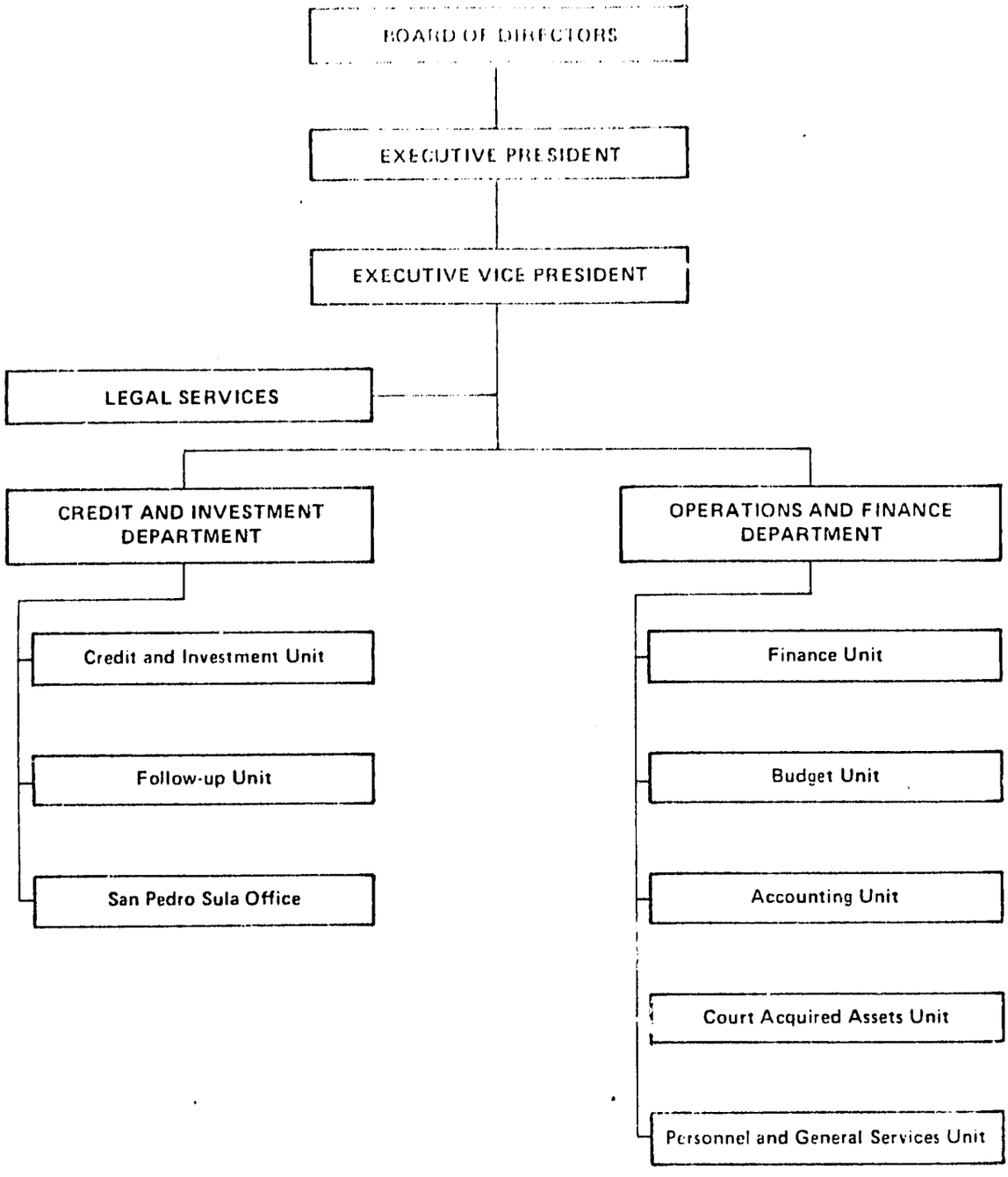
A more critical limitation, however, may be the existence of sufficient external capital to purchase the remaining assets. Not only is CONADI carrying investments valued at Lps.160 million, but in many instances, the ability to "turn around" the companies involved will require additional capital infusions for plant modernizationa and/or conversion as well as for working capital. It is not unrealistic to anticipate that the total capital required (after absorption of losses) will be in the range of Lps.150 to 250 million.

The attached financial reports show the latest available information on the corporation.

CONADI
SOURCES OF OPERATING FUNDS
1975 — 1984
(In Millions of Lempiras)



CURRENT ORGANIZATIONAL STRUCTURE
NATIONAL INVESTMENT CORPORATION
CONADI



Source: CONADI

NATIONAL INVESTMENT CORPORATION (CONADI)

COMPOSITION AND ANALYSIS OF INVESTMENT PORTFOLIO

As of December 31, 1984

(Expressed in Thousands of Lempiras)

CLASSIFICATION BY STATUS	LOANS	LOAN GUARANTEES	OTHER CREDIT	EQUITY INVESTMENTS	TOTAL	%
Active Companies						
- Operating Profitbly	16,475	6,207	2	42,398	65,082	40.9
- Operating with losses and serious financial problems	110,089	24,107	6,210	49,074	189,480	119.0
Companies with suspended operations due to financial and or technical problems	12,336	14,528	121	3,515	30,500	19.2
Companies in pre-operating status with uncertain futures	13,610	4,073	2,067	6,175	25,925	16.3
Subtotal:	152,510	48,915	8,400	101,162	310,987	195.4
Minus: reserves for losses	(75,902)	(23,254)	(4,208)	(48,485)	(151,849)	(95.4)
TOTAL	76,608	25,661	4,192	52,677	159,138	100.0

Note: Classification by status based on analyses performed by CONADI Credit and Investment Department.

NATIONAL INVESTMENT CORPORATION (CONADI)
STATEMENT OF FINANCIAL POSITION
As of December 31, 1984
(Expressed in Lempiras)

ASSETS

Cash	L. 468,740
Term deposits	7,850,000
Inter-bank Loans	1,050,000
Loans, guarantees, other types of credit and investments in companies	310,988,593
Minus: reserve for losses	(151,849,000)
	159,139,593
Interest and commissions not capitalized and other accounts receivable	38,214,216
Minus: reserve for losses	(19,727,900)
	18,486,316
Prepaid expenses	699,206
Property, plant and equipment less accumulated depreciation	553,779
Goods received in payment of loans:	16,998,799
Central government-special account	179,622,117
Total Assets	L.384,868,550

LIABILITIES AND CAPITAL

Liabilities:	
Loans and notes payable to banks	L.168,783,027
Bonds payable	3,103,000
Industrial certificates of participation held by industries	43,201,090
Interest and commissions payable	32,588,807
Other accounts payable	8,260,134
Commissions and other prepaid receivables	1,967,004
Loans payable to the Central Government	126,965,488
Total Liabilities	384,868,550
Obligations and contingencies:	
Capital:	
GOH Contributions	22,109,120
Contributions by banks and insurance companies	20,069,262
	42,178,382
Deficit	(42,178,382)
Total Capital	-.-
Total Liabilities and Capital	L.384,868,550

Note: The Notes accompanying the financial statements are an integral part of these statements

NATIONAL INVESTMENT CORPORATION (CONADI)
STATEMENT OF OPERATING RESULTS
For the Year Ending December 31, 1985
(Expressed in Lempiras)

	1984
Income from interest and dividends:	
Interest from loans	L.24,910,399
Commissions	4,660,060
Dividends	2,896,588
	32,467,047
Interest expenses:	
Interest on loans	23,209,924
Interest on bonds and certificates of participation	1,504,382
Interest on loan guarantees	1,610,334
	36,324,640
Profit (loss) on interest and dividends	(3,857,593)
Operating costs:	
Cost of personnel	2,073,588
Rent and other office expenses	76,478
Depreciation and amortization	86,496
Other costs	1,774,675
Total operating costs	4,011,237
Loss from operations	(7,868,830)
Other (expenses) income - net	1,651,313
Net loss	L.(6,217,517)

Note: The notes accompanying the financial statements are an integral part of these statements.

ALLOCATION OF PERSONNEL BY UNIT

CONADI, APRIL 1986

Unit Designation	Number of Employees			
	Professional	Administrative	Contract	Total
Secretary to the Board	0	1	0	1
Office of the President	1	2	0	3
Office of the Vice President	1	1	0	2
Internal Audit Department	9	1	0	10
Legal Department	2	1	3	6
Credit and Investment Department	1	1	0	2
- Credit and Investment Unit	9	1	0	10
- Follow-up Unit	1	0	0	1
- San Pedro Sula Office	5	1	0	6
Operations and Finance Department	1	1	0	2
- Finance Unit	1	0	0	1
- Budget Unit	1	0	0	1
- Accounting Unit	9	2	0	11
- Personnel and General Services	3	12	1	16
- Administration of Court Assets	4	0	0	4
Total	48	24	4	76

Source: CONADI Personnel and General Services Unit

COMPOSITION OF CONADI [illegible]
As of May 15, 1986

Position	Current Occupant
Minister of the Economy (Chairperson)	Dr. Reginaldo Panting
Minister of Finance and Public Credit	Abogado Efrain Bu Giron
Executive Secretary of CONSUPLANE	Ing. Francisco Figueroa
President of the Central Bank	Lic. Gonzalo Carias Pineda
Representative of the Banking Sector	Lic. Jacobo Kattan Coello
Representative of the Industrial Sector	Ing. Miguel C. Bendeck
Representative of the Insurance Sector	Lic. Mario Batres Pineda

PREVIOUS AND CURRENT EXECUTIVE PRESIDENTS OF CONADI

Term of Office	Name
01 Oct 74 - 16 Aug 78	Juan C. Marinakys
17 Aug 78 - 21 Sep 80	Augusto Coello
22 Sep 80 - 04 Feb 82	Hector Cordova Pineda
05 Feb 82 - 11 Feb 83	Roberto Galvey Barnes
11 Feb 83 - 30 Aug 84	Justo Pastor Calderon
01 Sep 84 - Present	Angel Eduardo Ramos

PERSONNEL LEVELS AND TURNOVER RATES
1974-1985

Year	Employees	Departures
1974	7	-
1975	29	-
1976	53	-
1977	78	11
1978	74	30
1979	98	22
1980	110	16
1981	141	22
1982	79	19
1983	78	15
1984	81	14
1985	87	17

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ANNEX III - E CUMMULATIVE EXPOSURE OF CONADI ENTERPRISES

DISTRIBUTION OF CONADI'S PORTFOLIO (L.000)

No.	ENTERPRISE	EXPOSURE	EXPOSURE CUMULAT.	% EXPOSURE	% EXPOSURE CUMULAT.
1	INCEHSA	96.6	96.6	16.21	16.21
2	Mejores Alimentos	67.8	164.4	11.38	27.59
3	ACENSA	65.7	230.1	11.02	38.61
4	Cementos de Honduras	62.0	292.1	10.40	49.01
5	TEXHONSA	28.2	320.4	4.73	53.74
6	CONRAD	27.3	247.6	4.58	58.32
7	Aceros Industriales	26.1	373.7	4.38	62.70
8	Azucarera Yojoa	25.8	399.5	4.33	67.03
9	PACARSA	23.5	423.0	3.94	70.97
10	HONDUTUR	23.2	446.2	3.89	74.86
11	Hotel Lincoln	13.0	459.2	2.18	77.04
12	Productos Lacteos Sula	12.2	471.4	2.05	79.09
13	CONTESSA Industrial	11.3	482.7	1.90	80.99
14	INDUCASA	11.0	493.7	1.85	82.84
15	Copantl Sula	10.2	504.3	1.71	84.55
16	HONDULAB	10.0	513.9	1.68	86.23
17	Quimicas Dinant	9.8	523.7	1.64	87.87
18	INACERO	9.1	532.8	1.53	89.40
19	Hotel Copan Ruinas	7.5	540.3	1.26	90.66
20	TANASA	6.8	547.1	1.14	91.80
21	Hotelera Yojoa	6.1	553.2	1.02	92.82
22	DESATUR	5.8	559.7	0.97	93.79
23	INDECO	5.5	564.5	0.92	94.71
24	PROINCO	4.8	569.3	0.81	95.51
25	METALSA	4.5	573.8	0.76	96.27
26	COAPALMA	4.2	578.0	0.70	96.97
27	Textiles Rio Lindo	3.4	581.4	0.57	97.54
28	LANSA	3.3	584.7	0.55	98.09
62	Other 32 Enterprises	12.2	596.9	2.05	100.00
TOTAL		596.9	13.224.2	100.15	2.235.21

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ANNEX III - F AVAILABLE CREDIT SOURCES

Specialized Credit Programs

This note includes a list of specialized credit programs which might prove useful in the privatization process. These credit programs complement financing normally available from the domestic banking system. Such financing usually carries interest rates ranging from 14 to 19% and up to three years of maturity. Normally domestic banking system financing does not carry grace periods; however, occasionally, grace periods of 1 to 2 years may be offered. Substantial collateral conditions are frequently required.

The amounts of financing available under the specialized credit programs in the list depend on the degree of utilization of the programs; in a number of cases, the lines are not revolving.

SPECIAL CREDIT FACILITIES OF POTENTIAL INTEREST FOR THE PRIVATIZATION PROJECT

Specialized Lending Programs	Source and Currency	Intermediary	Purpose of Financing	Interest Rate	Other Terms
Fondo para capital de trabajo industrial	Central Bank - L10 million	Banking system, except savings and loans associations	Working Capital	15%	1 year maximum maturity; no grace period
Fondo Nacional de Desarrollo Industrial (FONDEI)	World Bank - $71.6 million (on lending to sub-borrowers is in Lempiras) Central Bank - L21.5 million FONDEI - L21.6 million	Commercial Banks.	Industrial development	17% for hotels, 16% for small-medium size firms, other	Maturity varies with type of loan; maximum is 15 years; grace period up to 3 years
Programa de Reactivación Industrial, PRI	IDB - $30 million (on lending to sub-borrowers is in Lempiras) Central Bank - L15 million	Banking system, except savings and loans associations	Industrial growth	17%	Maximum loan L4 million; maximum maturity 1-2 years; grace period 6-12 months
Working Capital Fund for Small/Medium Enterprises (522-0230)	AID - L52.4 million	Commercial banks	Working capital	Up to 19%, negotiable	Maximum loan L1 million; maximum maturity up to 2 years
Línea de Redescuento para Exportación de Productos No-Tradicionales	Central Bank	Banking system	Non-traditional exports	15%	Maximum maturity 6 months; no grace period
Preexportación y Exportación de Café, Madera, Azucar, Carne y Otros Productos	Lloyds Bank Intl. $10 million	Banking system	Exports	17%	Maximum maturity 6 months
Financiamiento de Exportaciones No-Tradicionales a Países del FMI y a Suiza	IDB - $2 million	Banking system	Non-traditional exports	15%	Maximum maturity 6 months
Export Development and Services - Fondo Rotatorio en Dólares para el Financiamiento de las Exportaciones de Productos No-Tradicionales (522-0207)	AID - $10 million	Commercial banks (excluding savings and loans associations) and FONDEI	Non-traditional exports	19%	Maximum amount of loan $1 million; maximum maturity 1 year for working capital, 7 years for fixed capital; grace period 2 to 3 years
Export Development and Services - Fondo de Financiamiento de Exportaciones en Moneda Local (522-0207)	AID - L48 million	Commercial banks, FIA FONDEI with assistance of either FIDE or FEPROEXAAH	Non-traditional exports	19%	Maximum amount of loan $1 million; maximum maturity 18 months for working capital, 7 years for fixed capital; 2-3 years grace period
Convenio Financiero con el Banco Central de la República de Argentina	Central Bank of Argentina - $15 million	Banking system	Imports of goods and services from Argentina	12%	No limit to amount of loan, maximum maturity from 1 to 10 years
Convenio de Crédito con el Banco Nacional de Comercio Exterior, S.A. (BANCOMEX) de Mexico	BANCOMEX - $10 million	Banking system	Imports	12%	Maturity varies; raw materials 90 to 180 days; consumption durables 2 years, services 5 years; capital goods 8 years
Línea de Crédito y Programa de Garantías con el Export-Import Bank de los Estados Unidos	EXIMBANK - $50 million	Banco de Occidente, Banco Mercantil, BANADESA, Banco de los Trabajadores, Banco de las Fuerzas Armadas, Banco del Ahorro Hondureño	Imports of raw materials and intermediate inputs from the U.S.	Not available	Maximum maturity 180 days for raw materials; 1 year for fertilizers, chemicals, agricultural products and capital goods
Small Business Development, 522-0205	AID - L8 million	Financiera Industrial y Agropecuaria, FIA	Business development	18% on mortgage credits Up to 24% on lien or unsecured loans	Maximum maturity is 3 years for working capital and 7 years for investment; grace period is 1 year for working capital, 3 years for investment

ANNEX III - G

CONADI PORTFOLIO
DATA BASE

ID. NO.	COMPANY	OPERATING STATUS (1)	TOTAL ASSETS	CAPITAL STRUCTURE: CONADI (2)	CAPITAL STRUCTURE: OTHER GOV. (2)	CAPITAL STRUCTURE: PRIVATE (2)	MAIN CREDITORS: GOVERNMENT	MAIN CREDITORS: PRIVATE BKS. (L. CUR.)	MAIN CREDITORS: OTHER	TOTAL CONADI/GCH RISK (LPS.000): DIRECT FINANCING PRINCIPAL	DIRECT FINANCING INTERESTS	GUARANTEES	SWARES	TOTAL CONADI/GCH	FINANCIAL DATA: SUBSC. CAPITAL	FINANCIAL DATA: RET.EARNINGS (DEFICIT)	FINANCIAL DATA: NET EQUITY
	AGRO INDUSTRY																
1	AZUCARE . YOJOA, S.A.	86	40,000	52	0	48	2,717	18,318	6,075	2,993	2,440	17,020	6,031	28,484	12,000	(2,169)	9,811
2	AZUCARERA CENTRAL(ACENSA)	90	88,000	79	0	21	41,044	62,151	12,864	73,771	8,317	45,244	12,161	139,493	34,000	(61,983)	(27,983)
3	COAFALMA, LTDA.	N/A	67,320	0	0	100	11,281	1,200	32,878	15,231	237	0	0	15,468	801	12,214	13,015
4	INVERSIONES LOMESA	N/A	5,980	10	0	90	N/A	N/A	N/A	0	0	0	4	4	N/A	N/A	N/A
5	EMPACADORA ALUS	25	20,120	0	0	100	246	2,900	N/A	442	50	0	0	492	5,000	2,229	7,229
6	GRANJA AVILA	80	800	0	0	100	759	N/A	N/A	1,472	46	0	0	1,518	25	(183)	(158)
7	INDUSTRIA DE ALIMENTOS	71	10,295	0	0	100	4	659	1,973	4	4	262	0	270	1,900	712	2,612
8	FRIJOLES ALIMENTOS	40	46,692	57	5	38	60,045	6,659	N/A	111,164	8,926	5,500	2,290	127,880	4,000	(25,084)	(21,084)
9	AGRICOLA DE HONDURAS	10	6,745	76	5	19	3,755	N/A	15,042	7,398	112	0	1,510	9,020	2,000	(12,655)	(10,655)
10	PLANTA PROD. SULA	40	17,830	46	46	8	15,445	N/A	N/A	24,608	328	0	4,960	30,096	5,472	(5,468)	4
11	TABACALERA NACIONAL S.A.	N/A	6,500	31	0	69	8,307	N/A	N/A	14,203	411	101	354	15,069	769	(2,572)	(1,783)
12	GRANOS INDUSTRIALES S.A.	N/A	506	100	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
13	CARNILANDIA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	69	0	0	0	69	N/A	N/A	N/A
	CONSTRUCTION																
14	INDUSTRIA CEMENTERA HONDUREÑA	55	138,930	80	0	20	9,600	N/A	69,200	9,603	613	62,946	33,014	106,176	44,165	4,45	48,645
15	CEMENTOS DE HONDURAS	80	173,000	0	0	100	21,349	7,255	69,004	28,675	7,355	20,600	0	56,630	29,200	(61,5[illegible])	(32,[illegible])
16	CAPITALES DE HONDURAS	N/A	N/A	86	0	14	21,816	N/A	N/A	28,110	3,022	12,503	4,858	48,490	5,650	N/A	5,65[illegible]
17	PRODUCTORA HOND. DE CONCRETO	N/A	N/A	0	0	100	1,571	N/A	N/A	3,111	31	0	0	3,142	N/A	N/A	N/A
18	INGRESA	N/A	283	0	0	100	1,263	N/A	N/A	2,077	449	0	0	2,526	350	(554)	(154)
19	INVERCA, S.A. DE C.V.	50	5,200	14	0	86	4,810	1,150	100	9,461	159	0	739	10,357	5,175	(975)	4,2[illegible]
20	PROINCO	0	6,000	57	0	43	4,366		404	8,542	190	0	300	9,032	2,265	(4,265)	(2,1[illegible])
21	FAFSA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	126	1	0	0	127	N/A	N/A	N/A
22	SISTEMAS INTER DE CONSTRUCCIO	0	500	100	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
23	PINSA	N/A	N/A	0	0	100	352	N/A	N/A	687	17	0	0	704	N/A	N/A	N/A
24	INDUSTRIA DE ARCILLA	0	192	100	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	FORESTRY & WOOD PRODUCTS																
25	LONTEMA INDUSTRIAL	30	5,862	99	0	1	5,171	633	771	10,342	0	440	5,722	16,504	5,794	(11,267)	(4,773)
26	CORFINO	N/A	141,935	3	96	1	5,865	8,376	50,308	5,805	0	0	69,767	75,572	73,742	(9,896)	63,846
27	DERIVADOS DE MADERA	90	5,000	0	0	100	170	4,589	1,299	170	3	211	0	384	290	(234)	184
28	[illegible]IAL FIAFSA	20	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	173	0	1,018	1,191	N/A	N/A	(13,[illegible])
29	INDUSTRIA HOND.DEL MUEBLE	0	2,000	20	0	80	2,274	1,599	346	3,753	795		200	4,748	1,000	(1,550)	(55[illegible])
30	CARTERAS INDUST.S.A.	50	1,958	0	0	100	324	676	0	648	0	0	0	648	316	532	8[illegible]
31	NACIONAL DE ENVASES	71	4,000	0	0	100	72	2,480	333	143	1	0	0	144	1,095	553	1,648
32	PERFILES Y CARTONES S.A.	PRE-OP	3,000	100	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	METAL INDUSTRIES																
33	PANDICIONES CENTROAMERICANAS	0	2,600	100	0	0	0	0	1,490	0	0	0	2,300	2,300	N/A	N/A	N/A
34	ACEROS INDUSTRIALES	30	17,700	10	0	90	30,237	1,927	1,868	48,485	7,279	245	300	56,309	3,000	(21,972)	(18,972)

CONADI PORTFOLIO
DATA BASE

ID. NO.	COMPANY	OPERATING STATUS (%)	TOTAL ASSETS	CAPITAL STRUCTURE CONADI (%)	OTHER GOV. (%)	PRIVATE (%)	MAIN CREDITORS GOVERNMENT	PRIVATE EXT. (L. 000)	OTHER	TOTAL CONADI/GOH RISK (LPS.000) DIRECT FINANCING PRINCIPAL	INTERESTS	GUARANTEES	SHARES	TOTAL CONADI/GOH	FINANCIAL DATA SUBSC. CAPITAL	RET.EARNINGS (DEFICIT)	NET EQUITY
35	INDUST.NACIONAL DEL ACERO	50	16,700	100	0	0	5,947	9,970	0	11,892	2	0	3,200	15,094	3,300	(1,259)	2,041
36	METALES Y ALUMINIOS S.A.	0	425	0	0	100	4,391	178	0	8,660	122	75	0	8,857	525	(5,593)	(5,068)
37	REMSA	0	0	90	0	10	N/A	N/A	N/A	27	12	0	113	152	125	N/A	N/A
38	MAYO, S.A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	27	22	0	0	49	N/A	N/A	N/A
39	SIDERURGICA NACIONAL S.A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	31	0	0	3,000	3,031	N/A	N/A	N/A
	CHEMICAL INDUSTRY																
40	FERTILIZANTES DE C.A.	90	N/A	0	0	100	N/A	N/A	N/A	27	0	0	0	27	N/A	N/A	N/A
41	HONDULAB FARMOQUIMIC	PRE-OP	5,800	64	0	36	5,953	2,010	2,176	11,209	697	2,445	1,482	15,833	2,300	(5,326)	(3,026)
42	IND. QUIMICAS CONRAD	10	4,335	84	0	16	22,675	3,507	998	35,029	10,321	500	4,100	49,950	4,100	(5,724)	(1,624)
43	QUIMICAS DINANT	40	61,000	0	0	100	179	15,965	9,410	179	179	9,580	0	9,938	23,296	(2,354)	20,942
	TOURISM & HOTEL																
44	HOTEL COPANTL	44	24,000	47	0	53	6,413	16,567	7,318	11,745	1,081	0	3,800	16,626	15,993	(22,690)	(6,697)
45	DESARROLLOS DE TURISMO	32	10,000	55	0	45	5,817	0	0	5,817	0	0	5,817	11,634	10,519	(4,203)	6,316
46	TURICENTRO Y HOTELES	100	2,000	18	0	82	0	0	1,029	0	0	0	180	180	1,000	(548)	452
47	HOTELERA OSFAN, S.A.	PRE-OP	3,300	100	0	0	N/A	N/A	N/A	0	2	264	0	266	N/A	N/A	N/A
48	MANDUPENA DE TURISMO	PRE-OP	17,000	42	0	58	9,073	3,729	10,617	13,912	4,234	11,077	3,005	32,228	7,179	(9,461)	(2,282)
49	HOTELERA YOJOA	0	6,098	100	0	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
50	HOTELES LINCOLN	50	6,000	20	0	80	12,877	893	2	24,927	592	0	400	25,919	2,000	(9,348)	(7,348)
51	FONDETUR	0	0	N/A	N/A	N/A	N/A	N/A	N/A	545	78	0	0	623	N/A	N/A	N/A
	TRANSPORT																
52	LINEAS AEREAS NACIONALES	82	12,900	32	0	68	4,865	N/A	N/A	6,946	1,222	0	0	8,168	5,554	(4,449)	1,105
53	RENOT	0	N/A	100	0	0	N/A	N/A	N/A	463	0	0	1,000	1,463	N/A	N/A	N/A
54	TRANSPORTES AEREOS NALES.	90	22,027	40	0	60	0	4,131	0	0	0	0	654	654	4,000	(655)	3,345
55	FLOTA NAVIERA FLETAMAR	0	N/A	100	0	0	N/A	N/A	N/A	2	0	0	375	377	N/A	N/A	N/A
	TEXTILES & LEATHER																
56	TEXTILES DE HONDURAS	65	36,000	23	0	77	25,943	4,396	5,000	33,817	4,269	12,000	3,115	53,201	13,537	(25,163)	(11,626)
57	INDUSTRIAL CENTROAMERICANA S.	40	5,000	39	0	61	9,830	0	386	12,769	1,642	5,000	1,400	20,811	3,626	(9,746)	(6,120)
58	TEXTILES RIO LINDO	38	72,368	15	0	85	6,392	8,896	18,400	6,392	1,326	0	2,000	9,718	15,930	10,813	26,743
	SOFT DRINKS																
59	EMBOTELLADORA LA PERLA	N/A	N/A	0	0	100	N/A	N/A	N/A	N/A	3	146	0	149	N/A	N/A	N/A
	SERVICES																
60	COMP. ADMIN.DE SERVICIOS	0	N/A	100	0	0	N/A	N/A	N/A	N/A	N/A	N/A	5,000	5,000	5,000	N/A	5,000

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CONADI PORTFOLIO
DATA BASE

		CAPITAL STRUCTURE			MAIN CREDITORS			TOTAL CONADI/GOH RISK (US$.000)					FINANCIAL DATA		
COMPANY	OPERATING STATUS (1)	TOTAL ASSETS	CONADI (%)	OTHER GOV. (%)	PRIVATE (%)	GOVERNMENT	PRIVATE BKS. (U. 000)	OTHER	DIRECT PRINCIPAL	FINANCING INTERESTS	GUARANTEES	SHARES	TOTAL CONADI/GOH	SUBSC. CAPITAL	RET.EARNINGS (DEFICIT)	NET EQUITY
OTHER																
01 AMAPALA MARINE, S.A.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
02 HUMBERTO RODRIGUEZ	-	N/A	-	-	-	-	-	-	412	4	0	0	416	-	-	-
TOTALES		1,123,401				372,238	190,627	319,317	596,121	66,767	206,156	184,369	1,053,413	352,945	(297,081)	42,429

N/A - Not Available

ANNEX III - H PRIORITIZATION OF FIRMS CRITERIA

1.0 Introduction

The United States Agency for International Development (USAID) is preparing a project to assist the Government of Honduras (GOH) in the transfer of state-owned enterprises and other holdings of the Corporacion Nacional de Inversiones (CONADI) to the private sector.

The Center for Privatization has been retained to provide technical assistance in conducting the necessary analyses for the Project Paper preparation, as well as the selection of a small number of priority privatization candidates among the 63 companies in CONADI's portfolio. Furthermore, the technical assistance team is responsible for the identification of potential investors for the selected companies and for the initiation of at least two negotiation processes during the project design phase.

Task 1 calls for the overall review of CONADI's portfolio and the prioritization of firms.

2.0 Initial Review

Following the scope of the Terms of Reference the technical assistance team reviewed preliminary materials developed by USAID Mission and CONADI staff, which included:

- Company profiles (for 53 companies);
- Preliminary ranking of firms; and
- Information matrix on CONADI's holdings.

The technical assistance team had prepared in advance a set of criteria to be considered in the process of selecting the top priority companies. Such criteria and proposed methodology were presented to and discussed with USAID Mission personnel.

As a result of such discussions, it was agreed to classify the universe of companies in CONADI's portfolio according to the temporal sequence in which they should be addressed. Three basic groups of companies were established:

I. Short-Term Privatization (i.e., starting immediately);

II. Medium-Term Privatization (i.e., once project implementation begins); and

III. Long-Term Privatization (i.e., over the life of the project).

The term "privatization" as applied here includes not only the options of selling or liquidating CONADI's holdings, but also any other kind of strategy within this context, such as long-term leasing or contract management arrangements, etc.

3.0 Prioritization Methodology

Building upon the materials prepared in advance, a final set of selection criteria was developed. Two principal factors were considered: EASE of privatization and the POTENTIAL IMPACT that it would have on the country in social and economic terms. A total of nine variables were developed, incorporating all criteria previously identified by USAID Mission personnel and by technical assistance team members. These are:

Factor 1 - Ease of Privatization

1. Investor Interest
2. Commercial Viability
3. GOH/CONADI Control
4. Legal Impediments
5. Political Impediments

Factor 2 - Potential Impact

6. Total Asset Value
7. CONADI Exposure
8. Budgetary Impact
9. Employment Impact

These criteria were defined and classified as follows, to allow for a point-based ranking system:

1. Investor Interest - Third party interest in acquiring all or part of the company in question, or investing in it in another way (management contracts, etc.).

   3 = Investor Interest Identified
   2 = Investor Interest Possible
   1 = Investor Interest Unlikely
   0 = Not applicable

2. Commercial Viability - Company capability to operate profitably.

   3 = Profitable As Is
   2 = Potentially Profitable
   1 = Little/No Profit Potential
   0 = Not applicable

3. GOH/CONADI Control - Ability of CONADI to divest or liquidate the company without opposition of other stockholders (if any).

   3 = GOH/CONADI Majority Equity Owner(s)
   2 = GOH/CONADI Loans/Guarantees are in Excess of Capital
   1 = GOH/CONADI Have Minority Equity Control
   0 - GOH/CONADI Have Little/No Control

4. Legal Impediments - Existence of legal constraints that can abort or delay privatization, such as pending lawsuits and labor disputes.

   3 = No Apparent Impediments
   2 = No Serious Impediments
   1 = Serious Impediments Exist

5. Political Impediments - Existence of political and/or special interest groups that are likely to cause disruption in the event of privatization.

   3 = No Disruption Likely
   2 = Little Disruption Likely
   1 = Serious Disruption Likely

6. Asset Value - Total value of company assets per latest financial statements.

   3 = Over Lps. 25 million
   2 = Lps. 5 million - Lps. 25 million
   1 = Less than Lps. 5 million

7. CONADI Exposure - Size of CONADI's equity and/or loans and guarantees outstanding.

3 = Over Lps. 20 million
2 = Lps. 5 million - Lps. 20 million
1 = Less than Lps. 5 million

8. Budgetary Impact - Size of annual expenditures and/or subsidies affecting CONADI or GOH.

3 = Over Lps. 500,000
2 = Lps. 100,000 - Lps. 500,000
1 = Less than Lps. 100,000

9. Employment Impact - Number of employees that will be affected by the privatization effort.

3 = Over 400
2 = 100 - 400
1 = Less than 100

Based on the application of these nine criteria, companies were initially assigned to one of the three groups previously defined (Short-Term, Medium-Term and Long-Term Privatization action).

In principle, the nine criteria were given equal weight under the premise that the selection process would later include expert committee discussions, in order to incorporate into the analysis other aspects not included here or difficult to quantify. This in essence constitutes a modified "Delphi" model of analysis.

The Delphi method has traditionally been applied in technological forecasting since the mid-1960's. However, over the last several years, it has also been used in many other contexts in which judgmental information is indispensable. These include

normative forecasts, studies concerning social values and preferences, and in general, in the assessment of alternative solutions to problem situations, analyzing their feasibility, desirability and effectiveness. Delphi can be characterized as a technique for structuring a "group communication process" for the joint resolution of a complex problem. While quantitative approaches are utilized to a certain point, because accurate and specific data is unavailable (or very expensive to obtain), from that point on, the evaluation model makes use of subjective inputs by combining the expert opinions of selected individuals who are intimately familiar with the subject matter. Thus, the consensus of opinion of a group of experts provides the qualitative and subjective dimensions necessary for the most reliable solution to the problem.

Although our methodology was not meant to be an application of the Delphi technique, it clearly applies some of the technique's main principles.

In our approach, there is an interesting interrelationship between the variables. Among the ease-oriented ones, there is strong association between investor interest and commercial viability, since the existence of the latter strongly encourages the former. Among the impact-oriented variables, there is also a marked correlation between "total asset value" and "employment." In general, the size of these companies tends to have a direct effect on variables such as budgetary impact and GOH/CONADI exposure.

However, there are some criteria that oppose or compensate each other. Such is the case for instance between "asset value" and "investor interest," where an inverse relationship tends to be the case (i.e., the bigger the company, the less potential investors are likely to be identified).

Lastly, it is important to mention that the ranges on the potential impact-oriented variables were defined taking into

consideration the distribution of companies in each category, so that there is no marked concentration of firms in one single group. For example, approximately one-third of the companies in the portfolio falls within each of the three categories included under "asset values," in the other variables the distribution is not as even, but is still within acceptable limits.

4.0 First Classification

Having defined the prioritization methodology, the company profiles of each one of the sixty-three firms under consideration were reviewed and rated in terms of the selected variables and the results were arranged in matrix form showing individual scores for each company under the nine (9) criteria, as well as total accumulated scores by company.

Exhibit 1 presents the output obtained. It shows total scores for the entire universe of companies in the portfolio and ranks them in descending order; results ranged from a maximum of twenty-three (23) points down to a minimum of six (6). Exhibits 2 and 3 present the accumulated scores obtained by the firms in each factor (Ease and Potential Impact).

5.0 Final List Refinement

At this stage, several meetings were held with USAID Mission and CONADI personnel to further refine the list of priority privatization candidates, based on the first classification output. A closer review of the companies included in the initial ranking allowed for the proper consideration of additional relevant aspects such as the condition of the particular industry, competition, GOH economic plans, etc., applicable in each case. This detailed discussion led to a revised ranking of top priority companies, arrived at by consensus among the participants.

It is important to keep in mind that although short-term efforts will concentrate on the small number of companies

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ID	NAME	SELECTION CRITERIA: INVESTOR INTEREST	COMMERCIAL VIABILITY	GOV/CONADI CONTROL	LEGAL IMPEDIMENTS	POLITICAL IMPEDIMENTS	ASSET VALUE	GOV/CONADI EXPOSURE	BUDGETARY IMPACT	EMPLOYMENT IMPACT	TOTAL POINTS
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	AZUCARERA VOLCAN	2	2	3	3	3	3	3	1	3	23
28	FORESTAL PIAFSA	3	3	3	3	3	2	.	3	1	22
115	CEMENTOS DE HONDURAS	2	2	3	3	1	3	3	3	1	22
9	MEJORES ALIMENTOS S.A.	3	2	3	1	2	3	3	2	2	21
2	AZUCARERA CENTRAL	2	1	3	2	1	3	3	3	3	21
128	COAFINO	3	2	3	1	1	3	3	3	2	21
114	INCEHSA	2	2	3	2	3	3	3	1	2	21
116	PROD. LACTEOS SULA	3	2	3	2	3	2	3	1	2	21
145	DEBATUR HOTELES	2	2	3	3	3	2	2	1	2	21
32	PACARSA S.A.	3	2	3	3	3	1	2	2	2	21
124	ACEROS INDUSTRIALES	2	2	2	2	3	2	3	1	2	19
8	AGRICOLA DE HONDURAS	2	2	3	1	2	2	2	2	3	19
35	INACERO S.A.	2	2	3	3	2	2	2	1	2	19
142	IND QUIMICAS CONRAD	2	2	3	2	3	1	3	2	2	19
157	INDUCASA S.A.	1	2	2	3	1	1	2	3	2	18
133	FUCENSA S.A.	3	2	3	2	3	1	1	1	2	18
122	DIST. INTNL. CONSTRUC	3	2	3	3	3	1	1	1	2	18
125	CONTESSA INDUSTRIAL	2	2	3	2	1	2	2	1	2	17
149	HOTELERA VOLCA S.A.	2	2	3	2	3	2	1	1	2	17
156	TEXTILES DE HONDURAS	1	2	1	2	2	3	3	2	2	17
124	IND. DE ARCILLA S.A.	3	1	3	3	3	1	1	1	2	17
141	HONDULAB FARMOQUIMICA	1	2	2	2	2	2	2	2	2	16
144	HOTEL COPANTL	2	2	2	1	1	2	2	2	2	16
119	INDECO S. A.	1	2	2	3	1	2	2	2	2	16
158	TEXTILES RIO LINDO	2	2	1	2	1	3	2	1	3	16
17	INHALSA S.A.	2	3	0	3	3	2	1	1	2	16
147	HOTELERA COPAN S.A.	1	1	3	3	3	1	1	2	2	16
131	NAL DE ENVASES	3	3	0	3	3	1	1	1	2	16
159	HOLIDAY INN	1	3	2	2	3	2	2	1	2	16
11	TABACALERA NACIONAL	1	2	3	2	3	1	2	1	2	16
36	METALES Y ALUMINIOS	3	2	2	2	3	1	1	1	2	16
143	QUIMICAS DINANT	1	3	1	1	1	3	2	1	2	15
160	CAPSER S. DE R. L.	1	1	3	3	3	1	1	1	1	15
150	EMBOTELLAD.LA REYNA	2	3	0	3	3	1	1	1	2	15
113	CARNILANDIA	2	3	0	3	3	1	1	1	2	15
140	FERTICA	2	3	0	3	3	1	1	1	2	15
151	FONDETUR	1	1	3	3	3	1	1	1	2	15
146	TURICENTROS Y HOTELES	2	2	1	3	3	1	1	1	2	15
137	REFINERIA DE METALES	2	1	3	2	3	1	1	1	2	15
130	MADINSA S.A.	1	3	0	3	3	1	1	1	2	15
13	COAPALMA	1	2	0	1	1	3	3	1	2	[illegible]

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ID	NAME	SELECTION CRITERIA: INVES.CO INTEREST	COMMERCIAL VIABILITY	GOH/CONADI CONTROL	LEGAL IMPEDIMENTS	POLITICAL IMPEDIMENTS	ASSET VALUE	GOH/CONADI EXPOSURE	BUDGETARY IMPACT	EMPLOYMENT IMPACT	TOTAL POINTS
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
150	LINEAS AEREAS LANSA	2	2	1	2	2	2	1	1	1	14
6.	AMPALA MARINE S.A.	1	1	3	2	3	1	1	1	1	14
57	SERV.EJEC.COMMANDER	0	1	3	3	3	1	1	1	1	14
10	CENTRAL DE INVERS.	2	2	0	1	3	1	1	1	1	12
17	PETENSA	2	1	3	2	2	1	1	1	1	12
23	PROINCO S.A.	2	2	3	1	1	2	1	1	1	14
6	GRANJA AVILA S.A.	2	3	0	2	1	1	2	2	1	14
4	INVERSIONES LOMESA	1	1	1	3	3	2	1	1	1	14
27	DERIVADOS DE MADERA	2	2	0	2	3	1	1	1	1	14
16	CAPITALES DE HONDURAS	1	1	2	2	1	1	3	1	1	13
17	PROCOSA	1	2	0	3	3	1	1	1	1	13
12	GRAINSA S.A.	2	2	3	1	1	1	1	1	1	13
29	INHOMSA	2	2	1	2	2	1	1	1	1	13
18	GRASA S.A.	1	2	2	3	1	1	1	1	1	13
26	HOTELES SHERATON	1	1	1	1	1	2	3	1	1	12
54	TAN	2	3	0	1	1	2	1	1	1	12
75	MARO S.A.	2	2	0	2	2	1	1	1	1	12
5	EMPACADORA ALUS S.A.	2	2	0	2	1	2	1	1	1	12
21	PAYSA	2	2	0	2	1	1	1	1	1	11
55	FLETAMAR S.A.	1	1	3	2	2	1	1	1	1	14
60	HUMBERTO RODRIGUEZ	1	1	0	1	2	0	1	1	1	8
31	EINGER	0	0	0	1	1	0	1	1	1	5

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[illegible]
[illegible]
[illegible]

ID	NAME	SELECTION CRITERIA: INVESTOR INTEREST	COMMERCIAL VIABILITY	GOV/COKADI CONTROL	LEGAL IMPEDIMENTS	POLITICAL IMPEDIMENTS	TOTAL POINTS
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
23	FORESTAL FIAPSA	3	3	3	3	3	15
31	[illegible] S.A.	3	2	2	3	3	14
22	EIST. INTAL. CONSTRUC	3	2	2	3	3	14
1	ALCAPERA MOCIA	2	2	3	3	3	13
1.	[illegible] LACTEOS SULA	3	2	3	2	3	13
145	CEBATLA HOTELERE	2	2	2	2	2	13
103	FUCENSA S.A.	3	2	3	2	2	12
24	INC. DE ARCILLA S.A.	2	1	3	3	3	12
.4	INCERSA	2	2	3	2	3	12
125	INVERS S.A.	2	2	3	3	2	12
142	IND QUIMICAS CONRAD	2	2	2	2	2	12
149	HOTELERA MOSQP S.A.	2	2	2	2	2	12
21	[illegible] DE ENVASES	3	3	1	3	2	12
75	METALES Y ALUMINIOS	2	2	2	2	3	12
115	CEMENTOS DE HONDURAS	2	2	2	3	1	11
9	IMPCOFES ALIMENTOS S.A	3	2	2	1	2	11
104	ACEROS INDUSTRIALES	2	2	2	2	3	11
147	HOTELERA COPAN S.A.	1	1	2	3	3	11
111	TABACALERA NACIONAL	1	2	2	2	3	11
7	INHALSA S.A.	2	3	2	3	2	11
153	COPSER S. DE R. L.	1	1	3	2	2	11
4	PERTICA	2	2	2	2	2	11
152	EMBOTELLAD. LA REYNA	2	3	0	3	3	11
113	CARNILANDIA	2	2	0	3	3	11
146	TURICENTROS Y HOTELES	2	2	1	2	3	11
151	FONDETUR	1	1	3	3	3	11
137	REFINERIA DE METALES	2	1	3	2	3	11
125	CORFINO	3	2	3	1	1	10
9	AGRICOLA DE HONDURAS	2	2	3	1	2	10
125	CONTESSA INDUSTRIAL	3	2	3	2	1	10
150	HOLIDAY INN	1	2	2	2	3	10
130	MADINSA S.A.	1	3	2	3	3	10
161	CAMPALA MARINE S.A.	1	1	3	2	3	10
123	CENTRAL DE INVERS.	2	2	0	3	3	10
117	MARETENSA	2	1	3	2	2	10
153	SERV.EJEC.COMMANDER	0	1	3	3	3	10
2	ALCAPERA CENTRAL	2	1	3	2	1	9
157	MADUCREA S.A.	1	2	2	3	1	9
141	HONDULAB FARMOQUIMICA	1	2	2	2	2	9
119	MADECO S. A.	1	2	2	3	1	9
4	INVERSIONES LONESA	1	1	1	3	3	9

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[illegible] - SDH PROJECT
[illegible] HOLDINGS - PROFILES
PRIORITIZATION

ID	NAME	SELECTION CRITERIA: INVESTOR INTEREST	COMMERCIAL VIABILITY	SDH/CONADI CONTROL	LEGAL IMPEDIMENTS	POLITICAL IMPEDIMENTS	TOTAL POINTS
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
[illegible]	[illegible]PRODINCO S.A.	2	2	3	1	1	9
[illegible]	LINEAS AEREAS LANSA	2	2	1	2	2	9
[illegible]	DERIVADOS DE MADERA	2	2	0	2	3	9
[illegible]	[illegible]GRAINSA S.A.	2	2	3	1	1	9
[illegible]	INGRASA S.A.	1	2	2	3	1	9
29	INAOMSA	2	2	1	2	2	9
[illegible]	[illegible]RECOSA	1	2	0	3	3	9
[illegible]	TEXTILES RIO LINDO	2	2	1	2	1	8
[illegible]	HOTEL COPANTL	2	2	2	1	1	8
[illegible]	GRANJA AVILA S.A.	2	2	0	2	1	8
[illegible]	MARO S.A.	2	2	0	2	2	8
[illegible]	TEXTILES DE HONDURAS	1	2	1	2	1	7
[illegible]	QUIMICAS DINANT	1	3	1	1	1	7
[illegible]	CAPITALES DE HONDURAS	1	1	2	2	1	7
[illegible]	EMPACADORA ALUS S.A.	2	2	0	2	1	7
[illegible]	TAN	2	3	0	1	1	7
[illegible]	FLETAMAR S.A.	1	1	3	2	0	7
[illegible]	PAYSA	2	2	0	2	1	7
[illegible]	COPALMA	1	2	0	1	1	5
[illegible]	HONDUTUR SHERATON	1	1	1	1	1	5
[illegible]	HUMBERTO RODRIGUEZ	1	1	0	1	2	5
[illegible]	SINASA	0	0	0	1	1	2
							0

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CORPORACION HONDUREÑA
DE DESARROLLO

P O T E N T I A L I M P A C T

ID	NAME	ASSET VALUE	CON/CONAD EXPOSURE	BUDGETARY IMPACT	EMPLOYMENT IMPACT	TOTAL POINTS
(1)	(2)	(8)	(9)	(10)	(11)	(12)
1	AZUCARERA CENTRAL	3	3	3	3	12
26	CORFINO	3	3	3	2	11
15	CEMENTOS DE HONDURAS	3	3	3	2	11
1	AZUCARERA YOJOA	3	3	1	3	10
3	MEJORES ALIMENTOS S.A.	3	3	2	2	10
56	TEXTILES DE HONDURAS	3	3	2	2	10
14	INCEHSA	3	3	1	2	9
9	AGRICOLA DE HONDURAS	2	2	2	3	9
57	LUCASA S.A.	1	2	3	3	9
3	COAFALMA	3	3	1	2	9
10	PROD. LACTEOS SULA	2	3	1	2	8
24	ACEROS INDUSTRIALES	2	3	1	2	8
44	HOTEL COPANTL	2	2	2	2	8
55	TEXTILES RIO LINDO	3	1	1	3	8
42	QUIMICAS DINANT	3	2	1	2	8
28	FORESTAL FIAFSA	2	1	3	1	7
19	INGEDO S. A.	2	2	1	2	7
25	CONTESSA INDUSTRIAL	2	2	1	2	7
42	HONDUTUR SHERATON	2	3	1	1	7
35	INACERO S.A.	2	2	1	2	7
42	IND QUIMICAS CONRAD	1	3	2	1	7
45	DESATUR HOTELES	2	2	1	2	7
41	HONDULAB FARMOQUIMICA	2	2	2	1	7
16	CAPITALES DE HONDURAS	1	3	1	1	6
53	HOLIDAY INN	2	2	1	1	6
32	PACARSA S.A.	1	2	2	1	6
6	GRANJA AVILA S.A.	1	2	2	1	6
54	ITAN	2	1	1	1	5
20	PROINCO S.A.	2	1	1	1	5
47	HOTELERA COPAN S.A.	1	1	2	1	5
4	INVERSIONES LOMESA	2	1	1	1	5
11	TABACALERA NACIONAL	1	2	1	1	5
49	HOTELERA YOJOA S.A.	2	1	1	1	5
27	DERIVADOS DE MADERA	1	1	1	2	5
33	FUCENSA S.A.	1	1	1	2	5
5	EMPACADORA ALUS S.A.	2	1	1	1	5
52	LINEAS AEREAS LANSA	2	1	1	1	5
30	NADINSA S.A.	1	1	1	2	5
7	INNALSA S.A.	2	1	1	1	5
61	AMPALA MARINE S.A.	1	1	1	1	4
50	EMBOTELLAD.LA REYNA	1	1	1	1	4

USAID - HONDURAS
CONADI HOLDINGS

P O T E N T I A L I M P A C T

ID	NAME	SELECTION CRITERIA: ASSET VALUE	GOH/CONADI EXPOSURE	BUDGETARY IMPACT	EMPLOYMENT IMPACT	TOTAL POINTS
(1)	(2)	(8)	(9)	(10)	(11)	(12)
53	SERV.EJEC.COMMANDER	1	1	1	1	4
40	FERTICA	1	1	1	1	4
23	CENTRAL DE INVERS.	1	1	1	1	4
60	CAPSER S. DE R. L.	1	1	1	1	4
12	GRAINSA S.A.	1	1	1	1	4
36	METALES Y ALUMINIOS	1	1	1	1	4
29	INHOMSA	1	1	1	1	4
31	NAL DE ENVASES	1	1	1	1	4
51	FONDETUR	1	1	1	1	4
55	FLETAMAR S.A.	1	1	1	1	4
13	CARNILANDIA	1	1	1	1	4
21	PAYSA	1	1	1	1	4
17	PRETENSA	1	1	1	1	4
24	IND. DE ARCILLA S.A.	1	1	1	1	4
18	INGRASA S.A.	1	1	1	1	4
22	SIST. INTNL. CONSTRUC	1	1	1	1	4
46	TURICENTROS Y HOTELES	1	1	1	1	4
37	REFINERIA DE METALES	1	1	1	1	4
17	PROCOSA	1	1	1	1	4
39	MAKO S.A.	1	1	1	1	4
62	HUMBERTO RODRIGUEZ	0	1	1	1	3
39	SINASA	0	1	1	1	3

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selected, this does not prevent the consulting team or CONADI from conducting the analysis or in-depth review of other companies in the portfolio in the near future, particularly in cases where potential investors have expressed interest.

Based on the above-mentioned expert committee discussions, the first group of CONADI companies which will receive privatization attention is as follows:

GROUP I - SHORT-TERM PRIVATIZATION

Name	Ease	Impact	Total
Azucarera Yojoa	13	10	23
Mejores Alimentos	11	10	21
Productos Lacteos Sula	13	8	21
Papeles y Cartones S.A.	14	6	20
INACERO S.A.	12	7	19
Aceros Industriales	11	8	19
Agricola de Honduras	10	9	19
Industrias Quimicas Conrad	12	7	19
FUCENSA	13	5	18
Sistemas Intnls. de Construccion	14	4	18

This constitutes the "small number" of companies (see T.O.R.) selected as priority privatization candidates to be studied "in-depth" (under the existing time constraints) as called for in Task 2.

Group II of firms - i.e., Medium-Term Privization candidates - was also selected by committee, based on the initial ranking. It includes the following companies:

GROUP II - MEDIUM-TERM PRIVATIZATION

Name	Ease	Impact	Total
Cementos de Honduras	11	11	22
Azucarera Central S.A.	9	12	21
INCEHSA	12	9	21
CORFINO	10	11	21
Desatur Hoteles	13	7	20
Inducasa	9	9	18
Contessa Industrial	10	7	17
Tabacalera Nacional	11	5	16
Metalsa	12	4	16
Quimicas Dinant	7	8	15

The rest of the companies and holdings in CONADI's portfolio constitute Group III - Long-Term Privatization. The sale, divestiture, liquidation or other viable privatization strategies applicable to these companies is perceived to require more time and effort and the potential impact of such action on the economy is likely to be less significant than in the case of companies in the first two groups. However, as mentioned before, this does not mean that early privatization action would not be undertaken if the right opportunities arise for firms in this category.

Detailed information about the companies in CONADI's portfolio, which served as a partial data base for our review, is included as Appendix A to this report.

PRIVATIZATION OF STATE-OWNED ENTERPRISES
TECHNICAL ASSISTANCE PROJECT
USAID/HONDURAS

TASK 2 REPORT
IN-DEPTH REVIEW OF SELECTED FIRMS
MEJORES ALIMENTOS DE HONDURAS, S.A. DE C.V.

Prepared for the

U.S. Agency for International Development

Under

Contract No. DPE-0008-C-00-5058-00

Prepared by

THE CENTER FOR PRIVATIZATION
Washington, D.C.

May 1986

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DISCLAIMER

The Terms of Reference for Task 2 under this project call for an in - depth review of a small number of firms, selected as priority privatization candidates. However, due to the time constraints in which this activity was conducted (4 -5 weeks) the broad scope of work to be accomplished (methodology and 10 company reports) and the occassional delays and difficulties faced in the data collection efforts, there are obvious limitations to the degree of depth in some of the reports.

Given the direct relationship that exists betveen level of effort and depth of the individual reviews, additional time would be required to produce a more detailed analysis. In cases were companies being analysed are not in operation, the review is less exhaustive and limited to the information obtained in the corresponding CONADI files.

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MEJORES ALIMENTOS DE HONDURAS S.A. DE C.V.

1.0 INTRODUCTION

Mejores Alimentos, (MALI) was founded on February 27, 1971 as a corporation of variable capital (sociedad anonima de capital variable).

The company initially installed a processing plant in Tegucigalpa, which was subsequently moved to San Pedro Sula, and was finally located in the Comayagua Valley.

The processing plant is engaged in the production of the following products:

- Tomato paste, tomato sauce and ketchup;
- Fruit juices and nectars (apple, pear, peach, apricot, pineapple, papaya, mango, orange and grapefruit);
- Canned beans, chili and other fruits and vegetables; and
- Jellies and marmalades.

1.1 Capital Structure

At the time of its inception, MALI was 99 percent owned by Quimicas Dinant S.A. de C.V. However, three years later, ownership was transferred to Comercial e Inversiones Galaxia S.A. de C.V. (GALAXIA) which left a few shares under the names of some of its employees, in order to fulfill prescriptions of the Honduran Commercial Code. In turn, Galaxia is controlled by the Facussé family which owns over 70 percent of its shares.

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The firm received financing from the Central American Bank for Economic Integration (CABEI), which also invested an amount of Lps. 200,000 in company shares. CABEI's total exposure with Mejores Alimentos reached a combined value (i.e., loans and investments) of Lps. 3.7 million.

CONADI's participation in Mejores Alimentos began in 1975. At that time, the company was experiencing serious financial difficulties: its current ratio (current assets over current liabilities) was 0.55 and shareholders' equity was down to 10 percent of its original amount, due to accumulated annual losses of over Lps. 4.6 million.

Initially CONADI acquired Lps. 100,000 in company shares; however, it subsequently approved direct credits to MALI and was also authorized by its Board of Directors to subscribe and pay-in an additional Lps.1.75 million in company shares. In addition, it acquired CABEI's financing to Mejores Alimentos for an amount of Lps. 2.8 million. Direct loans to the company continued and reached a total of Lps. 35.6 million by 1981.

The capital structure of the company has experienced significant changes over the years. Its composition at different points in time is shown below:

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Shareholders	1974		1978		1981	
	Lps.(000)	%	Lps.(000)	%	Lps.(000)	%
Galaxia	1,899	99.9	1,510	37.7	1,900	31.7
CONADI	---	---	2,280	57.2	3,800	63.3
CABEI	---	---	200	5.0	300	5.0
Others	1	0.1	1	0.1	---	---
Total	1,900	100.	4,000	100	6,000	100

Source: Company Profile. CONADI/USAID

The latest modification of MALI's capital structure was executed on February 27, 1986. On this date, the company's stock was reduced to Lps. 25,000. the minimum permitted by law. This was done to absorb accumulated losses which according to internal company balances, had reached Lps. 22 million by early 1986. The resulting stock structure is presented below.

Current Capital Structure

Shareholder	Value of Stock	Participation (%)
CONADI	14,113	57.35
Galaxia	9,437	37.75
CABEI	1,250	5.00
Distrib. Astro de C.A.	100	---
Public. Astro de C.A.	100	---
Total	25,000	100.00

Once this new stock level was agreed, the company's shareholders decided to increase the minimum subscribed capital from Lps. 25,000 to Lps. 22.1 million and the maximum authorized capital to Lps. 30 million. These increased stock levels will be

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reached by capitalizing debts, and/or through new equity contributions in kind or cash. The precise manner on which each shareholder will increase its contribution will be determined in a series of meetings to be held in the near future. It is expected that once these meetings take place, CONADI will be left as the sole owner of the company.

1.2 Company Administration:

In 1975, the Galaxia group reached an agreement with CONADI under which the corporation would take control of both MALI and Agricola. This decision was taken to stop a rapidly deteriorating financial condition of the companies, allowing time to the private owners to design a new operating strategy and obtain new resources to continue activities.

The period in which MALI was under CONADI administration is characterized by a sizeable expansion in output and sales attained by major financial injections by the corporation. Sales increased from Lps. 6 to 21 million per year, and output reached one million boxes (each box has 96 6oz. cans) in 1978/1979. The liberal investment and expenditure practices of the company's management resulted in overinvestment in physical facilities, machinery and equipment. Installed production capacity was augumented to 200,000 boxes per month, in spite of already existing unused capacity. Nevertheless, dispite design deficiencies, over-expansion, growing unsold inventories and administrative problems,

MALI generated operating profits of approximately 16 percent of sales in 1981. Obviously, these profits occurred because the company was not servicing its financial commitments.

In early 1981, CONADI decided to privatize the company, selling back its shares to Galaxia and agreeing to re-finance the accumulated debt of Lps. 35.6 million. In addition, it provided the company with a credit line of Lps. 12.0 million.

Galaxia took once more complete control of the firm's operations and showed a profit of Lps. 71,200 in that year. However, Galaxia managed Mejores Alimentos as one more cost center of its organization, to the detriment of the subsidiary.

An exclusive distribution contract was signed between Galaxia and MALI, which included a series of clauses detrimental to the agro-industrial company, including

- Sales on credit, with a term of 180 days with no interest charge. Gradually, the commercial drafts given by Galaxia to MALI began to accumulate unpaid. By May 31, 1986, as can be observed in MALI's internal balance, the value of such unpaid drafts equaled Lps. 14.7 million.

- Sales of MALI's products at prices below costs, both in domestic and foreign markets, to promote other products distributed but not produced by Galaxia. For instance

canned juices produced by MALI were sold below cost in a promotional effort in Guatemala, which was carried out to create a market for the Guatemalan product being elaborated by Galaxia under the same label (Natura's).

- Galaxia charged MALI a distributor's commission of 15 percent over retail values. In fact, however, as subsequently determined by the Judicial Interventor of MALI, the actual commission levied by Galaxia was approximately 21 percent.

- Galaxia retained ownership over the "Natura's" label, charging MALI an annual fee of Lps 200,000 for its use.

The additional line of credit for Lps. 12.0 million that CONADI had made available to Mejores Alimentos as part of the 1981 negotiations did not materialize, since at that time the Central Government decided to suspend all CONADI loans following recommendations made by the World Bank (IBRD). In light of this issue, Galaxia refused to honor its commitments with CONADI and no payments were made to the Corporation from 1981 to 1983.

As a result of these and other exogenous factors (such as a sharp economic recession in the domestic environment and strong competition in the Central American market), the company faced once more a very difficult financial situation by 1984.

Therefore, in August of 1984, CONADI brought the case to

court and a Judicial Interventor, Mr. René Durón, was appointed to overview cash movements in both MALI and Agricola. It appears that CONADI was incapable of properly monitoring the financial drainage of MALI's resources by Galaxia, and of taking corrective actions over a three-year period. Roux and Luque noted that until 1981 CONADI was imprudent in the concession and control of funds provided to MALI. After the privatization of the company in 1981, CONADI appears to have been negligent in solving the confusion created by the transfer to Galaxia, and in defending the corporation's portfolio of the private group's predatory tactics (1983, p.15). Subsequently, in December of 1984, CONADI appointed one if its employees as General Manager of MALI. However, soon thereafter the Corporation made a new change in top management and in August of 1985 named Mr. Durón, as the new General Manager of the company.

Under the administration of Mr. Durón, a series of corrective actions have been taken in MALI, which are intended to reverse its operating situation. These actions include the following:

- The exclusive distribution contract that handcuffed MALI to Galaxia has been terminated, with Judicial authorization and a bond of guarantee from CONADI;
- Supernumerary workers and overtime compensations have been drastically reduced; seasonal employment has been reduced from 200 to 35.

- Strict security measures have been taken to prevent employee theft, which is considered to have caused major losses during the Galaxia administration.

- Credit sales have been terminated, all buyers paying now in cash or with certified checks.

The combination of the above measures has allowed MALI to improve its operations.

During the period August 1985 to May 1986, MALI has paid Lps. 2 2 million to CONADI. Reportedly, this amount has been credited to MALI's an accrued interest account in the Corporation. Nevertheless, the total exposure of CONADI with Mejores Alimentos as of September 30, 1985 can be summarized as shown below:

CONADI Exposure in MALI

Concept	Amount (Lps.000)	Proportion (%)
Direct financing	44,783	69.8
Accumulated interest	7,885	12.3
Guarantees	5,500	8.5
Commissions on Guarantees	275	0.4
Guarantees paid	3,453	5.4
Common Stock	2,289	3.6
Total Exposure	64,185	100.00

Source: Company Profile - CONADI/USAID.

There are several investment groups interested in the acquisition of Mejores Alimentos. However, given the enormous debt burden that the company carries, it is clear that it will have to

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undergo financial restructuring before it can be put on the market.

It should be borne in mind, however, that as a result of the stock modification that was executed on February 27, 1986, accumulated losses will be absorbed and debts capitalized. These actions will significantly improve MALI's capacity to function profitably. Also, there are some legal issues pending which will have to be resolved prior to selling the company. Both the financial and legal issues are addressed in this report, along with some management observations and considerations.

2.0 FINANCIAL STATUS REVIEW

2.1 Recent Financial Statements

The most recent audited financial statements of Mejores Alimentos date from June 30, 1981. Ever since, the company has only had internal financial statements which are not completely reliable. In their 1981, report the external auditors (Price Waterhouse & Co.) expressed reservations about the reconciliation of accounts between affiliated companies.

For this reason, CONADI retained the services of an external auditing firm to conduct an in-depth review of the company's books and reconstruct the financial statements for the period 1976 - 1984. To date, the report in question has not been presented for approval by the Board of Directors of MALI. Thus, it was not made available to the consulting team for a detailed review. However, a cursory review of the draft was permitted and copies were made of the summary charts.

Exhibits 1 and 2 present the revised balance sheets and income statements of Mejores Alimentos de Honduras for the period 1976 - 1984. Exhibit 3 shows selected financial ratios for the same period. Based on our review of these statements, the following observations can be made:

- Prior to 1983, the firm obtained an average operating

MEJORES ALIMENTOS DE HONDURAS, S.A. DE C.V.
BALANCE SHEETS
1976 - 1984
(IN LEMPIRAS)

	1976	1977	1978	1979	1980	1981	1982	1983	1984
ASSETS									
Cash	70,378	71,109	69,564	406,836	198,184	672,598	49,668	528,867	109,305
Notes & Accounts Receivable	1,586,587	3,070,869	2,422,862	3,899,140	10,930,914	13,285,166	20,048,139	15,271,436	20,733,383
Inventory	3,093,446	4,420,161	6,057,302	9,914,995	13,462,474	12,286,153	12,175,442	11,162,778	9,342,373
Pre-paid Expenses	223,898	178,901	121,348	412,293		174,174	641,826	421,274	320,[illegible]
Total Current Assets	4,974,309	7,741,040	8,671,076	14,633,264	24,591,572	26,418,091	32,915,075	27,384,415	30,205,464
Investments	24,708	43,314	81,225	151,980	186,450	259,264	292,819	394,072	407,564
Net Fixed Assets	6,019,988	6,473,783	7,793,964	9,670,991	10,009,320	9,292,397	8,202,902	8,117,167	7,351,751
Other Assets	1,278,117	1,211,287	1,173,593	690,861	1,137,703	350,561	585,481	2,433,723	3,130,368
Total Assets	12,297,122	15,469,424	17,719,858	25,147,096	35,925,045	36,320,313	41,996,277	38,379,377	41,195,647
LIABILITIES & OWNERS' EQUITY									
Short-Term Debt	2,197,950	5,278,783	4,864,368	6,783,296	17,519,506	2,791,000	3,500,000	6,527,745	9,213,134
Accounts Payable	3,487,751	2,984,020	6,156,918	3,142,247	4,632,385	4,977,302	11,561,227	12,572,379	14,253,990
Total Current Liabilities	5,685,701	8,262,803	11,021,286	9,925,543	22,151,891	7,768,302	15,061,227	19,100,123	23,470,064
Long-Term Debt	3,571,724	3,937,809	3,514,646	11,241,235	10,158,875	24,763,641	28,098,035	30,253,760	32,329,243
Notes & Accounts Payable Long-Term							367,151	303,391	292,187
Total Liabilities	9,257,425	12,200,612	14,535,932	21,166,778	32,310,766	32,531,943	43,526,413	49,457,274	56,093,417
OWNERS' EQUITY									
Equity	3,710,100	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Retained Earnings (Losses)	(670,403)	(731,188)	(816,074)	(19,682)	(335,721)	(211,630)	(5,530,136)	(15,077,897)	(16,897,[illegible])
Net Shareholders Equity	3,039,697	3,268,812	3,183,926	3,980,318	3,614,279	3,788,370	(1,530,136)	(11,077,897)	(12,897,[illegible])
Total Liabilities & Owners' Equity	12,297,122	15,469,424	17,719,858	25,147,096	35,925,045	36,320,313	41,996,277	38,379,377	41,195,647

MEJORES ALIMENTOS DE HONDURAS, S.A. DE C.V.

INCOME STATEMENTS
1976 - 1984
(IN LEMPIRAS)

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Sales	3,626,223	9,673,134	13,900,953	19,533,744	21,315,130	21,023,128	21,324,522	23,395,933	20,457,140
Cost of Sales	3,337,341	7,829,932	11,502,986	14,578,494	15,977,858	14,605,609	16,214,042	19,833,854	15,728,050
Gross Income	288,832	1,843,202	2,397,967	4,955,250	5,337,272	6,417,519	5,110,480	3,456,079	4,729,250
Sales Expense	252,076	358,988	498,097	289,773	860,460	927,815	754,720	1,400,946	972,862
Administrative Expense	405,914	549,495	506,762	1,007,213	1,182,488	1,142,378	1,883,171	1,912,[illegible]	1,454,[illegible]
Operating Expenses	657,990	908,483	1,004,859	1,296,986	2,042,948	2,070,193	1,823,891	3,312,864	2,427,112
Operating Income (Loss)	(369,108)	934,719	1,393,108	3,658,264	3,294,324	4,347,326	3,286,589	143,[illegible]	2,302,138
Other Income	45,947	151,520	19,126	77,817		35,170		626,177	2,142,543
Expense					(52,668)		(239,249)		
Interest Expense	(347,242)	(1,147,024)	(14,497,120)	(2,939,689)	(3,607,697)	(4,208,405)	(6,152,374)	(8,302,242)	(4,466,574)
Net Profit (Loss)	(670,403)	(60,785)	(84,186)	796,392	(366,039)	174,091	(3,305,434)	(6,[illegible])	(3,919,[illegible])
Accumulated Losses		(670,403)	(731,188)	(816,074)	(19,682)	(385,721)	(211,630)	(5,530,136)	(15,077,[illegible])
Previous Year Adjustment							(2,253,072)	(2,507,341)	
Accumulated Losses, Adjusted	(670,403)	(731,188)	(816,074)	(19,682)	(385,721)	(211,630)	(5,530,136)	(15,077,[illegible])	(18,[illegible])

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MEJORES ALIMENTOS DE HONDURAS, S.A. DE C.V.

SELECTED FINANCIAL RATIOS
1976 - 1984
(IN LEMPIRAS)

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Current Ratio	0.87	0.94	0.79	1.47	1.11	3.40	2.13	1.43	1.29
Liquidity Index	0.29	0.38	0.23	0.43	0.50	1.30	1.33	1.33	1.33
T. Liabilities / Net Worth	3.05	3.73	4.57	5.32	8.94	3.59	-23.45	-4.46	-3.74
T. Assets / T. Sales	3.39	1.60	1.27	1.29	1.69	1.73	1.97	1.64	2.11
Sales / Net Working Capital	-5.10	-18.54	-5.91	4.15	8.74	1.13	1.13	2.82	3.04
Return on Sales	N/A	N/A	N/A	0	0	N/A	N/A	N/A	N/A
Return on Assets	N/A	N/A	N/A	0	N/A	0	N/A	N/A	N/A

income of approximately 14 percent of net sales. However, in 1983, this figure dropped to an unprecedented 2.4 percent of sales.

It appears contradictory that having obtained record sales of Lps 23.4 million during that year, the cost of goods sold was unusually high (83 percent of sales v.s. an average of 74 percent in previous years), and the sales and administrative expenses were also disproportionately high (14 percent of sales versus a past average of only 8.6 percent). These events coincide with the period when the Galaxia group realized that the company was about to be intervened by CONADI.

- During the period 1976 to 1981, when CONADI provided financial support to the firm, accumulated losses were no more than 20 percent of capital, thus yielding a positive shareholders' equity. However, from 1981 on, the company's enormous losses rapidly eroded the capital and shareholders' equity became negative. This negative equity went from (Lps. 1.5 million) in 1982 to an estimated (Lps. 14.9 million) in 1984.

- A definite detrimental factor in the financial performance of the company has been the enormous debt service expense, which amounted to Lps. 1.1 million per

year in 1977 experiencing a tremendous growth over the following fiscal periods. This annual financial burden reached Lps. 3.6 million in 1980 Lps. 6.1 million in 1982 and Lps. 9.1 million in 1984.

Once the in-depth study of the company's finances for this period have been released, it will be possible to analyze the financial background of Mejores Alimentos in more detail, and particularly its relationship with affiliated companies such as Agricola de Honduras and other firms of the Galgia group.

2.2 Internal Controls - Observations

As part of our scope of work, an internal controls questionnaire was conducted. It is pertinent to note that the on-site interviews performed to obtain this information are less exhaustive than those typically applied in an audit. Therefore, they are not expected to disclose all the potential weaknesses of the company's internal control system, but rather to provide a general overview.

Based on the data collected, the following observations are in order:

- A chart of accounts is not being used to provide the necessary consistency of account classification.
- Employees involved in record-keeping or custody of assets are not adequately bonded.

- The custodian of notes and investment certificates should be someone other than the firm's bookkeeper.

- At the present time, monthly statements to customers are not reviewed by company officers other than the bookkeeper.

- Tomato purchases are made in cash as opposed to by prenumbered checks.

- The supply of unused checks is not adequately controlled and signing checks in advance is a common practice that should be avoided.

- The firm's bookkeeper is permitted to sign checks and prepare bank reconciliations.

2.3 Projected Financial Statements

Based on projections prepared by members of the company's upper management, our team simulated 5-year projected financial statements for the firm applying an Arthur Young & Company proprietary Software package (AY/FastPlan TM version 3.02). It is extremely important to note that these projections are realistic only to the extent that the assumptions made hold true. Significant variations in sales forecasts, production or financial costs would have a marked impact on the projected statements (see

[illegible]

[illegible]

	Projected Annual Cash Flow					
	1985	1987	1988	1989	1990	1991
Beginning Cash Balance	1614	0	0	0	0	0
Cash Receipts:						
Collections	22934	25172	23920	31020	36680	0
Interest	0	0	0	6	0	0
Other Assets	0	0	312	0	428	0
Other Liabilities	0	0	292	0	412	0
Long Term Debt	0	0	0	0	0	0
Equity Financing	900	1311	1750	1750	1568	0
Total Receipts	23834	26483	31274	33550	39228	0
Disbursements:						
Operating Exp Less Dep.	3340	1510	1446	1500	1464	0
Dir. Labor Costs	646	845	935	1097	1261	0
Raw Materials	12338	13432	15732	17554	20496	0
Mfg Overhead Less Dep.	1402	1934	2367	2783	3248	0
Capital Expenditures	0	1182	150	160	180	0
Other Assets	388	560	0	600	0	0
Other Liabilities	356	520	0	576	0	0
Long Term Debt	66	1032	1223	1376	1720	0
Interest Expense	12322	15327	15276	16341	17553	0
Income Tax Expense	47	0	0	0	0	0
Total Disbursements	29426	35261	37178	41937	45548	0
Net Cash Flow	-5572	-8778	-5904	-8447	-6340	0
Cash Before Loans	-3958	-8778	-5904	-8447	-6340	0
Short Term Borrowing	3958	8778	5904	8447	6340	0
Short Term Repayments	0	0	0	0	0	0
Ending Cash Balance	0	0	0	0	0	0

ANNEX PROJECTIONS (000's) [illegible]

	Projected Annual Income ($ and % of Sales)										
	1986		1987		1988		1989		1990		
	LEMPIRAS		LEMPIRAS		LEMPIRAS		LEMPIRAS		LEMPIRAS		LEMPIRAS
Sales											
Juices & Nectars	8520	45.5%	11800	46.9%	13572	46.9%	14900	46.9%	17100	46.7%	0
Tomato Sauce	4636	24.8%	4200	16.7%	4848	16.8%	5300	16.7%	6200	16.9%	0
Tomato Paste	6364	33.5%	9164	36.4%	10500	36.3%	11500	36.5%	13300	36.3%	0
Spare Parts & Service	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Total Sales	19520	100.0%	25172	100.0%	28920	100.0%	31800	100.0%	36600	100.0%	0
Cost of Sales:											
Juices & Nectars	5625	33.7%	7906	31.4%	9029	31.0%	10231	32.3%	11970	32.7%	0
Tomato Sauce	3893	15.6%	2819	11.2%	3297	11.4%	3657	11.5%	4340	11.9%	0
Tomato Paste	4220	21.5%	6140	24.4%	7140	24.7%	8004	25.2%	9310	25.4%	0
Spare Parts & Service	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Unabsorbed Overhead	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Total COS	12923	66.0%	16865	67.0%	19666	68.0%	21942	69.0%	25620	70.0%	0
Gross Margin	6657	34.0%	8307	33.0%	9254	32.0%	9858	31.0%	10980	30.0%	0
Interest Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Operating Expenses:											
Research and Development	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Sales & Marketing	332	2.0%	252	1.0%	289	1.0%	318	1.0%	366	1.0%	0
Gen. & Admin.	1175	6.0%	1259	5.0%	1157	4.0%	1272	4.0%	1233	3.0%	0
Amortization	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Depreciation	5	.0%	5	.0%	6	.0%	6	.0%	6	.0%	0
Total Operating	1572	8.0%	1516	6.0%	1452	5.0%	1596	5.0%	1473	4.0%	0
Interest Expense	12322	65.5%	13927	55.3%	15276	52.8%	16341	51.4%	17559	48.0%	0
Net Income Before Tax	-7237	-39.5%	-7136	-28.3%	-7474	-25.8%	-8079	-25.4%	-8349	-22.8%	0
Tax Expense	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Net Income After Tax	-7737	-33.5%	-7136	-28.3%	-7474	-25.8%	-8079	-25.4%	-8349	-22.8%	0

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[illegible] PROJECTIONS (000's) [illegible]

Projected Annual Balance Sheets

	1986	1987	1988	1989	1990	1991
Assets:						
Cash	0	0	0	0	0	0
Accounts Receivable	0	0	0	0	0	0
Inventory	8703	8703	8703	8703	8703	0
Fixed Assets	13534	14716	14666	15226	15226	0
Accum Depreciation	-2795	-3641	-4229	-9824	-10425	0
Other Assets	32815	31475	31163	31763	31335	0
Total Assets	45353	46253	45503	45668	44819	0
Liabilities:						
Accounts Payable	0	0	0	0	0	0
Short Term Debt	3953	12536	18441	26567	33528	0
Taxes Payable	0	0	0	0	0	0
Current Portion LTD	1232	1223	1376	1720	0	0
Other Liabilities	-111	-631	-539	-915	-585	0
Long Term Debt	69223	68220	66624	64534	64524	0
Total Liabilities	74102	81128	86102	92536	96229	0
Owners Equity						
Equity	4920	6211	7361	9711	11279	0
Retained Earnings	-33950	-41086	-48560	-56633	-64639	0
Total Equity	-29032	-34875	-42599	-46923	-53410	0
Total Liabilities & Equity	45353	46253	45503	45668	44819	0

Projected Annual Financial Ratios

	1986	1987	1988	1989	1990	1991
Annual Sales/Emp Ratio.....	152	180	180	177	193	0
Inventory Turns.....	1.46	1.94	2.26	2.52	2.94	0.00
Days Receivables.....	0	0	0	0	0	0
Days Payables.....	0	0	0	0	0	0
Gross Profit/Sales.....	34.0%	33.0%	32.0%	31.0%	30.0%	0.0%
Net Income/Sales.....	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt/Equity.....	-255.5%	-234.4%	-212.9%	-199.3%	-184.9%	0.0%
Return on Equity.....	26.6%	20.5%	15.4%	17.2%	15.1%	0.0%
Return on Assets.....	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Current Ratio.....	2.22	0.63	0.44	0.33	0.26	0.00
Sales/Square Footage Ratio.	ERR	ERR	ERR	ERR	ERR	0.00
Total Valuation.....	0	0	0	0	0	0

assumptions made in Appendix C). Specifically, the stock modifications decided on June 27, 1986, the effect of which upon MALI's debt is yet unknown, will have a significant impact upon the company's financial projections. For this reason, the projected figures provided in this analysis should be considered as preliminary.

Exhibits 4, 5 and 6 present the company's cash flow, income statements and balance sheets for the years 1986 to 1990. On the basis of these projections, the following observations can be made:

- Under the assumption of healthy sales increases over the period, the company would be able to obtain an average operating profit of 26 percent of net sales. However, with annual interest expenses of Lps. 12.8 million in 1986, gradually increasing to Lps. 17.9 million in 1990, the firm is destined to incur losses ranging from Lps. 7.0 to 8.0 million per year.

- Given the accumulated debt of Lps. 70 million which generates increasingly high interest, the cash flow projections indicate that the firm will not be able to cover its net working capital needs, nor will it be able to pay down the outstanding principal on loans.

- Accumulated losses of over Lps. 26.2 million as of June 30, 1985, have long diluted shareholders' equity. As

shown in the projected balance sheets, the accumulated losses would continue to grow from Lps. 33.9 million in 1986 to an estimated amount of Lps. 64.9 million by 1990.

It appears clear that under the current conditions, the company should not continue to operate. Since the firm is intrinsically viable, it must undergo a financial reorganization to preserve its future existence. As mentioned above, this financial restructuring process - which involves debt capitalization and rescheduling - has been proposed and will be enacted over the next few months.

3.0 MANAGEMENT STATUS REVIEW

3.1 Organizational Structure

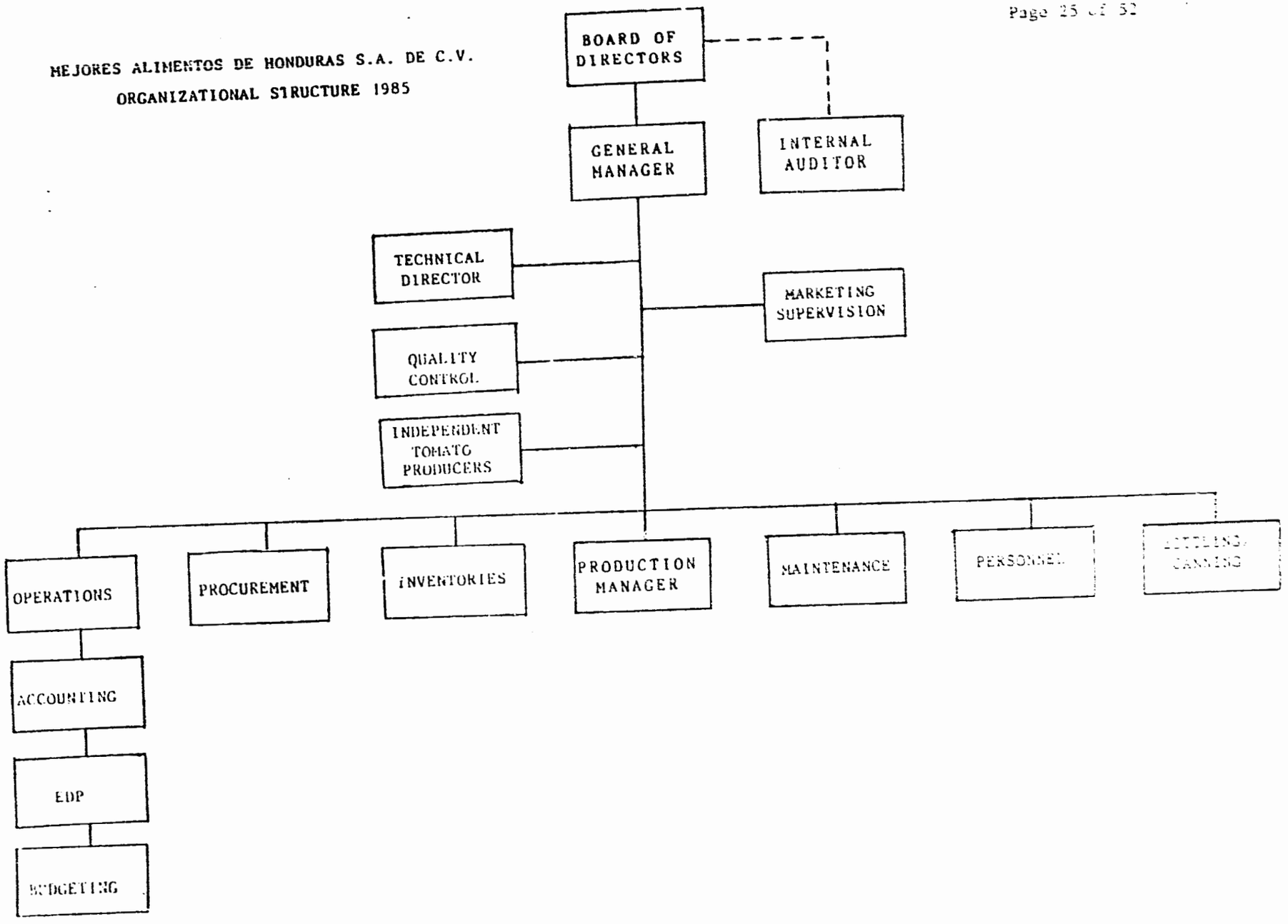
The company's organizational structure has experienced significant modifications over the last few years. The communication and authority lines were completely different when the firm was controlled by the Galaxia Group, since most decisions were based on the maximization of overall benefits for the holding company. After CONADI took complete control of the firm in December 1984, changes continued to be made in the organizational structure. Exhibits 7 and 8 illustrate the upper management organizational configuration of Mejores Alimentos for the years 1985 and 1986, respectively.

Important changes have taken place during this time. The Technical Director, who was relegated to a staff position indirectly overseeing quality control, has been given a line function with direct responsibility over maintenance, production, bottling and canning, and quality control. The Operations Department was also restructured and now it oversees the activities of accounting, procurement and inventories. A brief overview of the individuals occupying managerial positions at Mejores Alimentos follows:

- General Manager is Mr. René Durón, a Business Administration graduate who has been with the company

MEJORES ALIMENTOS DE HONDURAS S.A. DE C.V.

ORGANIZATIONAL STRUCTURE 1985



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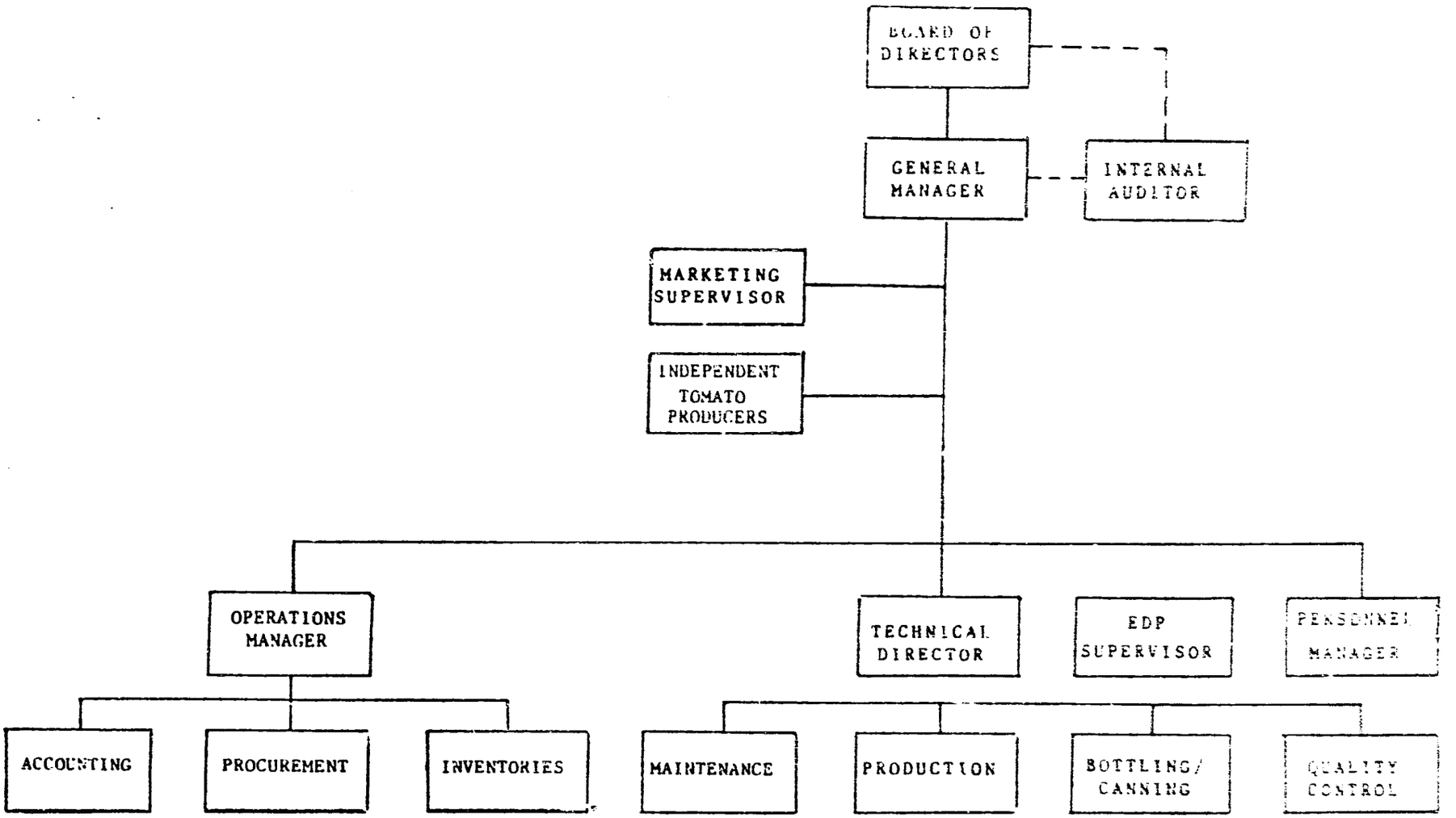
MEJORES ALIMENTOS DE HONDURAS S.A. DE C.V.

ORGANIZATIONAL STRUCTURE - 1986



since August of 1984. He used to be the judicially appointed Interventor to MALI and Agricola on behalf of CONADI.

- Technical Director is Mr. Claudio Cantoni, an industrial technician from Italy with many years of experience. He has been with the firm since its creation in 1971. Mr. Cantoni assembled the existing plant and is a key person in the operation of the industrial complex.

- Operations Manager is Mr. Antonio R. Sosa, a Public Administration graduate with previous industrial experience. He has been with the company since early 1979.

- Marketing Supervisor is Mr. Salvador Donaire Paredes. He has been with the company for a little over a year, but has previous sales experience.

- Supervisor of Independent Tomato Producers is Mr. Jorge A. Càceres, an Agronomist who just recently joined the firm, but whose previous experience with Agricola de Honduras is very relevant to his current job.

- Internal Auditor of the firm is Mr. Javier Rodriguez a public accountant who has been in his current position since December of 1985. He has previous experience with

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a financial institution in his area of expertise.

- Personnel Manager is Mr. Reynaldo Vallecillo. He completed coursework in law and social sciences and has been with Mejores Alimentos since September of 1981.

- The EDP Supervisor, Mr. Hugo Blanco V. is a Business Administration graduate with previous experience as a systems analyst with IBM of Honduras. He joined the firm in February of 1986.

Although a series of improvements can be made in terms of general management of the firm, it appears that members of the management team are in most cases adequately trained to satisfactorily fulfill their responsibilities.

3.2. Strategic Planning and Control

There has been no medium or long term planning at Mejores Alimentos in the past. The Board of Directors has not requested strategic plans for the company, nor has there been enough independence in previous years for top management to decide on long-term policies due to the company's relationship with Galaxia and more recently with CONADI.

The firm's upper management prepares annual projections of operations, based on sales forecasts and production capabilities,

but there is no periodical review of these plans as a feedback mechanism to update the operations projections.

At the present time, there is no indication that the company will adopt the practice of preparing medium or long term strategic plans, and as long as the company remains in its current situation of dependency with CONADI, it will be very difficult for it to do so.

3.3 Production Function

Based on a walk-through of the production facilities and discussions held with Technical Director, Mr. Claudio Cantoni, members of the consulting team were favorably impressed with this aspect of the company's operations.

The following observations are relevant:

- The general operating condition of the plant appears to be good; there is a preventive maintenance program in place and the company has its own mechanics workshop.

- The production department has well documented manuals and manufacturing/production standards which include detailed descriptions of the ingredients, formulas and equipment specifications that are used for each one of the company's products.

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- The level of efficiency in manufacturing has been rated as high as 90 percent for tomato sauce, tomato paste and ketchup and 85 percent for juices and nectars.

- There appears to be room for improvement in certain areas, particularly in labeling and packaging (which are done by hand), as well as in the tomato delivery process.

- The most important raw materials are tomatoes, approximately 50 to 70 percent of which are supplied by Agricola de Honduras S.A. The remaining portion is provided by independent growers and cooperatives, with whom the company subscribes supply agreements every year.

- In the case of juices and nectars, some concentrates are imported from the U.S. and Guatemala (such as apple and pear) and others are processed utilizing domestic products (pineapple, mango, orange and grapefruit).

- There is an excess installed capacity in the bottling and canning lines; in addition, the company has approximately Lps. 600,000 of equipment that is not being used.

- Production plans are coordinated based on sales and inventory management; once prepared they are executed with an estimated 90 to 95 percent of accuracy.

- Quality control is managed by professionals and appears to have clearly defined standards.

It is extremely important that the company assigns a person to be trained by Mr. Cantoni in the technical aspects of the plant's operation, so that his expertise and know how are transferred to a prospective production manager. At present, it is believed that the production function would suffer in the event that Mr. Cantoni would decide to retire or leave the firm.

3.4. Commercialization

Based on our review of the company's commercialization function, the following observations are in order:

- The overall quality standards of the company's products are considered to be high. In the Central American market, the company competes with very well established enterprises such as Alimentos California, Kern's, Mahler, Productora Centroamericana and Pasabien. Mejores Alimentos is competitive in quality, but its production costs are higher than those of the competition.

- In previous years, the company exported its products to other Central American countries. Such exports reached approximately Lps. 8.0 million per year. In 1983, total exports of Lps. 6.3 million represented approximately 27

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percent of total sales. Since the company was taken over by CONADI in late 1984, there have been no exports.

- It is believed that there is room for improvement in the marketing of the firm's products to the international market. However, a comprehensive study would be necessary and experienced personnel in this kind of activity would be needed

- In the domestic market, the firm is presently distributing its products through four companies, as follows:

  - In Tegucigalpa through Schmid y Tentori (Lps. 700,000/month) and Francisco Huete.(Lps.100,000/month)
  - In San Pedro Sula and the North Coast, through Surtidora Nacional (Lps. 450,000/month) and Unimar S.A. (Lps. 450,000/month)

- The company has signed non-exclusive distribution agreements with the above mentioned firms and the terms are cash payment at delivery and a commission of 10 percent of total sales, when monthly sales are Lps 700,000 or higher, and of 8 percent when they are below this amount. These terms are obviously more advantageous than the ones in place when Galaxia

was the exclusive distributor of the company's products.

- Sales forecasts are prepared on an incremental basis. There is a need to prepare an overall marketing study for the company's products, in order to determine other possible market niches, which could require variations in the current product mix.

One matter of concern, that arose during the review of MALI, refers to the installation of a new tomato processing plant by the Galaxia group in the locality of Palmerola. Reportedly, this plant is already being established and is expected to produce the same kind of products as MALI but at much lower costs. Considering these factors, and the fact that Galaxia is likely to retain the Natura's trade mark (currently being disputed), whoever purchases MALI can expect fierce competition in the procurement of raw materials and end-product distribution.

3.5 Personnel Management

Mejores Alimentos employs approximately 232 people at the present time. Total personnel has decreased by more than 37 percent since 1982-83, and the most significant reductions have taken place in temporary plant personnel.

The breakdown of the firm's personnel over the last five years, are indicated below.

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Classification	1982		1984		1985		1986		1988	
	No.	%	No.	%	No.	%	No.	%	No.	%
• Top Management	5	1.4	[illegible]	1.4	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
• Professionals	[illegible]	3.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	20	[illegible]
• Support & Office Personnel	20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
• Plant Personnel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Permanent	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Temporary	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOTAL	370	100	370	100	[illegible]	100	[illegible]	100	[illegible]	100

Source: Mejores Alimentos. Team calculations.

After having completed our review of the personnel management functions, the following was noted:

- Although there has been a sharp reduction in plant personnel, there has been a steady increase in office support and professional personnel. With this change, the firm's production vs. overhead personnel ratio shifted significantly in 1986

- The company employees organized a union (SINTRAMAL), in 1977, which is of democratic orientation. A collective bargaining agreement was signed in August of 1983 and is still in force.

- Salary increases took place in July of 1985 ranging from 4.5 percent up to 20 percent for low paid employees.

- There is no Administrative or Personnel Manual in place at the present time. There was one when Galaxia controlled the company, but it is no longer in use.

- The company does not have a policy to conduct performance evaluation reviews. It is felt that while the firm's personnel management function appears to be adequate, it could be improved.

4.0. LEGAL STATUS REVIEW

In order to assess the legal status of Mejores Alimentos, the consulting team conducted an overall review of the firm's articles of incorporation and by-laws, and more importantly, of the existence and current status of any lawsuits pending against or on behalf of the company.

The following observations summarize the most salient points of the review:

- A lawsuit was filed by the firm against Galaxia in connection with the property of the trademark "Natura". This intangible asset, valued at Lps 1.0 million, is very important for the company and the firm claims having paid for it. According to Galaxia, the trademark was only licensed to MALI for a specified time period.

  At this time, the case is in court and based on expert legal opinion, the likely outcome appears to favor Galaxia. It should be noted, however, that when CONADI first initiated its participation in MALI, back in 1976, among the conditions established by the Corporation was the transfer of the Natura's label rights from Galaxia to MALI, for an amount of Lps. 1 million. Galaxia did not fulfill this obligation, and kept charging MALI an annual fee of Lps. 200,000 for using the label. This situation led the United Nations Development

Program (UNDP) consultants Kona and Laque, who elaborated an in depth financial and legal evaluation of both MALI and Agricola, to state that in their opinion there existed no doubt of MALI's rights over the property of the Natura's label (1983, p 4).

The current MALI administration is well aware of the possible loss of this law suit, and the need to discontinue marketing its products under the Natura's label. Even though this situation is likely to cause a negative impact to the company in the short run, its effect will be reduced as MALI has stopped all publicity for this label and is getting ready to launch two new labels of its own. Both of these labels have been already officially registered at the Ministry of Economy.

- Another existing legal conflict between the two firms is related to an accumulated debt from Galaxia to MALI corresponding to payments for products delivered by the firm to Galaxia for distribution, under the marketing arrangements described above. According to MALI's internal balance sheet this debt amounts to Lps. 14.7 million as of May 31, 1986. This accumulated credit, which was documented by commercial drafts, had not been paid to MALI at the time CONADI took control of the company.

  Therefore the case was taken to court. As of the time of this writing, there is no judicial opinion concerning this matter.

- A third pending lawsuit is reported to involve a Lps. 17 million claim by the Galaxia group against MALI, seeking compensation from the company's unilateral termination of the contract for exclusive distribution of its products. Considering that MALI and CONADI are in possession of a series of proofs of contract violation on the part of Galaxia, that preceded the termination of the contract, MALI's top management estimates that the company should be able to win this lawsuit if provided with adequate legal support.

- A fourth lawsuit pending is the one brought by Lic. Mariano Lagos, former legal advisor to Mejores Alimentos. Mr. Lagos's services to the firm were terminated and he claims damages of Lps. 50,000.

- According to the recommendations formulated by Roux and Luque, to clear up the situation of MALI, CONADI should bring suit to Galaxia for the abusive control of the company during the period 1981 - 1984, in detriment of CONADI and the company itself (1983, p.17).

It is necessary to resolve these existing legal claims before the company can be privatized. The resolutions of these conflicts will require professional legal support for CONADI. It should be noted that over the years, in the confusion created by the succession of CONADI and Galaxia administrations, the private group has generally managed to put the corporation on a defensive legal

position. Backed with high caliber professional support, Galaxia has tended to prevail over dedicated but underpaid and less experienced CONADI legal staff

5.0 POTENTIAL PRIVATIZATION STRATEGIES

5.1 Preparation for Sale

As in the case of the great majority of companies in CONADI's portfolio, Mejores Alimentos cannot simply be placed on the market without substantial previous preparation. As a matter of fact, the special review of the company's books which is currently being performed by the accounting firm of Morales, Palao, Williams & Asociados (see Section 2.0) is a first step in this direction. There are two key areas that will need to be addressed in the preparation phase:

- A financial restructuring of the firm; and
- A thorough legal analysis and resolution of pending lawsuits.

As indicated in our financial status review, Mejores Alimentos' financial condition as of the end of fiscal year 1985 (per internal financial statements) was precarious:

Total Assets	= Total Liabilities + Shareholders' Equity
Lps. 50.2 million	= Lps. 72.4 million + (Lps. 22.2 million)

With a negative shareholders' equity and a complete dependency on borrowed funds to maintain operations, the financial burden is such that even with a sizeable operating profit (i.e., Lps. 3 to 5 million), it would not be possible for the firm to obtain net annual profits. In the long-run, the accumulated financial burden

would continue to spiral upward.

Therefore, the company has to undergo financial restructuring which will entail:

- Calculations of the company's debt service capability based on its projected operating income, and
- A partial capitalization of CONADI's debt and a rescheduling of its remaining short and long term debt.

The financial restructuring of the firm has already been formally proposed by the Board of Directors and it may result in a capitalization of CONADI's accumulated debt for approximately Lps. 22.3 million, which in turn would give the Corporation control over 99 per cent of the company's stock.

The legal analysis and resolution of conflicts pending should be conducted simultaneously and is likely to require significant financial outlays. In order to accelerate the process, it would be advisable to pursue out-of-court settlements whenever possible.

5.2 Valuation of Company Assets

In order to determine the market value of the company's assets and of the company as a going concern, a professional valuation would need to be conducted. A thorough inventory and assessment of the firm's property, plant and equipment would facilitate this process. In addition, intangible assets would have to be appraised in order to arrive at a comprehensive estimate of the company's

value.

Clearly, there would be a need to incorporate one or more industry specialist into the team performing this task. Based on their experience with similar companies, these specialists will determine a range for the market value of Mejores Alimentos. It is important that CONAMI's Board of Directors abides by the recommended price range, even if there is a substantial difference between the company's book value and its market value. Otherwise, based on unrealistic expectations, it will be virtually impossible to sell the firm.

5.3 Public Auction Alternative

In light of the fairly large number of potential investors who have expressed interest in acquiring Mejores Alimentos, it appears to be a suitable candidate for privatization via public auction.

As of the date of this report, several companies and/or investment groups have indicated that they would consider negotiating a deal to take over the firm. These include, but are not limited to:

- Tabacalera Nacional, S.A. (Honduras)
- British American Tobacco (United Kingdom)
- Nestlé (Switzerland)
- Numar (U.S. - Honduras)
- A Taiwanese investment group with minority participation of Eng. Humberto León.

Lic. René Durón, General Manager of Mejores Alimentos, on behalf of the company's employees.

In this particular case, there appear to be some advantages for the public auction alternative as a privatization strategy. These include:

- Potential competition among bidders which may raise the sale price of the company.
- An open bid would be more appealing politically and would not raise public suspicions, as may be the case with direct negotiations;
- It would allow for the bidders to structure a suitable financial package in advance, which would become an additional criteria to be assessed by CONADI's Board of Directors as part of the evaluation of offers.

On the negative side, it could be argued that there are significant costs involved in the preparation of bidding documents, rules, regulations, basic information for the offerers and other expenses. Also, an open bid process could take a long time to prepare. Nevertheless, it is felt that in this case the advantages outweight the disadvantages.

5.4 Relationship with Agricola de Honduras

Agricola de Honduras supplies approximately 50 to 70 percent of the tomatoes processed by Mejores Alimentos for the production

of ketchup, tomato sauce and tomato paste. It also provides a marginal quantity of fruit that is used for the production of juices, nectars and other products.

In addition, Agricola de Honduras owes to MALI approximately Lps. 13.0 million, which represents about one-fourth of MALI's total assets.

In light of the above considerations, it is convenient to think in terms of a privatization strategy for Mejores Alimentos that would incorporate Agricola de Honduras. However, as can be appreciated in the in-depth review of Agricola, the liquidation of some of its farms and plots (e.g. Pepineros, El Rincón and some fruits orchards) seems advisable before it is included in a sale package in conjunction with MALI.

Since Agricola and its subsidiaries own a very large extension of land - approximately 3,369 manzanas - of which only some 150 to 200 are being cultivated to supply tomatoes to Mejores Alimentos, it is possible to incorporate some of its farms and plots (e.g. Canoas and Palo Verde, and parts of Quebracho) in the transaction for the privatization of MALI. Approximately 600 to 700 manzanas could be integrated to MALI and the rest could be sold separately.

Therefore, the public auction under which Mejores Alimentos would be sold could include the option to bid not just for the company itself, but also for a part of Agricola de Honduras' farms

and plots.

Another relevant aspect of this transaction to be taken into consideration is the fact that the extension of land owned by Agricola de Honduras surpasses the ceilings authorized by the Agrarian Reform Laws. For this reason, should Agricola de Honduras be liquidated as a company, a large portion of the land would become part of the agrarian reform system and payment for the land would be made in Agrarian Reform bonds, which is not desirable for the company's creditors (i.e., Mejores Alimentos and CONADI). In view of these considerations, it could be preferable for CONADI to implement a financial restructuring plan for Agricola, before incorporating it (in whole or in part) to the privatization strategy of Mejores Alimentos.

INDIVIDUALS CONSULTED DURING THE PREPARATION OF THE REVIEW

Mr. Renè Durón,	General Manager
Mr. Claudio Cantoni,	Technical Director
Mr. Antonio R. Sosa,	Operations Manager
Mr. Salvador Donaire Paredes,	Marketing Supervisor
Mr. Jorge A. CÁceres,	Supervisor of Independent Tomato Producers
Mr. Javier Rodriguez,	Internal Auditor
Mr. Reynaldo Vallecillo,	Personnel Manager
Mr. Hugo Blanco V.	EDP Supervisor

SECONDARY SOURCES USED IN PREPARING THE REVIEW

1. Roux, Agustin, F. y Lugue Alberto. Informe Sobre el Grupo Industrial Mejores Alimencos de Honduras - Agricola de Honduras. Asistencia a CONADI por parte del Programa de las Naciones Unidas para el Desarrollo. 14 de noviembre de 1983.

FINANCIAL PROJECTION ASSUMPTIONS MEJORES ALIMENTOS

Initial Projection Year---------->	1986	
Opening Balances		
Assets:		
Cash---------->	1614	
Accounts Rec.---------->	3354	
Inventory---------->	8703	
Fixed Assets---------->	13534	
Accum Dep---------->	-7553	
Other Assets---------->	30527	
Total Assets		50174
Liabilities:		
Accounts Pay.---------->	1774	
Short Term Debt---------->	...	
Taxes Payable---------->	47	
Long Term Debt---------->	70321	
Other Liabilities---------->	245	
Owners Equity:		
Equity---------->	4000	
Retained Earn.---------->	-26213	
Total Liab. & Eqty.		50174

Financing	1986	1987	1988	1989	1990	1991
Long Term Debt						
Qtr 1	...	-226	-270	-250	-386	...
Qtr 2	...	-269	-315	-371	-437	...
Qtr 3	-33	-247	-296	-353	-422	...
Qtr 4	-33	-290	-342	-402	-475	...
Equity Financing						
Qtr 1	...	...	...	...	...	...
Qtr 2	...	...	...	...	...	...
Qtr 3	...	...	...	...	...	...
Qtr 4	900	1311	1750	1750	1568	...

Other Financing Information

Annual Interest Expense	
Short Term (%) ---------->	13.00%
Long Term (%) ---------->	18.00%
Minimum Cash Balance ---------->	...
Loan Limit (% of A/R & Invty)---------->	2.50%
P/E Ratio---------->	...

FINANCIAL PROJECTION ASSUMPTIONS MEJORES ALIMENTOS

Net Sales	1986	1987	1988	1989	1990	1991
Juices & Nectars						
Qtr 1	2130	2950	3393	3725	4275	...
Qtr 2	2130	2950	3393	3725	4275	...
Qtr 3	2130	2950	3393	3725	4275	-1
Qtr 4	2130	2950	3393	3725	4275	...
Tomato Sauce						
Qtr 1	1174	1052	1212	1325	1550	...
Qtr 2	1174	1052	1212	1325	1550	...
Qtr 3	1174	1052	1212	1325	1550	-1
Qtr 4	1174	1052	1212	1325	1550	...
Tomato Paste						
Qtr 1	1531	2231	2625	2900	3325	...
Qtr 2	1531	2231	2625	2900	3325	..
Qtr 3	1531	2231	2625	2900	3325	-1
Qtr 4	1531	2231	2625	2900	3325	...
						...

Cost of Sales (%)

	1986	1987	1988	1989	1990	1991
Juices & Nectar	66.00%	67.00%	68.00%	69.00%	70.00%	...
Tomato Sauce	66.00%	67.00%	68.00%	69.00%	70.00%	...
Tomato Paste	66.00%	67.00%	68.00%	69.00%	70.00%	...
Spares/Service	...	...	...	...	...	...

% Distribution of COS

Raw Material Purchases----------)		80.00%
Direct Labor----------)		5.00%
Manufacturing Overhead----------)		15.00%
Note: Sum must = 100%	100.00%	(======

Raw Mtl Paid in Same Qtr (%)----------)	100.00%
Mfg Ovhd Paid in Same Qtr (%)----------)	100.00%
Note: Dir Labor Paid Same Qtr = 100%	

% Mfg Two Qtrs Ahead----------)	...
% Mfg One Qtr Ahead----------)	...

FINANCIAL PROJECTION ASSUMPTIONS MEJORES ALIMENTOS

Personnel, Space, and Capital Assets Expenditures

	1986	1987	1988	1989	1990	1991
Number of Employees						
Qtr 1	129	140	161	180	190	...
Qtr 2	121	140	161	180	190	...
Qtr 3	133	140	161	180	190	...
Qtr 4	133	140	161	180	190	...
Est. Required Sq Footage						
Qtr 1	...	...	...	...	...	...
Qtr 2	...	...	...	...	...	...
Qtr 3	...	...	...	...	...	...
Qtr 4	...	...	...	...	...	...
Capital Assets Expenditures						
% of Sales	...					
Qtr 1	...	...	...	...	...	...
Qtr 2	...	...	...	...	...	...
Qtr 3	...	...	...	...	...	...
Qtr 4	...	1182	150	160	180	...

	1986	1987	1988	1989	1990	1991
Research, Development & Engineering						
% of Sales	...	...	...	...	...	...
Qtr 1	...	...	...	...	...	...
Qtr 2	...	...	...	...	...	...
Qtr 3	...	...	...	...	...	...
Qtr 4	...	...	...	...	...	...
Sales & Marketing						
% of Sales	2.00%	1.00%	1.00%	1.00%	1.00%	...
Qtr 1	...	...	...	...	...	...
Qtr 2	...	...	...	...	...	...
Qtr 3	...	...	...	...	...	...
Qtr 4	...	...	...	...	...	...
General & Administrative						
% of Sales	6.00%	5.00%	4.00%	4.00%	3.00%	...
Qtr 1	...	...	...	...	...	...
Qtr 2	...	...	...	...	...	...
Qtr 3	...	...	...	...	...	...
Qtr 4	...	...	...	...	...	...

FINANCIAL PROJECTION ASSUMPTIONS MEJORES ALIMENTOS

	1986	1987	1988	1989	1990	1991
Other Assets						
Qtr 1	37	140	-78	150	-107	...
Qtr 2	37	140	-78	150	-107	...
Qtr 3	37	140	-78	150	-107	...
Qtr 4	37	140	-78	150	-107	...
Other Liabilities						
Qtr 1	-83	-130	73	-144	103	...
Qtr 2	-83	-130	73	-144	103	...
Qtr 3	-83	-130	73	-144	103	...
Qtr 4	-83	-130	73	-144	103	...
Amortization of Other Assets						
Qtr 1	...	...	...	...	...	...
Qtr 2	...	...	...	...	...	...
Qtr 3	...	...	...	...	...	...
Qtr 4	...	...	...	...	...	...

Miscellaneous Items

Straight Line Asset Life (yrs)——————————→	25
1/2 Period Depreciation Convention -(1=Yes)-→	...
Depreciation Charged to G & A (%) ————→	1.00%
Beginning Cumulative Sales————————→	...
Spares (% of Cumulative Sales)————————→	...
Sales Collected in Same Qtr (%)————————→	100.00%
Operating Exp Paid Same Qtr (%)————————→	100.00%
Annual Interest Income (%)————————→	...
Tax Rate 1986 (%)————————→	33.00%
Tax Rate 1987 (%)————————→	33.00%
Tax Rate 1988 (%)————————→	33.00%
Tax Rate 1989 (%)————————→	33.00%
Tax Rate 1990 (%)————————→	33.00%
Tax Rate 1991 (%)————————→	33.00%
Detail Sales Buildup ————————(1=Yes)-→	...
Detail R&D Expense Buildup ————(1=Yes)-→	...
Detail Sales/Marketing Exp. Buildup (1=Yes)-→	...
Detail G&A Expense Buildup ————(1=Yes)-→	...

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PRIVATIZATION OF STATE-OWNED ENTERPRISES TECHNICAL ASSISTANCE PROJECT USAID/HONDURAS

TASK 2 REPORT
IN-DEPTH REVIEW OF SELECTED FIRMS
PLANTA DE PRODUCTOS LACTEOS SULA, S.A. DE C.V.

BORRADOR PARA DISCUSION

Prepared for the

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THE CENTER FOR PRIVATIZATION
Washington, D.C.

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PLANTA DE PRODUCTOS LACTEOS SULA S.A. DE C.V.

1.0 INTRODUCTION

The plant was originally created as a Government of Honduras (GOH) project. For a period of 15 years it operated as a department of the Banco Nacional de Fomento - BANAFON (today BANADESA). In 1972, it was formally organized as a corporation of variable capital (sociedad anónima de capital variable) under Honduran law. BANAFON held 98 percent of the common stock.

It is important to note that the original objective of this project was to transfer the plant's ownership to the milk producers. In line with such plans, the so-called Sula Valley Milk Producers's Cooperative was founded, with the intention of acquiring the GOH's stock.

CONADI's involvement in the Planta de Productos Lacteos Sula (PPLS) began in December of 1976 when the corporation approved a direct loan for Lps. 2.7 million and simultaneously acquired company stock worth Lps. 1.2 million.

Additional CONADI loans to PPLS were approved during the following few years, some of which were capitalized. The current capital structure of the company is as follows:

Shareholders	Stock (units)	Value (Lps.)	Proportion (%)
CONADI	250,000	2,500,000	46
BANADESA	250,000	2,500,000	46
Other	47,239	472,390	8
Total	547,239	5,472,390	100

Source: PPLS

As of December 31, 1985, the company's debt to the GOH reached Lps. 14.1 million, of which 61 percent (Lps. 8.57 million) is owed to CONADI and the rest (Lps. 5.56 million) to the National Agricultural Development Bank (BANADESA).

2.0 FINANCIAL STATUS REVIEW

2.1 Recent Financial Statements

PPLS's financial statements have been audited by external auditors during the last few years; Exhibits 1 and 2 summarize the company's balance sheets and income statements for the years 1981 to 1985. The external auditors (Mendieta y Asociados) have issued qualified opinions for these financial statements.

PPLS's performance has not been satisfactory, as evidenced by annual losses in each of the last 5 years, with the exception of 1984, when it realized a small profit of Lps. 104,727.00.

In view of the company's financial position during this period, the following observations can be made:

- Since 1981, the firm's accumulated losses have been greater than the shareholders' equity and according to the Commercial Code, the company should have been dissolved. (External auditors have issued a "going concern" qualification in their opinion.)

- In 1983, the company's shareholders approved a capital write-down in order to reduce accumulated losses. At the same time, both CONADI and BANADESA capitalized Lps. 5.0 million in previous loans.

- Since 1981, the firm has had operating profits ranging

PLANTA DE PRODUCTOS LACTEOS SULA, S.A. DE C.V.

BALANCE SHEETS
1981 - 1985
LEMPIRAS

	1981	1982	1983	1984	1985
A S S E T S					
Cash	295,368	368,832	221,775	237,811	283,709
Short-Term Investments					
Accounts Receivable	757,126	485,331	456,363	473,336	488,845
Inventory	3,618,656	5,855,853	5,728,539	5,348,373	4,765,825
Pre-paid Expenses	57,009	7,095	6,234	28,431	8,356
Total Current Assets	4,728,139	5,928,811	6,403,311	6,088,951	5,566,826
Investment	478,612				
Notes Receivable Long-Term		68,034	26,457	43,652	12,623
Net Fixed Assets	10,358,169	4,743,755	5,567,227	5,408,814	5,328,731
Fixed Assets Not In Use		5,231,556	5,231,556	5,231,556	5,383,557
Other Assets	58,683	324,348	1,213,606	1,476,851	1,339,663
TOTAL ASSETS	15,615,603	16,328,566	18,502,757	18,293,824	18,857,405
L I A B I L I T I E S					
Short-Term Debt	6,372,448	8,422,861	671,065	3,288,271	3,333,038
Accounts Payable	6,844,282	3,672,832	2,836,417	1,437,552	2,453,544
Accumulated Payable Expenses	-	1,857,379	1,213,842	1,878,295	1,583,335
Affiliated Companies (rent)	155,575	-	-	-	
Total Current Liabilities	13,372,225	13,362,872	4,736,524	5,736,118	7,966,238
Long-Term Debt	4,441,747	7,823,372	13,233,335	11,787,335	12,361,149
Notes & Accounts Payable	835,191	220,613	621,700	763,671	268,648
TOTAL LIABILITIES	18,643,163	21,406,857	18,616,159	18,347,854	18,567,619
O W N E R S E Q U I T Y					
Equity	5,308,330	5,308,330	5,472,330	5,472,330	5,472,330
Retained Earnings (Losses)	(8,341,540)	(9,736,671)	(5,587,732)	(5,513,660)	(6,082,623)
TOTAL LIABILITIES & OWNERS EQUITY	15,615,603	16,328,566	18,502,757	18,293,824	18,857,405

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from 4.5 to 8.1 percent of net sales. However, financial expenses (primarily attributable to the acquisition of milk dehydration equipment, which generates financial charges of over Lps. 1.5 million per year) have made it impossible for the firm to realize net profits. Only in 1984 did the firm manage to realize a net profit, principally due to a sharp reduction of sales and administrative expenses.

- One important observation made by the external auditors is that the firm shows fixed assets not-in-operation (milk dehydration equipment and unfinished building mentioned above) at original cost of Lps. 5.3 million, when they should be shown at their market value of Lps. 3.2 million.

  If that adjustment were made, the firm's assets would decrease to Lps. 15.9 million and accumulated losses would increase to Lps. 8.1 million.

- Exhibit 3 shows selected financial ratios for PPLS over the same five-year period. Except for 1983 and 1984, when long-term debt and capital were restructured, the firm's liquidity has been very poor. As indicated by the Liabilities/Net Worth ratio, there has been a high degree of dependence on creditors rather than investors in providing the funds necessary to operate the business. The other indicators illustrate the

PLANTA DE PRODUCTOS LACTEOS SULA, S.A. DE C.V.

SELECTED FINANCIAL RATIOS
1981 - 1985

	1981	1982	1983	1984	1985
Current Ratio	0.35	0.44	1.34	1.05	0.70
Liquidity Index	0.08	0.06	0.14	0.12	0.10
T.Liabilities / Net Worth	(6.15)	(4.78)	(161.33)	(388.13)	(35.84)
T. Assets / T. Sales	0.66	0.63	0.65	0.60	0.52
Sales / Net Working Capital	(2.72)	(3.62)	17.47	107.88	(14.47)
Return on Sales	(0.35)	(0.05)	(.00)	.00	(0.01)
Return on Assets	(0.53)	(0.03)	(.00)	0.01	(0.03)

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unprofitability of the company vis-a-vis sales and assets.

2.2 Internal Controls - Observations

As part of our scope of work, an internal controls questionnaire was conducted. It is pertinent to explain that the on-site interviews conducted to obtain this information were less exhaustive than those constituting an audit and were not designed for that purpose. Therefore, they do not necessarily disclose all the potential weaknesses in the system.

The following general observations are in order:

- All employees involved in record-keeping, custody of assets or some other position of trust, should be adequately bonded; currently, they are not.
- The company's bookkeeper should not be among the officers responsible for signing checks.
- A separate payroll bank account should be maintained and an imprest system may be necessary.
- All invoices should be carefully reviewed before being submitted for payment to the client. This is not being done at the present time.

- The average cost inventory valuation system needs to be applied on a consistent basis to avoid future distortion of the records.

- Quotations in writing for the purchase of important items should be requested. Currently, these take place by telephone and no records are maintained.

- Control cards for fixed assets do not contain all the information needed on a consistent basis.

2.3 Projected Financial Statements

Based on projections prepared by members of PPLS's upper management, our team simulated 5 - year projected financial statements for the company, applying an Arthur Young & Company proprietary software package (AY/ FastPlan TM version 3.02).

It is important to note that these projections are realistic only to the extent that the assumptions made hold true. Significant variations in sales forecasts, production or financial costs would have an impact on the projected statements. (For assumptions: see Appendix C).

Exhibits 4, 5 and 6 present PPLS's projected annual cash flow, income statement and balance sheets for the years 1986 to 1990. On the basis of these projections, the following observations can be made:

ANNUAL PROJECTIONS (000's)

PRODUCTOS LACTEOS SULA

Projected Annual Cash Flow

	1986	1987	1988	1989	1990	1991
Beginning Cash Balance	1084	200000	200000	200000	200000	0
Cash Receipts:						
Collections	44446	43326	47672	52017	55363	0
Interest	15027	20000	20000	20000	20000	0
Other Assets	0	0	312	0	428	0
Other Liabilities	0	0	292	0	412	0
Long Term Debt	474	267	0	0	0	0
Equity Financing	0	0	0	0	0	0
Total Receipts	59947	63593	68276	72017	76203	0
Disbursements:						
Operating Exp Less Dep.	2450	34	31	34	31	0
Dir. Labor Costs	548	603	653	715	753	0
Raw Materials	24323	27433	29738	32572	34300	0
Mfg Overhead Less Dep.	3005	3332	3674	4033	4260	0
Capital Expenditures	1295	2500	340	840	300	0
Other Assets	388	560	0	600	0	0
Other Liabilities	356	520	0	576	0	0
Long Term Debt	816	495	1223	1376	1720	0
Interest Expense	30319	42423	44360	47426	50236	0
Income Tax Expense	0	0	0	0	0	0
Total Disbursements	64700	78021	81280	88237	92260	0
Net Cash Flow	-4752	-14428	-13004	-16220	-16051	0
Cash Before Loans	-3663	185572	186996	183780	183949	0
Short Term Borrowing	203663	14428	13004	16220	16051	0
Short Term Repayments	0	0	0	0	0	0
Ending Cash Balance	200000	200000	200000	200000	200000	0

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ANNUAL PROJECTIONS (000's)

PRODUCTOS LACTEOS SULA

	Projected Annual Income (L and % of Sales)											
	1986		1987		1988		1989		1990		1991	
	LEMPIRAS		LEMPIRAS		LEMPIRAS		LEMPIRAS		LEMPIRAS		LEMPIRAS	
Sales												
Milk	17372	44.4%	18815	43.4%	20251	42.4%	21688	41.6%	23111	41.7%	0	0.0%
Cheese & Butter	13551	34.6%	14441	33.3%	15334	32.1%	16232	31.2%	16132	29.1%	0	0.0%
Other	8199	21.0%	10122	23.3%	12143	25.4%	14161	27.2%	16182	29.2%	0	0.0%
Spare Parts & Service	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total Sales	39122	100.0%	43378	100.0%	47728	100.0%	52073	100.0%	55425	100.0%	0	0.0%
Cost of Sales:												
Milk	14131	36.2%	15210	35.1%	16100	33.7%	17537	33.8%	18614	33.6%	0	0.0%
Cheese & Butter	9572	24.5%	10036	23.1%	10528	22.0%	10963	21.1%	10521	19.0%	0	0.0%
Other	5067	13.0%	6463	14.9%	7772	16.3%	9105	17.5%	10513	19.0%	0	0.0%
Spare Parts & Service	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Unabsorbed Overhead	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total COG	28820	73.7%	31714	73.1%	34379	72.0%	37655	72.3%	39653	71.5%	0	0.0%
Gross Margin	10302	26.3%	11664	26.9%	13349	28.0%	14418	27.7%	15772	28.5%	0	0.0%
Interest Income	15027	38.4%	20000	46.1%	20000	41.9%	20000	38.4%	20000	36.1%	0	0.0%
Operating Expenses:												
Research and Development	40	0.1%	24	0.1%	24	0.1%	24	.0%	24	.0%	0	0.0%
Sales & Marketing	50	0.1%	50	0.1%	50	0.1%	51	0.1%	49	0.1%	0	0.0%
Gen. & Admin.	18	.0%	18	.0%	18	.0%	19	.0%	18	.0%	0	0.0%
Amortization	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Depreciation	325	0.8%	358	0.8%	394	0.8%	411	0.8%	427	0.8%	0	0.0%
Total Operating	433	1.1%	450	1.0%	486	1.0%	505	1.0%	518	0.9%	0	0.0%
Interest Expense	30319	78.0%	42423	97.8%	44960	94.2%	47426	91.1%	50236	90.6%	0	0.0
Net Income Before Tax	-6823	-15.4%	-11210	-25.8%	-12037	-25.3%	-13513	-25.9%	-14382	-27.0%	0	0.0
Tax Expense	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0
Net Income After Tax	-6823	-15.4%	-11210	-25.8%	-12037	-25.3%	-13513	-25.9%	-14382	-27.0%	0	0.0

ANNUAL PROJECTIONS (000's)

PRODUCTOS LACTEOS SULA

Projected Annual Balance Sheets

	1986	1987	1988	1989	1990	1991
Assets:						
Cash	200000	200000	200000	200000	200000	0
Accounts Receivable	535	587	644	699	755	0
Inventory	3418	3418	3418	3418	3418	0
Fixed Assets	18173	20673	21613	22453	23353	0
Accum Depreciation	-5246	-5883	-6534	-7315	-8074	0
Other Assets	947	1507	1195	1795	1367	0
Total Assets	217827	220303	220296	221051	220813	0
Liabilities:						
Accounts Payable	99	104	112	121	129	0
Short Term Debt	206978	221406	234418	250650	266681	0
Taxes Payable	0	0	0	0	0	0
Current Portion LTD	495	1223	1376	1720	0	0
Other Liabilities	-314	-334	-542	-1118	-706	0
Long Term Debt	11589	10633	9257	7537	7537	0
Total Liabilities	218847	232532	244613	258890	273641	0
Owners Equity						
Equity	5473	5473	5473	5473	5473	0
Retained Earnings	-11723	-22333	-35031	-48543	-63526	0
Total Equity	-6250	-17460	-29558	-43070	-58053	0
Total Liabilities & Equity	212596	215072	215055	215820	215588	0

Projected Annual Financial Ratios

	1986	1987	1988	1989	1990	1991
Annual Sales/Emp Ratio.....	119	126	133	141	146	0
Inventory Turns.....	8.43	9.28	10.06	11.02	11.60	0.00
Days Receivables.....	5	5	5	5	5	0
Days Payables.....	1	1	1	1	1	0
Gross Profit/Sales.....	25.3%	26.9%	33.0%	27.7%	28.5%	0.0%
Net Income/Sales.....	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt/Equity.....	-3304.7%	-1336.0%	-823.0%	-603.4%	-472.4%	0.0%
Return on Equity.....	96.4%	64.2%	40.9%	31.4%	25.8%	0.0%
Return on Assets.....	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Current Ratio.....	0.98	0.92	0.87	0.81	0.77	0.00
Sales/Square Footage Ratio.	ERR	ERR	ERR	ERR	ERR	0.00
Total Valuation.....	0	0	0	0	0	0

- Annual cash flow projections indicate that the firm will be able to cover its working capital needs over the period in question, but will not be able to pay down the outstanding principal on loans.

- The projected income statement indicates that the firm will incur annual losses continously over the 5 - year period with an increase from approximately Lps. 1.0 million in 1986 to about Lps. 2.3 million in 1990. However, it appears that the firm would be able to generate operating profits and that the main obstacle for net profitability is the overwhelming financial cost that the company has to bear.

3.0 MANAGEMENT STATUS REVIEW

3.1 Organizational Structure

PPLS has experienced significant changes in its management team over the last ten years, resulting in a weakened organizational structure. Exhibit 7 illustrates the upper levels of the organizational chart.

The Board of Directors is appointed by the two GOH parastatal organizations which control the company. There has been a very high turnover rate in top management positions, a reflection of the frequent administrative changes that occur in the public sector.

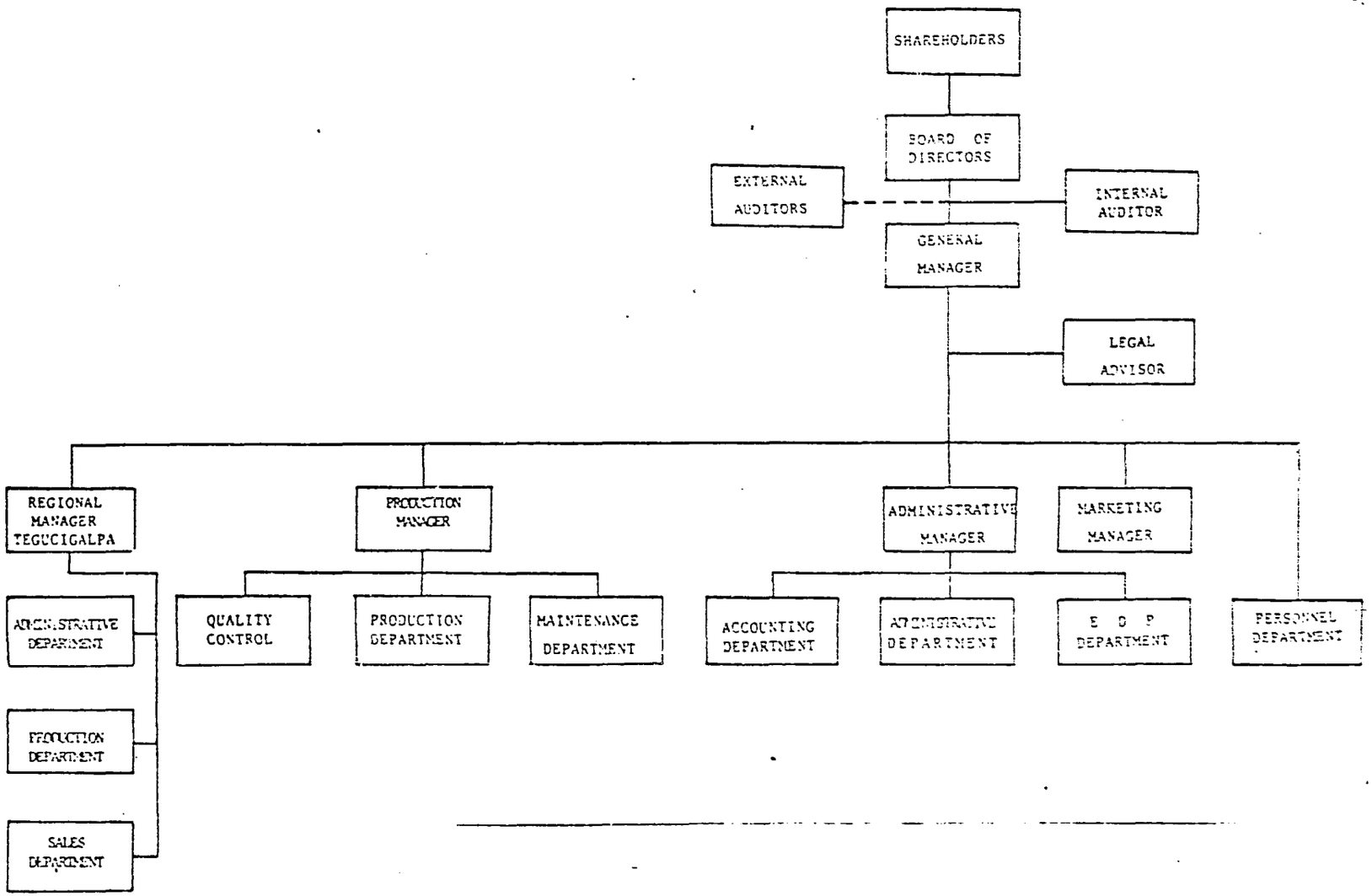
The Administration Manager, Lic. José R. Morales, was recently appointed (March of 1986). He is a graduate in business administration and was previously employed with the National Institute of Professional Education (INFOP).

The Production Manager, Eng. Emilio Murillo, is also new; he has been with the firm since January 1986 (5 months). He is a Chemical Engineer with approximately 10 years experience in other industries.

The Marketing Manager is Industrial Engineer Carlos Vasquez. He has been with the firm for approximately 7 years, initially as Sales Manager in Tegucigalpa and more recently (as of a year ago),

PLANTA DE PRODUCTOS LACTEOS SULA, S.A. DE C.V.

ORGANIZATIONAL STRUCTURE



SOURCE: PPLS

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he was put in charge of the company's commercialization activities.

The position of Regional Manager of the Central Region (Tegucigalpa) was created recently and has not yet been filled.

Other managerial positions within the firm include the chief of the Personnel Department (who had been in the office only 3 days at the time of our interviews) and the company's General Accountant (who has been with PFLS for 19 months, but only 5 months in his current job).

Frequent changes in the company's management are the cause of an apparent lack of continuity in corporate plans, as well as of a gradual deterioration in the firm's competitive position in the industry.

3.2 Strategic Planning and Control

The responsibility for medium or long-term planning is not formally instituted at PFLS. Strategic plans have not been prepared by the management team in the past, nor have they been requested by the Board of Directors.

The current administration is adopting its own procedures for preparing annual projections of the company's operations, based on consultation with the various functional area managers. Weekly management team meetings have been recently initiated which will

eventually serve as feedback to update the annual operations plan.

The nature of PPLS's ownership (Public Sector) and the lack of continuity referred to in Section 3.1 above make it extremely difficult for the team to design and implement medium or long-term plans.

3.3 Production Function

There is no updated flow-chart or diagram that describes the plant's operations; the current Production Manager is in the process of preparing it. The same applies to production manuals and the "manufacturing and production standards" which document the equipment specifications, ingredients and formulas related to the company's products. During our "walk-through" of PPLS's production facilities in San Pedro Sula, it became apparent that the plant's layout presents bottlenecks and a poor alignment of production lines, reflecting a disorderly growth and expansion of the plant over the years.

PPLS's products include the following:

Products	Est. utilized capacity (%)	Production Composition (%)
- Milk	100	65
- Powdered Milk	35	5
- Cheeses	100	10
- Creams/Butter	90	15
- Fruit Juices	N.A.	5

Source: PPLS

The proportion of spoiled production of milk is approximately 1.5 to 2.5 percent, which is high for the industry (0.2 to 0.3 percent is standard). This is primarily caused by technical problems in the packaging process (plastic bags). Other spoiled production indices that are high vis-a-vis industry standards occur in the production of creams (2 to 3 percent vs. a standard 1 percent maximum) and processed cheese (up to 15 or 20 percent), also due to packaging problems.

The equipment is generally in good condition. However, up until 5 months ago, there was no preventive maintenance program. Currently, there is no system to keep track of repairs made to the various units of equipment (usually record-keeping cards), but the new Production Manager is implementing one.

Due to lack of funds, it is not possible to maintain a minimum stock of certain spare parts in inventory. This is particularly serious in the case of Swedish machinery (Alfa Laval) for which parts requisitions may take up to six months.

Of particular importance in terms of PPLS's equipment is the existence of a milk dehydration plant which was acquired in 1978, but has not been installed to date. This plant was purchased at a cost of Lps. 3.6 million and a new building was constructed (still unfinished) at an additional cost of Lps. 1.6 million. Even though the company is still showing the original purchase cost of

these assets in its financial statements, the market value of the same was estimated by independent appraisers at only Lps. 0.6 million for the building and Lps. 2.6 million for the equipment.

The company has recently retained the services of a specialized Danish company to conduct a technical appraisal of the plant to determine its operation condition and estimate the additional costs involved should PPLS decide to put it into use. A market study will also be required in order to assess the viability of this additional installed capacity which would allow the company to process an estimated 100.00 liters of milk for powdered milk production.

3.4 Commercialization

PPLS is the oldest plant in the industry and for a long time faced no competition. Today, the company is facing fierce competition from privately owned companies and its market share has been decreasing sharply. The following figures are illustrative of the firm's competitive position in the milk and cheese markets, which account for approximately 65 percent of the company's sales:

Firm	% of Milk Market	% of Cheese Market
PPLS	43	75
LEYDE	40	20
DELTA	8	--
Other	9	5

Source: PPLS

In terms of product quality, the firm Leyde is perceived to produce grade A milk, whereas PPLS's could be rated grade B. Delta's product is considered of inferior quality (grade C), with the exception of its chocolate milk products.

Based on our review of PPLS' commercialization function, the following observations are in order:

- Even though the company's products can be characterized as large volume/small margin products, the company has never conducted a serious survey or marketing study to define its commercialization strategy.

- Sales projections are prepared on an incremental basis utilizing figures from the 3 or 4 previous years. Estimates tend to be conservative, particularly in items considered of inferior quality vis-a-vis the competition.

- The firm manages its own commercialization function, through 29 distribution routes in the San Pedro Sula area and 24 routes in the central region (Tegucigalpa). These routes are served by a fleet of company trucks which are old and not refrigerated.

- The existing distribution system does not appear to be efficient or effective, since average distribution costs reach approximately 9 cents per liter of milk sold

(should be around 3 cents/liter) and the proportion of returns and spoilage are higher than the industry average.

- The firm currently extends an average of 45 days credit to a number of buyers (36 in the north and 22 in Tegucigalpa.

- Inventory of finished goods rotates in a period of 5.5 to 8.5 days, which is considered slow (ie. 6.6 to 4.3 times a year).

- The company has vaguely explored the possibility of sub-contracting the distribution of its products with wholesale distributors in the country. More definite efforts need to be made to assess this alternative, which may resolve a number of existing problems.

- The firm does not have a clearly defined policy in product promotion and advertisement. The budget for this was Lps. 135.000 in 1985 (less than 0.4 percent of total sales). In the past, PPLS has retained an advertising agency (Zeus).

- As mentioned above, a thorough marketing study would be needed to assess the market potential for powdered milk if the firm decides to put in operation the milk dehydration plant, which has a processing capacity of 100.000 liters per day.

- It is apparent that the company has diversified its production and is generating a large number of different products in an attempt to raise existing levels of underutilized installed capacity, but without conducting the corresponding marketing analyses.

  Some of these products require imported inputs (tamarindo concentrate, artificial flavors, etc.)

3.5 Personnel Management

The company employs approximately 340 people, as of May 1986. The breakdown of personnel and the variations that occured over the last five years are as follows:

Classification	1982		1983		1984		1985		1986	
	No.	%	No.	%	No.	%	No.	%	No.	%
Production	179	54	149	47	129	42	132	43	146	43
-Technical	4	1	3	1	3	1	4	1	9	3
-Skilled Labor	7	2	8	2	8	3	8	2	13	4
-Unskilled Labor	168	51	138	44	118	38	120	40	124	36
Administration	27	8	71	23	80	25	74	24	69	20
-Executive	8	2	8	3	8	2	8	2	7	2
-Support	19	6	63	20	72	23	66	22	62	18
Sales	126	38	95	30	102	33	102	33	125	37
-Management	62	19	36	11	41	13	42	14	62	18
-Salespersons	64	19	59	19	61	20	60	19	63	19
Total Personnel	332	100	315	100	311	100	308	100	340	100

Source: PPLS Personnel Dept. Team Calculations.

After having completed our review of the personnel management function, we note the following:

- There was an increase of over 10 percent in total personnel employed in 1986, primarily in the sales and production departments.

- More than one-third of the company's personnel are in sales and with a disproportionately large percentage of employees handling administrative duties.

- Company employees have a union (SITRAPPLAS) which is affiliated with a national organization of democratic orientation (FESITRANH). Prior to 1981, the union was affiliated with a national organization of leftist tendency (FUT). In early 1980, there was a general strike organized by aproximately 40 percent of the employees, which resulted in the termination of 120 workers.

- A collective bargaining agreement was negotiated in March of 1985, and one is scheduled for June of this year. Salary increases are calculated using a constant percentage for the entire workforce. Compensation scales need to be reviewed and restructured to avoid current discrepancies (for example a mechanic in order III earns the same as a cleaning person).

- There is no performance evaluation system. The new management team is in the process of developing and implementing one.

4.0 LEGAL STATUS REVIEW

In order to assess the legal status of PPLS, the team examined its articles of incorporation and by-laws and more importantly, the existence and status of any lawsuits pending against or on behalf of the firm. The following observations summarize the most salient points of the review:

- Planta de Productos Lacteos Sula was incorporated in 1972 as a company of variable capital (Lps. 25,000 - Lps. 3.3 million). In 1977, the firm's stock rights were changed and in 1983, it underwent a quasi--reorganization. Capital was reduced: CONADI lost Lps. 1.2 million in preferred stock, and all investments in the firm were written-off except for that of the dairy farmers. CONADI then capitalized Lps. 2.5 million.

- The following are lawsuits pending against the firm:

  - Ronaldo Godoy has filed a Lps. 15,000 suit for labor violations. With no recent legal proceedings in this case, the firm is awaiting the expiration of the three year grace period mandated by law, at which point they will request that the case be closed.

  - Roberto Castro Rivera has filed a Lps. 40,000 suit for labor violations. He claims that although he was absent from work three consecutive days (which according to

Honduran law is grounds for dismissal) he had compensated those days. Sula's lawyer is unsure of the final outcome of this case.

- Rafaél Orlando Reyes has filed a Lps. 15,000 suit for labor violations. The firm is awaiting the expiration of three years in order to request that the case be closed.

- Raúl García Linares has filed a Lps. 15,000 suit for labor violations. The firm is going to request that the case be closed.

- José Alberto Oviedo Argueta has filed a Lps. 6,000 suit for labor violations. However, bacause he was caught stealing money, Sula's lawyer predicts a favorable outcome.

- Joaquin Urquia has filed a Lps. 40,000 suit for labor violations. Contracted to provide maintenance services for the firm's machinery when his contract expired, he claimed that severance pay was due to him. Sula's lawyer predicts a favorable outcome.

As of the time of this writing there were no other legal claims against PFLS other than minor labor violation claims.

5.0 POTENTIAL PRIVATIZATION STRATEGIES

5.1 Dairy Farmers

PPLS absorbs a large portion of the milk that is processed in the country and therefore is of vital importance to the dairy farmers.

As noted earlier, the original objective of the plant was to gradually transfer the ownership from the GOH to the milk producers. There is interest on the part of the milk producers and they have already formed a cooperative which could serve the institutional requirements.

Shareholders' capital of Lps. 5.4 million in PPLS has disappeared, since there is an accumulated loss of Lps. 6.0 million from previous years. Therefore, stock sale is possible only if there is new capital input. On the other hand, there are loans with CONADI and BANADESA for Lps. 14.1 million which are guaranteed with the company's assets.

As indicated in Section 2.0, the book value of fixed assets being installed is inflated by Lps. 2.1 million. Taking the revised total asset value of Lps. 15.9 million as a base, the following calculation results:

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PPLS assets are sold at	Lps. 15.9 million
( ) Accounts payable & obligations to third parties	Lps. 2.1 million
Left for shareholders	Lps. 11.8 million
(-) Accumulated loss (after capital write-down)	Lps. 3.1 million
Available to CONADI/BANADESA	Lps. 8.7 million

Source: PPLS

Taking into account the combined exposure of both GOH parastatals of Lps. 14.1 million in direct loans to PPLS, the total loss that the GOH would have to bear amounts to Lps. 5.4 million.

This assumes of course that the shareholders lose their invested capital (ie. CONADI: Lps. 2.5 million, BANADESA: Lps. 2.5 million and minority shareholders: Lps. 472,390).

However, these numbers are only illustrative of what could happen in a company liquidation scenario, but are hardly applicable if the company is to remain in operation but transferred to the private milk producers. The main problem is illustrated by this basic equation, which indicates that not only is there no equity, but there is also an accumulated deficit:

Total Assets	=	Total Liabilities	+	Equity
Lps. 18,057,406	=	Lps. 18,587,819	+	(Lps. 530,413)

If the External Auditor's recommendation regarding inflated assets and understated accumulated losses is followed, the above equation becomes even worse:

Total Assets	=	Total Liabilities	+	Equity
Lps. 15,923.490	=	Lps. 18,587,819	+	(Lps. 2,664,329)

Under these circumstances, one possible alternative for CONADI and BANADESA is to capitalize one portion of the debt in order to re-establish the company's equity so that it can be sold as an active enterprise.

Since the debt to both parastatals (Lps.14.1 million) is part of the Liabilities in our equation, assuming that they capitalize Lps. 8 millon of total liabilities, the equation becomes:

Total Assets	=	Total Liabilities	+ Equity
Lps. 15,923,490	=	Lps. 10,587,819	+ Lps. 5,335,671

The shareholders' equity of Lps. 5.3 million would be the price the dairy farmers' cooperative would pay for PPLS' shares. CONADI and BANADESA'S total loss would be the initial capital invested (Lps. 2.5 million each) plus the loss assumed in the equity restructuring operation (Lps. 2.7 million) which amounts to approximately Lps. 5.2 million. We believe that this would be a much better alternative than trying to liquidate and dissolve the company, which is what the Honduran Commercial Code mandates when the firm's accumulated losses exceed two-thirds of the shareholders' equity. In this regard, the external auditors had

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expressed their qualified opinion of PPLS's financial statements on a "going concern" clause.

5.2 Other

Representatives of the Caribbean Industrial Development Corporation have expressed interest in the unutilized dehydration plant that PPLS acquired in 1978. If, based on their on-site inspection, they decide to pursue negotiations for the purchase of this equipment, the company could recuperate some of its investment. However, there would be enormous "sunk costs" since it is not likely that the building (which is still unfinished) could be otherwise used.

However, with the proceeds of the sale, the company could pay part of the outstanding financing for that concept (estimated Lps. 1.5 million per year) and significantly improve its cash flow and net income statement conditions in the future. This alternative would not solve the problem of transferring the ownership of PPLS to the private sector, but would be one step in that direction.

INDIVIDUALS CONSULTED
DURING THE PREPARATION OF THE REVIEW

- Lic. Jose R. Morales, Administration Manager
- Eng. Emilio Murillo, Production Manager
- Carlos Vasquez, Marketing Manager

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SECONDARY DATA SOURCES USED IN PREPARING THE REVIEW

- Analisis de la Planta de Productos Lacteos Sula, S.A., elaborado por la Lic. Maria Isabel Martel, February 1985.

FINANCIAL PROJECTION ASSUMPTIONS PRODUCTION LOCATION 3 - A

Initial Projection Year ---------->	1986	
Opening Balances		
Assets:		
Cash ---------->	1004	
Accounts Rec. ---------->	5859	
Inventory ---------->	3418	
Fixed Assets ---------->	16873	
Accum Dep ---------->	-4667	
Other Assets ---------->	550	
Total Assets		23131
Liabilities:		
Accounts Pay. ---------->	2356	
Short Term Debt ---------->	3300	
Taxes Payable ---------->	...	
Long Term Debt ---------->	12420	
Other Liabilities ---------->	42	
Owners Equity:		
Equity ---------->	5473	
Retained Earn. ---------->	-5700	
Total Liab. & Eqty.		17900

Financing	1986	1987	1988	1989	1990	1991
Long Term Debt						
Qtr 1	-270	-300	-270	-250	-386	...
Qtr 2	243	-135	-315	-371	-437	...
Qtr 3	225	147	-236	-353	-422	...
Qtr 4	-540	120	-342	-402	-475	...
Equity Financing						
Qtr 1	0	...	...	...	...	...
Qtr 2	...	...	...	...	...	...
Qtr 3	...	...	...	...	...	...
Qtr 4	...	...	...	...	...	...

Other Financing Information

Annual Interest Expense	
Short Term (%) ---------->	13.00%
Long Term (%) ---------->	17.60%
Minimum Cash Balance ---------->	200000
Loan Limit (% of A/R & Invty) ---------->	2.50%
P/E Ratio ---------->	...

FINANCIAL PROJECTION ASSUMPTIONS PRODUCTOS LACTEOS SULA

Net Sales	1986	1987	1988	1989	1990	1991
Milk						
Qtr 1	4310	4711	5107	5203	5899	...
Qtr 2	4334	4735	5135	5233	5932	...
Qtr 3	4134	4540	4884	5210	5552	-1
Qtr 4	4474	4760	5065	5366	5668	...
Cheese & Butter						
Qtr 1	3881	4031	4130	4368	4533	...
Qtr 2	3605	3911	4213	4515	3820	...
Qtr 3	2786	3003	3210	3421	3630	-1
Qtr 4	3273	3406	3713	3928	4143	...
Other						
Qtr 1	1822	2295	2802	3308	3815	...
Qtr 2	2140	2554	3008	3461	3915	...
Qtr 3	2083	2651	3193	3735	4277	-1
Qtr 4	2154	2622	3140	3657	4175	...
						...

Cost of Sales (%)

	1986	1987	1988	1989	1990	1991
Milk	81.63%	80.84%	73.50%	81.12%	80.54%	...
Cheese & Butter	70.64%	63.50%	68.53%	67.54%	65.22%	...
Other	61.00%	63.30%	64.00%	64.33%	65.00%	...
Spares/Service	...	...	...	...	...	...

% Distribution of COS

Raw Material Purchases----------> 86.50%
Direct Labor----------> 1.30%
Manufacturing Overhead----------> 11.60%
Note: Sum must = 100% 100.00% <=====

Raw Mtl Paid in Same Qtr (%)----------> 100.00%
Mfg Ovhd Paid in Same Qtr (%)----------> 90.00%
Note: Dir Labor Paid Same Qtr = 100%

% Mfg Two Qtrs Ahead----------> ...
% Mfg One Qtr Ahead----------> ...

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FINANCIAL PROJECTION ASSUMPTIONS PRODUCTION LACTEOS SULA

Personnel, Space, and Capital Assets Expenditures

	1986	1987	1988	1989	1990	1991
Number of Employees						
Qtr 1	330	345	360	370	380	...
Qtr 2	330	345	360	370	380	...
Qtr 3	330	345	360	370	380	...
Qtr 4	330	345	360	370	380	...
Est. Required Sq Footage						
Qtr 1	...	...	...	...	...	...
Qtr 2	...	...	...	...	...	...
Qtr 3	...	...	...	...	...	...
Qtr 4	...	...	...	...	...	...
Capital Assets Expenditures						
% of Sales	...					
Qtr 1	324	625	235	210	225	...
Qtr 2	324	625	235	210	225	...
Qtr 3	324	625	235	210	225	...
Qtr 4	324	625	235	210	225	...

	1986	1987	1988	1989	1990	1991
Research, Development & Engineering						
% of Sales	...	...	...	...	...	...
Qtr 1	...	6	6	6	6	...
Qtr 2	...	6	6	6	6	...
Qtr 3	...	6	6	6	6	...
Qtr 4	40	6	6	6	6	...
Sales & Marketing						
% of Sales	...	...	...	...	...	...
Qtr 1	12	12	12	12	11	...
Qtr 2	12	12	12	13	12	...
Qtr 3	13	13	13	13	13	...
Qtr 4	13	13	13	13	13	...
General & Administrative						
% of Sales	...	...	...	...	...	...
Qtr 1	4	4	4	5	4	...
Qtr 2	4	4	4	4	4	...
Qtr 3	5	5	5	5	5	...
Qtr 4	5	5	5	5	5	...

FINANCIAL PROJECTION ASSUMPTIONS — PRODUCTION LOCKED SOLD

	1986	1987	1988	1989	1990	1991
Other Assets						
Qtr 1	97	140	-78	150	-107	...
Qtr 2	97	140	-78	150	-107	...
Qtr 3	97	140	-78	150	-107	...
Qtr 4	97	140	-78	150	-107	...
Other Liabilities						
Qtr 1	-83	-130	73	-144	103	...
Qtr 2	-83	-130	73	-144	103	...
Qtr 3	-83	-130	73	-144	103	...
Qtr 4	-83	-130	73	-144	103	...
Amortization of Other Assets						
Qtr 1	...	...	...	...	...	...
Qtr 2	...	...	...	...	...	...
Qtr 3	...	...	...	...	...	...
Qtr 4	...	...	...	...	...	...

Miscellaneous Items

Straight Line Asset Life (yrs)---------->	30
1/2 Period Depreciation Convention -(1=Yes)->	2
Depreciation Charged to G & A (%) --------->	56.20%
Beginning Cumulative Sales---------->	...
Spares (% of Cumulative Sales)---------->	...
Sales Collected in Same Qtr (%)---------->	94.60%
Operating Exp Paid Same Qtr (%)---------->	90.00%
Annual Interest Income (%)---------->	10.00%
Tax Rate 1986 (%)---------->	...
Tax Rate 1987 (%)---------->	...
Tax Rate 1988 (%)---------->	...
Tax Rate 1989 (%)---------->	...
Tax Rate 1990 (%)---------->	...
Tax Rate 1991 (%)---------->	...
Detail Sales Buildup ----------(1=Yes)->	...
Detail R&D Expense Buildup ---------(1=Yes)->	...
Detail Sales/Marketing Exp. Buildup (1=Yes)->	...
Detail G&A Expense Buildup ---------(1=Yes)->	...

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ANNEX III - 1 CONDENSED VERSION OF THE ECONOMIC ANALYSIS FOR THE PRIVATIZATION PROJECT

SUMMARY

On the basis of a review of three firms under current trends, and of projections for a with-privatization scenario, it is concluded that the project makes economic sense. This is established by relatively high economic internal rates of return for two of the firms. The project is likely to lead to positive and relatively high net economic benefits and private profitability. Moreover, it will have a beneficial impact on fiscal accounts, foreign exchange, and the generation of jobs.

BACKGROUND

Honduras needs to increase its rate of economic growth, enhance its net export potential, achieve a balance of payments which is viable in the long term without reliance on emergency assistance form abroad, reduce its fiscal deficit, and generate productive employment at higher levels of real wages. To achieve these objectives, the country must maintain the momentum of rising private sector investment, foster conditions for entrepreneurial dynamism, and improve the efficiency with which its economic resources are allocated to productive activities.

In principle, the privatization of state-owned enterprises in a way that strengthens competition in Honduran markets could: help correct the overextension of the public sector, thus implying a positive impact on the long-term public budget; contribute to the increase in allocational efficiency in the use of resources; and send the right signal to private investors. Accordingly, it could favorably affect overall production, labor market and trade conditions. This study explores the quantitative significance of such effects.

METHODOLOGY

At the time this analysis was carried out, much was unknown about the shape the privatization process in Honduras was going to take. For example, no clear indication existed about the availability of potential buyers, formulas for sale, or the minimum conditions that would be acceptable to the government. In such context, any study which is built on projections involves a considerable degree of uncertainty. Such situation notwithstanding, the present study's contribution is that it identifies potential effects.

The analysis assesses the impact of privatization through a diversity of measures. One of those measures is the economic internal rate of return (EIRR), that is, the rate of discount that reduces the present value of a

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productive unit's net economic benefits to zero.1/ An internal rate of return higher than a critical value indicates that allocating productive resources to the productive activity being evaluated makes economic sense.2/ As explained below, in the present analysis the calculation of economic internal rates of return is based on a partial measurement of net economic benefits; specifically, the value of foreign exchange and of labor have been adjusted to express their true value to the economy.3/

Another measure of impact used has been the effect privatization makes on the Gross Domestic Product (GDP) originating in the privatized firms. The contribution of privatization to GDP has been measured as the differential between the value added of a state enterprise and an estimate of what the value added could be if that same enterprise were to operate as a private enterprise.4/

Other effects of privatization are also important. One such effect relates to whether the firms to be privatized could be attractive investments for private entrepreneurs. The analysis addresses this issue by examining the private profitability of the firms. Other impacts have to do with the effect of privatization on such key macroeconomic variables as the fiscal budget, foreign exchange earnings and employment. Finally, there is the issue of how many resources should be applied to the privatization of each firm.

1/ Net economic benefits are defined as the difference between the present value of the flow of output and the present value of the flow of costs of the productive unit, both measured using economic prices. Economic prices are prices which reflect the opportunity cost to the economy of allocating resources to a given productive activity rather than to a best alternative use.

2/ The critical value rate of return is an estimate of the opportunity cost of capital in Honduras. A rate of 12% was used as the critical value.

3/ Due to data and time constraints it was not possible to adjust other prices.

4/ Value added is the difference between the value of production and the cost of intermediate or bought-in inputs-- raw materials and outside services, for example. It thus measures the value which a firm adds to the bought-in inputs. The aggregation of value added for all productive units in an economy is nothing else but GDP.

Three CONADI enterprises were evaluated, and the project impact was compared, under two basic scenarios. One scenario assumed that the enterprise continued to operate under present circumstances (no privatization); the other scenario was that the enterprise was fully privatized.1/

The analysis proceeded in two phases. The first phase applied the criteria conventionally used in the economic evaluation of projects - private profitability and internal rate of return, for instance - to gauge the worthiness of privatization and estimate its impact on GDP. The second phase consisted in analyzing the impact on the other selected macroeconomic variables.

The analysis is built on the assumption that once privatized, the present CONADI firms would behave as profit maximizers. They would have to compete in the free market and would have no recourse to financial bailouts by the GOH. The essential implication derived from these assumptions is that under such conditions the firms would be managed efficiently. In addition to the fundamental assumptions, a set of firm-specific assumptions was adopted. The latter assumptions are feasible and realistic. They were established after an evaluation of the firms financial reports and in consultation with the management and technicians of the firms. Essentially, such firm-specific assumptions spell out conditions for becoming competitive and viable, and relate to the following aspects:2/

1. New owners would add resources that would enable the firms to install appropriate equipment and obtain on a timely basis needed raw materials.

2. Achievement by the firms of reduced average production costs through more effective planning, better organization, and better utilization of installed productive capacity.

3. Expansion of sales, in part, through the recovery of lost markets or market shares.

1/ As were it not for their existing interest service burden these firms would show positive profits, the option of liquidating their assets rather than privatizing the firms as production units was not considered in the analysis. Given that, as at present, in the without-privatization scenario the firms would more than cover their variable costs, with a surplus that is applied to cover part of their fixed costs, it makes sense to assume that they continue to operate.

2/ The particular assumptions adopted for each firm are presented below.

As mentioned above, the impact of privatization was assessed through the comparison of two scenarios: (1) continuation of existing conditions, i.e., firms are not privatized; (2) firms are privatized. For each scenario the firms' income statements were projected for five years. Projections for the no-privatization scenario reflect current trends and are based on their management assessment of prospects; the ones for the privatized scenario reflect the impact of the assumptions relating to the achievable and realistic efficiency improvements mentioned above.

The three firms on which the analysis was based were Mejores Alimentos, Productos Lacteos Sula and INACERO. In the next sections, the analysis of these three firms follows the same pattern: first, a brief description of the enterprise and then financial projections for the period 1986-1990 assuming that the enterprise continues to operate under present conditions. Subsequently, the projections for the privatization scenario are presented, along with the assumptions on which they are based. The final sections will review the impact on key macroeconomic variables and summarize the conclusions.

CASE STUDY NO. 1: MEJORES ALIMENTOS

Mejores Alimentos was established in 1973 to produce canned fruits and vegetables. Initially, the company was privately owned. In 1975, CONADI became both the stockholder and creditor of the company. At present, CONADI holds 57.2% of the shares and the company owes CONADI L63.3 million in direct loans, accumulated interest and loan guarantees. Mejores Alimentos currently operates at 34% of capacity and employs 126 workers. The company is profitable operationally, i.e., before the payment of interest, but incurs net losses after such payments.

There are several investment groups interested in the acquisition of Mejores Alimentos. However, as with many of the CONADI enterprises, given the enormous debt burden that the company carries, it is clear that it will have to undergo financial restructuring before it can be put on the market. Also, there are some legal issues pending which will have to be resolved prior to selling the company.

The company finds itself in a precarious financial situation because of poor financial administration and management, consequent high production costs, and loss of its share of the Central American market.

Projections under Existing Conditions (No Privatization)

Table 1 summarizes the expected performance of Mejores Alimentos for the next five years. If the company continues to operate for the next five years as at present, sales are expected to increase only at an annual rate of 3% and the goods would be sold only for local consumption. The cost of operations is also expected to continue to be high which,

together with high interest charges, lead to negative profits. If the interest burden were decreased substantially, the company would experience positive profits.

TABLE 1

MEJORES ALIMENTOS (Not Privatized)
Income Statement

(Thousand of Lempiras)

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Sales (Wholesale value)	24,003	24,723	25,465	26,228	27,015
Distributor Margin	3,600	3,708	3,820	3,934	4,052
Net Sales (a)	20,402	21,014	21,645	22,294	22,963
Cost of Goods Sold					
Materials	9,073	9,345	9,626	9,914	10,212
Direct Labor	1,252	1,290	1,329	1,269	1,410
Direct Utilities	1,080	1,113	1,146	1,180	1,216
Spare Parts	204	210	216	223	230
Other Costs	1,340	1,380	1,421	1,464	1,507
TOTAL	12,949	13,338	13,738	14,150	14,575
Net Production Margin (b)	7,453	7,676	7,907	8,144	8,388
Inventory Costs	120	124	127	131	135
Marketing Costs	168	173	178	184	189
Adm. Overhead	1,344	1,384	1,426	1,469	1,513
TOTAL	1,632	1,681	1,732	1,783	1,837
Net Operation Margin (c)	5,821	5,995	6,175	6,360	6,551
Interest	8,004	8,266	8,538	8,822	9,117
Net Profit Before Taxes	(2,183)	(2,271)	(2,363)	(2,462)	(2,566)

(a) Net sales = sales minus distributor margin.
(b) Net production margin = sales minus the sum of the distributor margin plus the cost of goods sold.
(c) Net operation margin = net production margin minus the sum of inventory, marketing and administration overhead costs.

Projections for the Privatization Scenario

The financial situation after privatization could change considerably on the basis of the following assumptions:

1. The interest burden is reduced since the company is sold for its net asset value, which has been estimated to be L22 million and the new owners would leverage (borrow) 75% of the sales price (L16.5 million).1/ Since current debt is L63.3 million, the interest burden will be reduced by approximately 75%. (Regarding the previously existing debt burden, as is explained below, it is assumed that the GOH uses its share of the sales proceeds to reduce the debt and absorbs the remaining debt. This assumption also holds for Productos Lacteos Sula and INACERO.)

2. The new owners inject into the company a minimum of L2.0 million to be used as working capital which will allow the company to obtain, on a timely basis, raw materials for the manufacture of its products.

3. With efficient management and enough working capital, unit costs would be reduced. The reduction will be achieved in the following ways:

   (a) Adequate planning, working capital and raw materials can lower costs per unit produced at the rate of 1% annually for a period of five years.

   (b) Better organization of production can cause an annual reduction in direct labor costs by 0.2% per unit produced for five years.

   (c) According to studies made on the plant, utility costs can be reduced while production is increased, especially fuel costs. Based on technical opinions of plant engineers, it is considered that an increase of 1% in the use of the installed capacity will result in a decrease in the use of fuel by 0.4% per unit produced.

   (d) If the plant is operated efficiently, the manufacturing overhead will decrease by 0.5% annually per unit produced.

4. Efforts by distributors to sell Mejores Alimentos products are sensitive to their profit margins. Currently, the distributor's margin is 10%. In order for the company to increase its sales in the domestic market, as well as in the Central American market, a higher margin will be granted to the distributor to stimulate effective promotion campaigns. A 15% margin has been assumed.

1/ Sales prices of the firms reflect estimates of the true value of the firms assets. The estimates were derived from independent technical studies (INACERO and Productos Lâcteos Sula), management opinions (INACERO), and the consultants' adjustment of the value declared in books (Mejores Alimentos).

5. With reduced unit costs, expectations that the firm does have a sound financial future, and aggressive marketing by distributors, the firm is able to recover its Central American market, increase its sales by 4.5% per year, and have exports account for 30% of sales.

Table 2 presents the income statement projections for the with privatization scenario.

TABLE 2
MEJORES ALIMENTOS (Privatized)
Income Statement

(Thousand of Lempiras)

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Sales (Wholesale value)	34,290	35,833	37,445	39,130	40,891
Distributor Margin	5,143	5,375	5,617	5,870	6,134
Net Sales	29,147	30,458	31,828	33,260	34,757
Cost of Goods Sold					
Materials	12,962	13,186	13,405	13,617	13,821
Direct Labor	1,790	1,863	1,940	2,019	2,102
Direct Utilities	1,543	1,469	1,385	1,291	1,186
Spare Parts	291	305	318	333	347
Other Costs	1,913	1,820	1,715	1,597	1,464
TOTAL	18,499	18,643	18,763	18,857	18,920
Net Production Margin	10,647	11,814	13,064	14,404	15,837
Inventory Costs	171	179	187	196	204
Marketing Costs	240	251	262	274	285
Adm. Overhead	1,920	2,007	2,097	2,191	2,290
TOTAL	2,331	2,437	2,546	2,661	2,780
Net Operation Margin	8,315	9,377	10,518	11,743	13,057
Interest	1,980	1,788	1,596	1,404	1,212
Net Profit Before Taxes	6,335	7,589	8,922	10,339	11,845
Income Tax	2,398	2,900	3,833	4,000	5,003
Net Profit	3,937	4,689	5,089	6,339	6,842

The following picture emerges. There would be an increase in net sales in year 5, with net sales with privatization exceeding year 5 projections

without privatization by 47%. If Mejores Alimentos follows a determined policy to expand exports, it could expect that in year 5, total exports would amount to L10 million. For year 5 wages and employment under privatization exceed the projection for the no privatization scenario by about 40%. The difference between both sets of projections is summarized in Table 3.

TABLE 3

MEJORES ALIMENTOS
Impact of Privatization
(Thousand of Lempiras)

	NET SALES	OPERATING MARGIN	EXPORTS	SALARIES	NO. OF EMPLOYEES
I. Non-Privatized					
Year 1	20,403	5,820	0	1,252	126
Year 2	21,014	6,995	0	1,290	130
Year 3	21,644	6,175	0	1,329	134
Year 4	22,294	6,360	0	1,369	138
Year 5	22,963	6,551	0	1,410	142
II. Privatized					
Year 1	29,146	8,315	8,744	1,790	180
Year 2	30,458	9,377	9,139	1,863	185
Year 3	31,828	10,518	9,548	1,939	189
Year 4	33,261	11,742	9,979	2,019	194
Year 5	34,757	13,056	10,417	2,012	198
II. Difference between Privatized and Non-privatized					
Year 1	8,743	2,495	8,744	538	54
Year 2	9,444	2,382	9,139	573	55
Year 3	10,104	4,343	9,548	610	50
Year 4	10,967	5,382	9,979	650	56
Year 5	11,794	6,505	10,417	602	56

CASE STUDY NO. 2: PRODUCTOS LACTEOS SULA

The enterprise was established in 1972 to produce dairy products. In 1976, CONADI became a stockholder and now holds 46% of the equity. BANADESA also holds another 46%, and 8% is privately held.

The enterprise functions at 65% of capacity and employs 308 persons, 69 of whom are in administrative positions. The management appears to be weak in the areas of production, finance and marketing. The company is in dire need of raising the skill level of its personnel.

If the company continues to function with its present set-up, it is expected that between 1986 and 1990, the net operating margin will be consistently positive. However, the operating margin is only 4% of sales, which is considered, even by the company's administrators, to be much too low. If, for example, it is compared with the operating margin of LEYDE (a private company located in La Ceiba producing similar products), Lacteos Sula's operating costs are about 10% higher than LEYDE's. In fact, a major weakness of Lacteos Sula can be found in unutilized capacity and the high cost of production; the latter in part stems from the policy of milk purchases, dictated by the government.1/

Projections under Existing Conditions (No Privatization)

The projected income statement, which shows negative net profits, describes the overall picture of the company for the next 5 years without privatization (see Table 4). As with Mejores Alimentos, were it not for the interest burden, the firm would show a positive profit margin.

Projections for the Privatization Scenario

This set of projections is based on the following assumptions:

1. The company would be sold at its net asset value, L17.6 million; the purchaser would leverage up to L13.2 million. This reduces Sula's interest charges since current debt is L15.7 million.

2. The new owner would fund installation of a powdered milk plant at a cost of approximately L3 million.

3. The company would acquire enough milk to run the plant efficiently. This is perfectly achievable since there is enough milk in the country. Moreover, there is a market in Honduras for powdered milk.

4. A professional management of the company could reduce unit costs as follows:

   (a) Raw milk would be purchased according to profit oriented motives rather than for "social" reasons as currently practiced. It is estimated that this change in purchase policy could reduce production costs by 2% annually for a 10% reduction by year 5.

1/ The government requires that during the winter months, the company purchase excess milk. During those months the supply of milk is usually greater than demand which, at present, leads to firm to incur in high storage costs. With a powdered-milk plant in operation the milk could be processed into powder and sold during the summer when non-powdered milk is scarce.

(b) Overhead costs would be maintained at current figures, and would not rise as production increases, since the company is presently overstaffed.

TABLE 4

PRODUCTOS LACTEOS SULA
(Not Privatized)
Income Statement

	(Thousand of Lempiras)				
	1986	1987	1988	1989	1990
Milk	14,591	15,759	17,019	18,381	19,851
Chocolate	2,632	2,895	3,185	3,503	3,853
Powdered Milk	149	164	181	199	219
Butter	8,297	9,126	10,039	11,043	12,147
Cheese	5,255	5,308	5,361	5,415	5,469
Other	8,200	10,004	12,204	14,889	18,165
TOTAL SALES	39,124	43,256	47,989	53,430	59,709
Cost of Goods Sold					
Materials	23,690	26,191	29,057	32,353	36,151
Direct Labor	520	575	638	711	794
Direct Utilities	1,369	1,514	1,680	1,870	2,090
Spare Parts	164	182	202	224	251
Other Costs	1,643	1,817	2,016	2,244	2,508
TOTAL	27,387	30,279	33,592	37,401	41,793
Net Production Margin	11,737	12,977	14,397	16,029	17,911
Inventory Costs	3,560	3,936	4,367	4,862	5,433
Marketing Costs	4,851	5,364	5,951	6,625	7,403
Adm. Overhead	1,800	1,990	2,207	2,458	2,746
TOTAL	10,211	11,290	12,525	13,945	15,583
Net Operation Margin	1,526	1,687	1,872	2,084	2,328
Interest	2,516	2,675	2,833	2,987	3,131
Net Profit	(991)	(988)	(962)	(904)	(803)

Table 5 presents the results of projecting the income statements for the with-privatization scenario under the indicated assumptions. It shows that sales with privatization could exceed sales without privatization in the fifth year by L4.4 million, and as a consequence of this increase, as well as because of the reduction of per unit costs, the operating margin would increase by L10.7 million. As shown in Table 6 which summarizes the differences between both sets of projections, there is a rather small increase in overall salaries and number of employees.

TABLE 5
PRODUCTOS LACTEOS SULA
(Privatized)
Income Statement

(Thousand of Lempiras)

	1986	1987	1988	1989	1990
Milk	14,591	15,759	17,019	18,381	19,851
Chocolate	2,632	2,895	3,185	3,503	3,853
Powdered Milk	149	1,799	2,601	4,235	4,659
Butter	8,297	9,126	10,039	11,043	12,147
Cheese	5,255	5,308	5,361	5,415	5,469
Other	8,200	10,004	12,204	14,889	18,165
TOTAL SALES	39,124	44,890	50,409	57,466	64,144
Cost of Goods Sold					
Materials	23,690	26,553	29,111	32,382	35,247
Direct Labor	520	585	644	719	787
Direct Utilities	1,369	1,540	1694	1,893	2,071
Spare Parts	164	189	212	241	269
Other Costs	1,643	1,848	2,033	2,272	2,485
TOTAL	27,387	30,714	33,695	37,507	40,859
Net Production Margin	11,737	14,177	16,714	19,958	23,285
Inventory Costs	3,560	3,560	3,560	3,560	3,560
Marketing Costs	4,851	4,851	4,851	4,851	4,851
Adm. Overhead	1,800	1,800	1,800	1,800	1,800
TOTAL	10,211	10,211	10,211	10,211	10,211
Net Operation Margin	1,526	3,965	6,503	9,747	13,074
Interest	1,586	1,427	1,057	1,110	952
Net Profit Before Taxes	(60)	2,538	5,446	8,637	12,122
Income Tax	0	880	2,443	3,719	5,115
Profit	(60)	1,658	3,002	4,918	7,006

TABLE 6

PRODUCTOS LACTEOS SULA - Impact of Privatization
(Thousand of Lempiras)

	NET SALES	OPERATING MARGIN	EXPORTS	SALARIES	NO. OF EMPLOYEES
I. Non-Privatized					
Year 1	39,124	1,525	0	520	325
Year 2	43,256	1,786	0	575	360
Year 3	47,989	1,872	0	638	399
Year 4	53,429	2,083	0	710	444
Year 5	59,704	2,328	0	794	496
II. Privatized					
Year 1	39,124	1,525	0	520	325
Year 2	44,890	3,965	0	585	366
Year 3	50,409	6,503	2,000	644	402
Year 4	57,465	9,747	4,000	719	450
Year 5	64,144	13,073	6,000	786	500
III. Difference Between Privatized and Non-privatized					
Year 1	0	0	0	0	0
Year 2	1,634	2,279	0	10	6
Year 3	2,420	4,631	2,000	6	3
Year 4	4,036	7,664	4,000	9	6
Year 5	4,440	10,745	6,00	(8)	4

CASE STUDY NO. 3: INACERO

INACERO was established in 1984 to produce billets and iron bars. It was originally owned by Banco Continental and CONADI under the name of ACEROSA. In 1984, the agreement between the Bank and CONADI led to a restructuring and CONADI became the owner of INACERO, holding 99.97% of the shares. The total liability of the enterprise is slightly less than L14 million, L3.7 million of which is a debt to CONADI.

At present, the enterprise is functioning at less than 50% of capacity, and is operationally profitable. However, as high interest payments exceed the gross profit the enterprise is incurring in net losses.

INACERO's financial problems are due mainly to:

(a) Underutilization of installed capacity. The plant could produce 22,000 tons of billets and 24,000 tons of bars per year. In contrast, it only produces 9,600 and 2,400 tons of billets and bars respectively. In part, the low production reflects and inconsistent supply of scrap metal. It also reflects the fact that CONADI's policy is to use INACERO as a supplier of billets for Aceros Industriales and to keep both companies in operation. This happens in spite of the fact that INACERO can produce iron bars at a lower cost than Aceros Industriales.
(b) INACERO's costs are too high to compete with imported iron bar prices.
(c) The interest burden eliminates any possibility of attaining profits after payment of interest.

Projections under Existing Conditions (No Privatization)

As shown in Table 7, under existing conditions although sales would increase by 42% in 5 years, and net operating margin is positive and increases, the interest burden is so big that tax losses remain at 15% of sales. Without such burden the company would show a net profit.

TABLE 7
I N A C E R O - (Not Privatized)
Income Statement

(Thousand of Lempiras)

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TOTAL SALES	8,856	11,340	12,600	12,600	12,600
Cost of Goods Sold					
Materials	5,690	7,286	8,096	8,096	8,096
Direct Labor	852	1,090	1,212	1,212	1,212
Other Costs	968	1,241	1,380	1,381	1,383
TOTAL	7,510	9,618	10,688	10,689	10,690
Net Production Margin	1,346	1,722	1,912	1,911	1,910
Marketing Costs	53	53	53	53	53
Adm. Overhead	540	680	743	718	731
TOTAL	593	734	797	771	784
Net Operation Margin	753	989	1,116	1,140	1,126
Interest	2,112	2,330	2,545	2,773	3,036
Net Profit Before Taxes	(1,359)	(1,341)	(1,429)	(1,633)	(1,910)

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Projections for the With-Privatization Scenario

This set of projections is based on the following assumptions:

(a) Within 5 years, the enterprise would function at full capacity to produce billets and bars (several previous studies carried out by the Inter-American Development Bank (IDB) and private consulting firms establish this fact).

(b) The enterprise would not increase its administrative staff while production increases.

(c) INACERO could compete with imports.1/

(d) Although the book value appears to be L16.7 million in the balance sheet, the company is sold for its real net asset value of L8 million. INACERO's administration suggests that the real value of the company is about half of the book value; and

(e) The increased capacity utilization would result in a 6% decrease in the unit cost of production.

Table 8 presents the projections for the with-privatization scenario and Table 9 summarizes the differences. One can see that with privatization the operating margin would also increase consistently and in the fifth year would come to 145% of the operating margin without privatization. The increase in labor utilization is small.

1/ While the position taken in this report is that under efficient management the firm would be competitive, this assumption is questionable. The elucidation of this point would require an in-depth study beyond the scope of the present report.

TABLE 8

I N A C E R O

(Privatized)
Income Statement

(Thousand of Lempiras)

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL SALES	12,600	14,280	15,960	17,640	18,480
Cost of Goods Sold					
Materials	8,019	8,907	9,756	10,567	10,849
Direct Labor	1,200	1,333	1,460	1,582	1,624
Other Costs	1,364	1,546	1,728	1,910	2,001
TOTAL	10,584	11,786	12,944	14,059	14,473
Net Production Margin	2,016	2,494	3,016	3,581	4,007
Marketing Costs	76	76	76	76	76
Adm. Overhead	769	871	974	1,076	127
TOTAL	844	947	1,0149	1,152	203
Net Operation Margin	1,172	1,547	1,967	2,430	3,804
Interest	720	648	576	504	432
Net Profit Before Taxes	452	899	1,391	1,926	3,372
Income Tax	82	230	421	634	814
Profit	370	669	970	1,292	2,558

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TABLE 9

I N A C E R O

Impact of Privatization
(Thousand of Lempiras)

	NET SALES	OPERATING MARGIN	EXPORTS	SALARIES	NO. OF EMPLOYEES	LOCAL RAW MATERIAL
I. Non-Privatized						
Year 1	8,856	752	0	852	142	5,552
Year 2	11,340	988	0	1,090	182	5,828
Year 3	12,600	1,115	0	1,211	202	6,476
Year 4	12,600	1,139	0	1,211	202	6,476
Year 5	12,600	1,125	0	1,211	202	6,476
II. Privatized						
Year 1	12,600	1,172	0	1,200	150	6,415
Year 2	14,280	1,547	0	1,333	167	7,124
Year 3	15,960	1,966	0	1,460	183	7,800
Year 4	17,640	2,429	0	1,582	198	8,454
Year 5	18,480	2,803	0	1,624	203	8,678
III. Difference Between Privatized and Non-privatized						
Year 1	3,744	420	0	348	8	1,863
Year 2	2,940	559	0	243	15	1,296
Year 3	3,360	851	0	249	19	1,324
Year 4	5,040	1,290	0	371	4	1,978
Year 5	5,880	1,678	0	413	1	2,202

OVERALL IMPACT ON SELECTED FIRM LEVEL VARIABLES

As shown in Table 10, once forced to compete and under efficient management, the firms could expand sales, achieve wider net operating margins (i.e., sales minus all costs except interest) and higher positive profits.

SUMMARY CRITERIA OF WORTHINESS AND THE ALLOCATION OF PROJECT RESOURCES

These criteria are summary measures of a project worthiness either from a private or economic viewpoint. From a private perspective project worthiness means that a project is an attractive investment for entrepreneurs who would consider investing in it. As used in this study, worthiness from an economic perspective means that an investment is worthwhile from the perspective of the country (not of particular individuals).

TABLE 10

PRIVATIZATION: PROJECT INCREASES IN NET SALES, OPERATING MARGIN AND AFTER-TAX PROFITS (a)

(Thousand 1985 Lempiras)

	Net Sales (b)	Net Operating Margin (c)	Net Profit After Taxes (d)
Year 1	12487	2915	8780
Year 2	14018	5220	11616
Year 3	15964	9825	13815
Year 4	20040	14336	17548
Year 5	22114	18928	21685
TOTAL	84623	51224	73444

NOTES:

(a) Combined results for Mejores Alimentos, Productos Lacteos and INACERO.
(b) Net sales figures are arrived at by subtracting the distributor margin from sales proceeds.

(c) Net operating margin was defined as sales proceeds minus all income statement costs except the payment of interest and taxes.
(d) According to projections, in the without-privatization scenario the three companies would have shown negative net profits before taxes for all years. In contrast, in the with-privatization scenario the companies show positive net profits after taxes. In this light, the figures in this column are the absolute differences between negative net profits before privatization and the positive net profits after privatization. These figures are thus a combination of loss reduction plus actual positive profits. As explained in the text, the sale of the firms by the GOH is taken to entail a substantial reduction in the interest payment burden of the firms. By itself such substantial reduction in interest payments would give rise to a positive profit before taxes.

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Already the previous sections have provided the answer to how attractive would the firms be from a private perspective. The negative before tax profits prior to privatization show that the firms were not attractive or viable investments from a private perspective; in contrast, under the projections established for the with-privatization scenario, the firms are viable and potentially attractive investments. The switch from being money losers to money earners is summarized in Table 11 by without-privatization negative simple rates of profits which range from -1.3 to -15.2%, and which change in the with-privatization scenario to positive rates ranging from 13.8 to 29.0%.

The worthiness of the enterprises as private investments after privatization is better reflected by the financial internal rates of return, a more comprehensive measure of profitability. Such rates range from 13.1 to 26.2%.1/

A different perspective is provided by the present value of the net value added flows attributed to each firm for a 5-year time horizon. As indicated in a previous section, such measure indicates the present value of future contributions by the firms to gross domestic product (GDP). One would expect that if privatization has a strong beneficial impact on productive activities the firms' contributions to GDP would rise. The table indicates that such is the case. The present value of GDP originating in the firms rises from L58.280 million prior to privatization, to L94.189 million with privatization, an increase of over 60%.

1/ Unless otherwise indicated the time horizon considered for the calculation of the internal rates of return is 5 years. The use of a 5-year time horizon is a very conservative estimation procedure in that, under the assumptions used, a longer time horizon would result in higher rates. One would think that, given the current situation in Central America, investors operate with a relatively short time frame. Because of this perception, and to make the estimates even more conservative, the "salvage value" of the assets at the end of the 5-year horizon has been written down to zero.

While a detailed sensitivity analysis was not performed in this study, the internal rate of return results are highly sensitive to changes in the time horizon. Given the assumptions, only a 1-2 year extension of the time horizon causes a substantial increase in the rates. Furthermore, it is likely that financial profitability is highly sensitive to changes in the cost-per-unit and sales assumptions. The latter underline the importance of efficient management.

TABLE 11
SUMMARY MEASURES OF PROJECT WORTHINESS

	WITHOUT PRIVATIZATION		WITH PRIVATIZATION			
	Present Value of Value Added (Five Year Horizon; in Thousand 1985 Lempiras)	Profit as a Percentage of Sales	Present Value of Value Added (Five Year Horizon; in Thousand 1985 Lempiras)	Profit as a Percentage of Sales	Financial Internal Rate of Return (Percent)	Economic Internal Rate of Return (Percent)
MEJORES ALIMENTOS	26898	-9.5	44192	29.0	16.2	[illegible]
PRODUCTOS LACTEOS SULA	23820	-1.3	38085	16.9	[illegible]	[illegible]
INACERO	7562	-15.2	11912	13.8	13.[illegible] (b)	[illegible]
T O T A L	58280		94189			

(a) Calculated for year 5. It is defined as net profits before taxes divided by sales.
(b) For a time horizon of 7 years (see text).
(c) For a time horizon of 8 years (see text).

From an economic viewpoint, the economic internal rates of return (ERRs) are the appropriate indicator of the worthiness of the enterprise as investments. Such rates were calculated after valuing foreign exchange at a price (i.e., a foreign exchange rate) which better represents the value of foreign exchange for Honduras ($1=L2.5 rather than the official rate of $1=L2). Analogously, the financial price of labor was adjusted downward to better reflect existing open unemployment rates in Honduras (estimated at 14%). The economic price of labor was estimated at 86% of its financial price.

The results show a high internal rate of return for Mejores Alimentos (29%) and a relatively high rate for Productos Lacteos Sula (14%). The rate for INACERO for a 5-year period is negative.1/

These results suggest that the society does well in allocating scarce productive resources to Mejores Alimentos and to Productos Lacteos Sula. The case of INACERO however is less clear. The low rates of return for INACERO suggest that the society would be better off if it allocated its resources to other productive activities. On the other hand, as indicated, the use of a longer time horizon for INACERO might be advisable. Nonetheless, while the generalized opinion is that Mejores Alimentos and Productos Lacteos Sula have a potential for being competitive in an unprotected setting, the opinions regarding INACERO are divided. It is quite possible that with less protection the firm could not survive on its own. This was not analyzed.

The ERRs can be useful as a criterion for allocating the project resources. As explained in other sections of the present document, AID and the GOH will apply resources to help carry out the privatization of these and other CONADI firms. As those resources are limited it is relevant to ask up to what point will the project be justified in using resources toward the privatization of a particular enterprise?

The high rate of economic return for Mejores Alimentos justifies the allocation of a relatively high proportion of resources toward its privatization. Productos Lacteos Sula also merits the allocation of resources toward its privatization, but less than Mejores Alimentos. It is harder to justify allocating resources to the privatization of INACERO. Accordingly, it is recommended that the resources allocated for the privatization of INACERO be held to a minimum.

1/ One should note that INACERO restarted operations as recently as 1984 after being shut for approximately three years and has been producing at low levels of capacity. The choice of a 5-year time horizon for the evaluation of INACERO might be excessively low -- for example, if the time horizon is extended to 10 years, the rate becomes +14%.

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It is possible to be more precise regarding the maximum amount of resources that, from an economic viewpoint, one could justify allocating to these enterprises for privatization. The approach consists in determining how many additional resources spent on the firms would be necessary to bring the ERRs down to the marginally acceptable levels. It is possible to argue that, at the minimum, one should expect in Honduras a real return of 12% from investment. For Mejores Alimentos it would take a L4 million investment for the economic rate of return to fall to 12%, for Productos Lacteos Sula a L1 million investment would do it. Accordingly, it is sensible to argue that no more than approximately the indicated amounts should be allocated to the privatization of each firm. It makes sense also to conclude that one can justify allocating to Mejores Alimentos four times as much as to Productos Lacteos.

Impact on the Other Macroeoconomic Variables

Employment Effect

None of three enterprises is labor intensive. Direct employment creation for the five year horizon was measured by determining, under the projections presented above, the increase in total labor costs that would take place if the firms were privatized, and dividing such increase by an estimate of the average labor cost. It was estimated that 352 jobs would be created in the three firms during the five years following privatization.

Impact on the Fiscal Accounts

Tax revenues should increase as a result of greater profits and sales tax revenues. The point can be illustrated with a best case scenario: the enterprises are sold on a cash basis and the GOH applies its portion of the sale proceeds to reduce the debt with third parties. In that scenario a significant positive impact on the fiscal accounts is shown possible. Table 12 shows how the application of the sales proceeds affect the size of the government debt. It indicates that, under the example, the remaining debt to be serviced by the government falls from L79 million to L49 million.

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TABLE 12

APPLICATION OF SALES PROCEEDS TO THE DEBT OF PRIVATIZED FIRMS

(Thousands of Lempiras)

	Debt Prior to Privatization	Sales Price	Sales Proceeds Applied to Debt Reduction	Remaining Debt to be Serviced by the GOH
Mejores Alimentos	63,200	22,000	22,000 (a)	41,200
Productos Lâcteos Sula	12,200	16,620	7,645 (b)	4,555
INACERO	3,697	8,000	0 (c)	3,697
TOTAL	L79,097			L49,452

(a) Given that CONADI owns 57.2% of the shares, that total liabilities surpass by far total assets, and that the firm owes CONADI L63.2 million, essentially being its sole creditor, it was assumed that CONADI receives all of the proceeds.

(b) CONADI receives and applies 46% of the proceeds, that is, the same proportion of its share in the stocks.

(c) CONADI does not receive anything from the sale of this company because the first mortgage belongs to Banco Continental.

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The following table summarizes the potential impact on the public budget assuming that the government absorbs the debt that remains after the application of the sale proceeds, and that such remaining debt is serviced at an average rate of interest of 10% for the next five years.

As can be seen from Table 13, during the first five years the government pays L14.8 million less interest, and also collects 36.7 million Lempiras as taxes, bringing the total gain of the government to the level of 51.5 million Lempiras.1/

TABLE 13

POTENTIAL PROJECT IMPACT ON PUBLIC BUDGET

(1985 Thousand Lempiras)

Year	Debt Service Without Priv.(a)	Debt Service After Priv. (b)	Decrease in Debt Service After Priv.	Increase in Tax Receipts After Priv.
1	7,910	4,945	2,965	3,072
2	7,910	4,945	2,965	4,711
3	7,910	4,945	2,965	7,495
4	7,910	4,945	2,965	9,354
5	7,910	4,945	2,965	12,038
TOTAL	39,550	24,725	14,825	36,669

(a) Calculated as 10% of total debt prior to privatization (L79.1 million). See previous table.
(b) Calculated as 10% of debt remaining after privatization (L49.5 million). See previous table.

While the assumption of a substantial initial cash payment is a very optimistic scenario, nonetheless, the basic implications hold. The GOH could apply any initial cash payment toward the reduction of its debt and thus decrease its future service payments. Moreover, even if there is no initial payment, commercial paper could be discounted giving rise to cash or credits, or the eventual payments made to the government could be

1/ Under Honduran Law, and given certain conditions, firms in manufacturing which reinvest their profits may claim a credit against taxable profits for the amount of profits reinvested. The present analysis assumes that profits are distributed not reinvested. If profits were reinvested the current tax base and proceeds would be reduced. Nonetheless, reinvestment should eventually lead to higher profits and tax proceeds.

applied to servicing the debt. In any case, privatization is likely to have a positive fiscal impact through enhanced tax receipts and, of course, the GOH would unencumber itself of what at present are money losing enterprises. 1/

Foreign Exchange Earnings

The direct imports and exports of each enterprise were calculated before and after privatization The difference was taken as the net foreign exchange gain. In the case of Mejores Alimentos, the total net gain amounted to L36.2 million. For Lacteos Sula, the net gain amounted to L11.9 million; and in the case of INACERO, the expansion of production was assumed to be substituting imports and hence, it was considered to have net direct effect on balance of payments. Net gain created by INACERO was assumed to be L19.7 million. The sum of the total gain for the first five years of privatization, therefore, is estimated to be L67.8 million. On the basis of the real economic value of foreign exchange (i.e., a shadow rate of $1=L2.5) this amount is equivalent to US$27.1 million.

Conclusions

The economic rate of return analysis shows that the net economic benefits from privatization could be substantial and, therefore, the project makes economic sense. The review of trends and problems in the Honduran economy indicated a need for faster economic growth, decreasing the fiscal deficit, expanding its export potential, and generating productive employment at higher levels of real wages. It also underlined the need for higher private sector investment, entrepreneurial dynamism, and a more efficient allocation of its productive resources. The present study's examination of the project's potential impact on private profitability, GDP, the fiscal accounts, employment and foreign exchange, shows that the privatization of state owned or controlled enterprises, in a setting that induces competition, is a policy move which has a potential for substantially contributing to such objectives.

1/ The following point is worth noting. The foreign debt of the set of three companies analyzed in the economic study is relatively small; it is estimated at between 3 to7% of the total debt of the companies. For most of the CONADI enterprises the foreign debt is a small proportion of their debts. Up to December 31, 1985, of CONADI's guarantees to foreign institutions in behalf of Honduran firms, some 76% were concentrated in nine firms.

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PROCEDURE FOR DIVESTITURE BY PUBLIC AUCTION

ACCORDING TO LAW 161 85

RESPONSIBILITY	ACTION
The Corporation	1. Conducts technical and financial studies of subject company.
	2. Establishes conditions of sale including minimum sales price.
	3. Submits to Valuation Commission.
Valuation Commission	4. Reviews conditions of sale and minimum sales price.
	5. Approves conditions of sale and minimum sales price.
	5(a) If disapproves, returns to the Corporation with recommendations for change (Step 1)
	6. Returns to the Corporation.
The Corporation	7. Submits conditions of sale and minimum sales price to the Board of Directors.
Board of Directors	8. Approves conditions of sale and minimum sales price by simple majority vote.
	8(a) If disapproves or modifies, returns to the Corporation with recommendations for change (Step 1). May require a new valuation.
	9. Determines whether the public announcement should appear in foreign publications.
	10. Returns conditions of sale and sales price to the Corporation.

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The Corporation	11.	Prepares public announcement of auction.
	12.	Submits public announcement to the following publications: - "La Gaceta" (once) - At least two major daily newspapers in Honduras. (NOTE: If value of sale is less than Lps. 500,000, the local announcement should appear twice with 3 day intervals between announcements. If the value exceeds Lps. 500,000, the local announcement must appear 4 times. - One or more foreign publications, if authorized by the Board of Directors.
Interested Party	13.	Reads public announcement.
	14.	Sends letter of interest and registration fee to the Corporation.
The Corporation	15.	Sends copy of company "prospectus" to all Interested Parties.
Interested Party	16.	Submits offers containing information requested in "prospectus."
Executive President	17.	Opens sealed bids in presence of witnesses and observers at a predetermined place and time.
Representative of the Superintendency of Banks, BCH	18.	Witnesses opening.
Representative of the Directorate General of Adm. Probity	18.	Witnesses opening.
Representative from CONADI Board of Directors	18.	Witnesses opening.

General Purchasing Office of Honduras	18. Witnesses opening.
Executive President	19. Determines if offer meets conditions established in public announcement and in "prospectus." 19(a) If conditions are not met, disqualifies offer.
	20. Determines if Interested Parties represent shareholders, cooperatives or companies established by workers of the company to be sold. 20(a) Determines if these groups have a real interest and the financial capacity to acquire the subject company. 20(b) Gives preference to these groups if conditions in 20(a) are met.
	21. Determines if Interested Parties directly or indirectly represent public functionaries, state-owned companies, members of the Board of Directors, or members of the Valuation Commission. 21(a) If any of these conditions are met, disqualifies offer.
	22. Determines whether offer(s) should be submitted to the Valuation Commission for consideration. 22(a) If not submitted, go to Step 25.
	23. Sends offer(s) to Valuation Commission.
Valuation Commission	24. Reviews all offers submitted.

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	25.	Submits analysis and recommendations to the Corporation within 30 days of opening of offers.
Executive President	25.	Selects best offer subject to the considerations in Steps 19-24.
		25(a) If no offers are selected, repeats public auction within 90 days. (Go to Step 8).
Notary Public	26.	Attests to public auction results.
Executive President	27.	Sends public auction results and recommendations concerning sale to the Board of Directors.
Board of Directors	28.	Approves terms of sale.
		28(a) If disapproves, repeats public auction within 90 days. (Go to Step 8)
	29.	Announces selection results and awards sale to Interested Party at a public meeting.
Interested Party (not selected)	30.	If not satisfied with selection results, appeals decision to Executive President.
Executive President	31.	Refers appeal to the Ad-Hoc Appeals Tribunal.

PROCEDURE FOR DIVESTITURE BY DIRECT NEGOTIATION

ACCORDING TO LAW 161-85

REPSONSIBILITY	ACTION
The Corporation	1. Conducts technical and financial studies of subject company.
	2. Establishes conditions of sale including minimum sales price.
	3. Recommends direct negotiations as desired sales strategy.
	3. Submits recomme. dation to Valuation Commission.
Valuation Commission	4. Reviews sales strategy, conditions of sale and minimum sales price.
	5(a) If disapproves, returns to the Corporation with recommendations for change (Go to Step 1)
	6. Returns to the Corporation.
The Corporation	7. Submits sales strategy, conditions of sale and minimum sales price to the Board of Directors.
Board of Directors	8. Resolves unanimously to utilize direct negotiations as preferred sales strategy.
	9. Approves conditions of sales and minimum sales price.
	8(a) If disapproves or modifies, returns to he Corporation with recommendations for change (Step 1). May require a new valuation.

	10.	Designates the members of the Negotiating Commission by unanimous vote.
Negotiating Committee	11.	Conducts negotiations with Interested Parties.
	12.	Recommends final sales price and conditions of sale to the Board of Directors.
Board of Directors	13.	Accepts recommendation of Negotiating Commission by unanimous vote.
	13(a)	If unacceptable, rejects recommendation and returns to Neogiating Commission. (Go to Step 11)
	14.	Authorizes the final terms of sale.
The Corporation	15.	Arranges for Terms of Contract to be published as follows:
		- In "La Gaceta" three times within 10 days of authorization of sale.
	16.	Notifies Procuraduria General de la Republica of the terms of sale approved by the Board of Directors within 10 days of such approval.
Procuradoria General de la Republica	17.	Accepts terms of sale within three working days of last announcement of sales contract in "La Gaceta."
	17(a)	If terms of sale are judged unacceptable, opposes sale before the Board of Directors within three working days of the last announcement of the sales contract in "La Gaceta." (Go to Step 13)
	18.	Returns to Board of Directors.

Board of Directors	19.	Instructs the Corporation to prepare final sales contract.
The Corporation	20.	Prepares final sales contract and sends to Executive President.
Executive President	21.	Formalizes sales contract if no opposition is registered as discussed under Step 17.

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ILLUSTRATIVE IMPLEMENTATION

STEPS IN THE SALE OF CONADI'S ENTERPRISES

Assumptions:

- A Master Plan to carry out the divestiture of CONADI's enterprises has been developed stablishing the criteria to determine whether to proceed with direct negociations with potential buyers or to auction the assets and which companies to target on a priority basis.

- Profiles and in-depth analyses of all early divestiture candidate companies have been developed which would allow the Board of Directors with PTU assistance to select a given company for immediate action.

Steps:

1. Board of Directors requests the staff of CONADI with PTU assistance to undertake an in-depth analysis of the candidate company in those cases where it has not already been done.

2. The staff of CONADI and the PTU prepare the "technical-economic" study called for in Law 161-85 as basis for actions and decisions.

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3. The staff of CONADI with PTU assistance prepare a Plan and carry out the restructuring measures resulting from the technical-economic study and as approved by the Board of Directors.

4. Specialized consultants under PTC direction perform a technical-financial valuation of the enterprise.

5. The Valuation Commission established by Law 161-85 reviews the technical-financial valuation (Step 4) and determines terms and conditions of sale and submits recommendations to the Board of Directors.

6. On the basis of the recommendations of the Valuation Commission, the Board of Directors instructs the PTU and the staff of CONADI to prepare a "divestiture/sales plan".

7. The PTU begins to identify and communicate with potential buyers on the basis of the approved sales plan (Step 6).

8. The sales plan referred to in step 6 addresses the issue of direct negotiation versus auction. The Board of Directors makes a decision and informs the PTC and other agencies as called for by Law 161-85 (See following steps).

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If assets are to be auctioned (non operating foreclosed companies)

1. Board of Directors requests staff with PTU assistance to prepare terms of reference in conformity with the Valuation Commissions recomendations, for the auction and in order to publish the required invitations.

2. On the appointed day the President of CONADI convenes offerors and witnesses to a public act (defined by Law 161-85) where all bids received are acknowledged.

3. The staff of CONADI with PTU assistance reviews and evaluates the bids received and prepares recommendations to the Board of Directors.

4. The Board of Directors decides the award of the auction and instructs the President to convene a public hearing to make the award known. If the Board of Directors on the recommendation of the staff and the PTO decides that the offers received do not adequately meet the requirements of the terms of reference, the auction is declared invalid and the process is repeated within the following 90 days as called for in the divestiture law.* If unsuccessful in the second instance the Board reviews its decision and instructs

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*subject to possible changes in the terms of reference.

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the President to proceed with direct negotiations.

5. If an offer is accepted, after public notice (see step 4), the offeror is called to formalize the transfer as jointly planned with the staff of CONADI with PTU assistance.

6. If an offeror wishes to protest an award decision, the offeror will submit in writing a request for review by an "ad hoc Tribunal" to be convened as prescribed in the divestiture law. The Tribunal must render judgement within days instructing CONADI to revise its decision and repeat the process or to proceed as earlier decided.

<u>If the assets or the ongoing enterprise are to be sold through direct negotiations.</u>

1. The Board of Directors in consultation with the TFC names a negotiation commission.

2. The Negotiation Commission with PTU assistance identifies the potential buyers and the sales strategy it wishes to pursue in each care.

3. The Negotiation Commission with PTU assistance approaches one potential buyer at the time after carefully deciding on the

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approach and the parameters for the terms and conditions.

4. Once a deal is struck, the Negotiation Commission with PTU assistance and recommendations to the Board of Directors.

5. After review by the Board of Directors in consultation with the TFC, either the sale is authorized as recommended or the Negotiating Commission is instructed to attempt to modify the terms and conditions of sale.

6. If the sale is authorized, the staff of CONADI with PTU assistance develops the transfer plan and contrac reflecting the negotiated terms as approved by the Board of Directors.

7. As mandated by the divestiture law, CONADI publishes the terms of the contract and submits them to the "Attorney General". If no objections are raised , the sale is formalized; otherwise the process is repeated and revised as required.

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PORTFOLIO OF SOE'S: POTENTIAL INVESTORS AND THEIR PRESUMED MOTIVES

BUYERS:	MOTIVES: TO GAIN COMPLETE CONTROL (ALREADY OWN PART)	(1) TO GAIN A STAKE IN THEIR WORK	TO ENHANCE COLLECTIBILITY OF UNPAID DEBT	TO AUGMENT OR COMPLEMENT CURRENT MARKET POSITION	TO GAIN EXPORT QUALIFICATION	TO ACQUIRE AN ASSET CHEAPLY AND MAKE IT PROFITABLE	(2) TO DIVERSIFY THEIR RISKS	(3) HAVE EXCESS CASH
CURRENT SHAREHOLDERS	X							
LOCAL INVESTOR GROUPS						X		
FONDO PREV MILITAR						X		X
LABOR		X						
SUPPLIERS		X		X				
LOCAL COMPETITORS				X				
OUTSIDE CREDITORS			X					
OTHER LATIN COMPANIES					X	X	X	
OTHER FOREIGNERS					X			
LOCAL SUBSIDS OF MULTINATS				X				

(1) Presumes a profitable company

(2) Guatemalans, for ex., have expressed rationale of investing in Honduras as: "to be in 2 countries , at least".

(3) Local currency blocked funds not easily, if at all, repatriateable

ANNEX [illegible]

ILLUSTRATIVE ESTIMATE OF PROFITS FROM

PRIVATIZATION SUPPORT MECHANISMS

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	0	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	50,000
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	0	0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	10,000,000	[illegible]	11,000,[illegible]	[illegible],000 *	0	0	0	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	550,000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	500,000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	500,000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* [illegible]

Best Available Document

C.1 HISTORICAL PROFILE OF MEJORES ALIMENTOS

A. Introduction

The company Mejores Alimentos de Honduras (MALI) was established on early 1971 to process fruits and vegetables to supply the Honduran market and export to other countries in Central America. The company's processing plant was initially installed in Tegucigalpa, subsequently moved to San Pedro Sula, and finally located in the Comayagua valley. In late 1972, the owners of MALI considered necessary to establish another firm to produce the agricultural crops (principally tomatoes) needed by the processing plant, to reduce dependence on the erratic and uncertain quality of small scale farmers, and also to play a price stabilizing role in the domestic tomato market. Over the years, MALI and AGRICOLA have operated as one vertically integrated company, under the control of the same management group.

B. Ownership

At the time of its inception, MALI was 99 per cent owned by Quimicas Dinant, a Honduran company producing biochemical products. However, three years later, ownership was transferred to Comercial e Inversiones Galaxia (GALAXIA), a holding company belonging to the Facussé family. In 1978, CONADI became the principal owner of the company, controlling almost 60 per cent of the stock. The most recent modification of MALI's capital structure took place on February 27, 1986. In a meeting held on this date it was decided to first reduce the company's stock value to L. 25,000 (the minimum permitted by law), and subsequently to increase it to a minimum of L. 22.1 and to a maximum of L 30.0 million. Because it is expected that the increased stock levels will be attained principally by capitalizing CONADI debts, the Corporation is likely to become the sole owner of the company.

C. CONADI's Participation

In 1975, the Galaxia Group reached an agreement with CONADI under which the Corporation would take control of MALI and AGRICOLA, to stop the rapidly deteriorating financial condition of the companies, and to give the private owners some leeway to design a more effective operating strategy and find additional resources to complete development of the agroindustrial complex. Beginning in 1976, CONADI provided strong financial support to MALI. In turn, MALI provided resources to AGRICOLA to fund infrastructure investments and operating capital. At the end of this same year, CONADI bought from the BCIE credits granted to MALI and AGRICOLA. By May, 1981 CONADI had become the only creditor of the company, with an aggregate risk of L. 35 million.

As a consequence of this, as the United Nations Development Program (UNDP) experts Roux and Luque have pointed out, CONADI assumed the dual role of principal shareholder and principal creditor of the companies, a situation that entailed a serious conflict of interests and objectives.* During the

* Agustín F. Roux y Alberto Luque. Informe sobre el Grupo Agroindustrial Mejores Alimentos, Agrícola de Honduras. Programa de la Naciones Unidas para el Desarrollo. 14 de Noviembre de 1983.

1976-1981 period, this conflict was resolved in favour of the private owners (Galaxia Group), as key decisions were taken by them in detriment of both the companies and CONADI.

The period in which MALI was under CONADI administration is characterized by a sizable expansion in output level and sales, attained by major financial injections by the Corporation. Sales increased from L. 6 to 21 million per year, and output reached one million boxes (each box containing 96 6 oz. cans) in 1978-79. The liberal investment and expenditure practices of the company's public sector management resulted in overinvestment in physical facilities, machinery and equipment. Nevertheless, in spite of the design deficiencies, over-expansion, growing unsold inventories, and a series of administrative problems, MALI was able to generate operating profits of approximately 16 per cent of sales in 1981. Obviously, these profits occurred because the company was defaulting on its financial compromises.

Deeply worried by the mounting operating losses and worsening financial situation of the companies, in 1981 CONADI decided on privatization of the companies by selling its shares to the Galaxia Group. To facilitate this transfer, the Corporation agreed to refinance the debt of both companies over a 7 year period and open a new L. 12 million credit line. The fulfillment of these conditions was held subject to several clauses to be met by the Galaxia Group. However, because CONADI was unable to open this credit line, as the Government of Honduras, based on recommendations made by the World Bank, froze any new disbursement activities by the Corporation. This led to a complex legal battle between the private group and the Corporation, each party trying to prove that the other had violated the agreement. As this legal confrontation took place, and during a period of approximately three years, the private entreprenears controlling the company refused to honor their financial commitments with the Corporation.

During this period of control of the companies by the Galaxia Group, both MALI and AGRICOLA were operated not as companies but as a cost center for the Galaxia holding (Roux and Luque, op. cit., p.6). Under this arrangement, decisions were taken to benefit the holding, oftentimes in detriment of the companies. This situation, which accelerated the financial deterioration of MALI and AGRICOLA, consisted of a series of actions which can be illustrated as follows:

(1) The Galaxia Group introduced into the Guatemalan market juices and nectars produced by MALI, at prices below cost as part of a promotional effort for its Guatemalan products, which entailed a loss for MALI of about L.800,000;

(2) In June 1981, the private owners modified the terms of payment to MALI by the GALAXIA distribution company, extending the period from 60 to 180 days with no interest charge (this entailed a loss of at least L.1 million per year to MALI);

(3) Using the practice of subcontracting, GALAXIA ordered the production of new brands (such as Del Frutto [illegible] and Savage) at prices which did not cover operating costs;

(4) MALI was induced to purchase excessive quantities of certain products, such as Jalapeno Peppers, produced by other GALAXIA affiliates;

(5) GALAXIA tied MALI to a very expensive marketing contract, including the payment of commissions and royalties, and fees for technical assistance. The actual distributor's commission charged by GALAXIA to MALI equalled 21 per cent, even though according to the exclusive contract it should have been no higher than 15 per cent.

(6) GALAXIA began paying MALI with commercial drafts, which were left to accumulate unpaid (by May 31, 1986 the value of these unpaid drafts equaled L. 14.7 million);

(7) GALAXIA employed inputs and machinery owned by AGRICOLA to perform agricultural work in other farms, without making any payment.

As a consequence of these practices, as well as inept management, by mid-1983, according to CONADI books, the total debt of MALI and AGRICOLA had reached L. 48 million.

In 1982, GALAXIA decided to sell the lands of AGRICOLA, as the Corporation decided to liberate the mortgages existing over these assets. This action was supported by the Executive Vice-president of CONADI, who clearly exceeded his faculties for this type of decisions. The lands were sold to other companies in the Galaxia Group, functioning under the names of Cultivos del Huerto, Agropecuaria Comayagua, and Cultivos Palmerola. The sale price equaled L. 4,443,000.oo, the book value of AGRICOLA. This sale was revoked in April 1984, but CONADI made a mistake in not settling a series of debts that were incurred by Galaxia using the name of AGRICOLA (equaling approximately L.1.7 million), which will probably have to be paid by the Corporation.

In August 1984, CONADI succeeded in having the Courts appoint a Judicial Interventor, Mr. René Durón, to control cash movements in MALI and AGRICOLA. The Interventor initiated his functions with great enthusiasm and dynamism, and after identifying a series of irregularities in the management of MALI and AGRICOLA, began to take corrective measures. Two days after his arrival he asked and obtained permission from the Courts to stop sales on credit, and was also given broad authority to participate in the administration of the company. In this manner, among other accomplishments, he was able to channel company funds through bank accounts that belonged to MALI and AGRICOLA and not to the Galaxia Group, as had been done during several years. He also carried out a long struggle to avoid having to market MALI's products exclusively through GALAXIA, demonstrating a series of contract violations on the part of the private group, which negatively affected MALI. This struggle finally succeeded when the Courts authorized the use of alternative marketing channels and CONADI provided a L. 1 million letter of guarantee, to protect the company from a legal suit for damages that was subsequently initiated by Galaxia.

In December 1984, CONADI assigned one of its employees to occupy the position of General Manager of MALI. However, this person was unable to reverse the financial deterioration of MALI and AGRICOLA. Consequently, in August, 1985

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the Administrative Council of MALI named René Durón as General Manager of MALI. Under the administration of Mr. Durón, a number of corrective actions have been taken in MALI, which have significantly reversed its operating conditions. These actions include

(1) The exclusive distribution contract that handcuffed MALI to GALAXIA has been terminated, with the support of an authorization provided by the Courts, and a L. 1 million bond of guarantee by CONADI;

(2) Supernumerary workers and overtime compensations have been drastically reduced. As an illustration of this, because of improved production scheduling, seasonal employment has been reduced from 200 to 35.

(3) Strict security measures have been taken to prevent employee theft, which is considered to have caused major losses during the GALAXIA administration;

(4) Sales on credit have been terminated, all buyers paying now in cash or with certified checks;

(5) Overall productivity has increased as a result of improved salaries and supervision, and the adoption of a democratic and participatory management style.

As a result of these measures, both companies are showing operating profits for the first time in many years. Specifically, MALI is expected to yield a net operating profit of approximately L. 7.2 million in 1986, not considering debt payments. Because of this, since August 1985 and until mid-1986 MALI had paid CONADI L. 2.2 million to cover interest charges on its debt. It should be noted that because of the sizable debts of MALI (L. 9.1 million per year in 1984), in spite of its much improved operating performance, and the payment of more than L. 2.2 million to CONADI during the last year, the company has not yet been able to reduce the amounts owed to the Corporation.

D. Legal Situation

At present, MALI faces a series of legal problems, mainly with the Galaxia Group. These problems include the following:

(1) A lawsuit was filed by the firm against GALAXIA in connection with the use of the Natura's trademark, under which MALI markets its products. Even though there are documents indicating that GALAXIA sold the label to M[illegible], the private group charged L. 200,000 per year to the company for the use of the trademark. The value of the trademark has been set at L. 1 million.

(2) Another existing legal conflict faced by MALI refers to an accumulated debt of around L. 16 million, associated to payments for products delivered by MALI to GALAXIA during the years 1981 - 1984, under the previously indicated marketing arrangements.

(3) There is a L. 17 million damage claim presented by the Galaxia Group against MALI, as compensation for MALI's unilateral termination of its exclusive distribution contract with GALAXIA.

E. Commentary

The analysis of the MALI and AGRICOLA reveals a series of features about CONADI and a private sector group, which have contributed to the situation of financial bankrupcy of both companies. The principal of such features are the following:

(1) The institutional weakness of CONADI to take appropiate action concerning investments and the adoption of corrective measures in MALI and AGRICOLA. As Roux and Luque have pointed out, until 1981 CONADI was imprudent in the concession and control of funds provided to MALI. After the privatization of the company in 1981, CONADI was negligent in solving the confusion created by the transfer to GALAXIA, and in defending the Corporation's interests of the private group's predatory tactics over a three-year period (op. cit., 1983, p. 15). Furthermore, the General Manager appointed by CONADI to assume the direction of the company in December 1984 proved unable to solve the serious financial difficulties confronted by the company. However, it is necessary to note that, since August 1985, with the company under the direction of Mr. Durôn, MALI has drastically improved its operating performance.

(2) The inability of CONADI to maintain proper control of the company, either as a majority shareholder or as the principal creditor. In spite of CONADI being the principal shareholder of MALI, during a period of several years, GALAXIA was able to define the company's operating strategies.

(3) The tactics employed by a private sector group to delay the adoption of corrective measures by the Corporation, or to induce decisions detrimental to CONADI. Such tactics have included the contracting of high-powered legal advice and, allegedly, the co-optation of some CONADI officials, which have permitted GALAXIA to milk the company for years, default on the payments of several loans, and win a series of legal confrontations with CONADI. Surprisingly, CONADI appears to have lacked the capacity to bring a suit against GALAXIA for damages done to MALI and the Corporation by the private group, to demand a definitive transfer of the Natura's label to MALI, and to collect the amounts owed GALAXIA to the company.

(4) The series of irrational management practices that the current administration of MALI has been able to remove, which had developed over a number of years, under both CONADI and private sector managements. These practices, responsible for significant losses to the company, included extremely lax security standards and large numbers of unnecessary workers, which have in turn caused a high incidence of employee theft and poor morale and productivity.

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Perfil No. 26

P E R F I L

NOMBRE DE LA EMPRESA: AZUCARERA YOJOA, S.A. de C.V. (AYSA)

I. ANTECEDENTES

A. LOCALIZACION: Río Lindo, Cortés

B. PRODUCTOS QUE ELABORA: Azúcar y Melaza

C. AÑO DE CONSTITUCION:

En 1974, se firmó la escritura pública de constitución de la Sociedad Mercantil "Azucarera Yojoa, S.A. de C.V.", integrada por los señores P.M. Donaldo Suazo Tomé, P.M. Carlos Montheil Rivera, Elías J. Kattan, Dr. Rodolfo Pastos Zelaya y doña Cristina Morales de Aguilar, con un capital social máximo autorizado de Lps. 4,000,000.00 y un capital mínimo de Lps. 100,000.00.

En 1976, se reformó la escritura de constitución de la sociedad, para aumentar el capital social máximo autorizado de Lps. 4,000,000.00 a Lps. 6,000,000.00 y el capital mínimo de Lps. 100,000.00 a Lps. 4,000,000.00.

En 1977, se volvió a reformar la escritura de constitución de la sociedad, para aumentar el capital máximo autorizado a Lps. 12,000,000.00 y el capital mínimo a Lps. 6,000,000.00.

D. AÑO DE PUESTA EN MARCHA 1976

E. CAPITAL

1. Monto de Capital Social Lps. 12,000,000

Suscrito Y Pagado	Lps. 12,000,000
No. de Acciones	120,000
Comunes	90,000
Preferentes	30,000

El valor nominal de cada acción es de Lps. 100.00.

2. Monto de Capital Contable

Fecha	30/8/85
Capital	Lps. 12,000,000
Utilidad (Déficit) Acumulado	(2,188,631)
	Lps. 9,811,309

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El Cuadro No. 1 muestra la estructura de capital actual de la empresa

CUADRO No. 1: ESTRUCTURA DE CAPITAL

Accionistas	Monto (Lps.)	Número de Acciones	Proporción (%)
CONADI	6,185,300.00	61,853	52
INVERSIONES LOMESA	2,853,700.00	28,537	24
BANCO ATLANTIDA	1,000,000.00	10,000	8
FINANCIERA HONDURENA	600,000.00	6,000	5
BORIS GOLDSTEIN	250,000.00	2,500	2
MIELES Y ALCOHOLES	230,000.00	2,300	2
OTROS	881,000.00	8,810	7
TOTAL	12,000,000.00	120,000	100

Conforme a la participación accionaria de la Corporación que aparece descrita en el Cuadro No. 1, sus acciones representan Lps. 5,101,880.00 dentro del capital contable y Lps. 6,185,300.00 dentro del capital social de la empresa.

F. PARTICIPACION DE CONADI

CONADI empezó a participar en la empresa desde 1976, ano en que le otorgó avales hasta por un monto de Lps. 11,915,632.00. La participación de la Corporación en AYSA se dió en la siguiente forma:

1. Avales

a) Resolución No. 11/76 de Junta Directiva del 7/5/76 otorga:

i) Aval por Lps. 2,000,000.00 ante el Banco Atlántida u otra institución bancaria nacional o extranjera.

ii) Aval por Lps. 2,000,000.00 facilitados por el Libra Bank de Inglaterra (no se utilizó).

iii) Aval por Lps. 415,632.00 a favor del Deutsch Sudamerikanische Bank de Alemania.

iv) Aval por Lps. 7,500,000.00 a favor del B.C.I.E.

b) Resolución No. 17/76 de Junta Directiva del 19/VII/76 se autorizó:

i) Aval por Lps. 2,000,000.00 a favor del Chase Manhattan Bank (aval temporal por préstamo otorgado a Yojoa).

c) Resolución 77/89 de Junta Directiva del 23/IX/77 se otorga:

i) Aval para financiamiento puente por Lps. 1,000,000.00.

d) Resolución 78/17 del Comité de Crédito del 10/VII/78, se otorga:

i) Crédito y/o aval hasta por Lps. 3,100,000.00.

e) Resolución de Junta Directiva 76/39 del 5/4/78, se autoriza:

i) Aval por Lps. 1,900,000.00 a favor de cualquier institución financiera.

f) Por medio de resolución 79/60 de Comité de Crédito del 29 de agosto de 1979, se resuelve confirmar la situación general de los financiamientos anteriores mediante un préstamo y/o aval de Lps. 21,408,310.00 a 7 anos de plazo, 3 anos de gracia. Como parte integral de esta resolución se incluye un aval de Lps. 17,020,598.50 a favor del Libra Bank International con el objeto de refinanciar créditos vigentes.

g) Resolución 80/98 de Junta Directiva del 10/10/80 otorga:

i) Aval por Lps. 600,000.00

h) Resolución de Junta Directiva 81/18 del 18/02/81, autoriza:

i) Una garantía bancaria por Lps. 384,750.00, a favor de Texaco Caribbean por cuenta de Azucarera Yojoa, S.A.

2. <u>Préstamos</u>

1) Resolución 11/76 de Junta Directiva del 7/5/76, otorga:

i) Préstamo directo por Lps. 2,000,000.00 con opción de conversión a acciones. Se refinanció por un ano más según resolución de Junta Directiva No. 77/75 con opción de conversión a acciones.

ii) Préstamo directo por Lps. 1,392,708.00.

2) Resolución 39/76 de Junta Directiva del 29/X/76, otorga:

i) Linea de Crédito por Lps. 2,000,000.00.

3) Resolución 79/60 del Comité de Crédito del 29/01/79 por Lps. 2,000,000.00 a 7 anos de plazo.

3. <u>Acciones</u>

a) Resolución 77/25 del 25/III/77, autoriza participación en el capital de la empresa por Lps. 100,000.00 mediante acciones comunes.

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b) Resolución 77/75 del 3/VIII/77, autoriza participación accionaria de Lps. 364,800 en acciones comunes.

c) Resolución 77/89 del 23/IX/77, autoriza a la Corporación a participar en el capital de AYSA con un monto de Lps. 3,000,000.00 en acciones preferentes.

d) Resolución 78/17 de Comité de Crédito del 10/VII/78, autoriza:

i) Convertir en acciones comunes en junio de 1979, el préstamo de Lps. 2,000,000.00 autorizado por la Junta Directiva, en mayo 7 de 1976.

ii) Convertir en acciones comunes durante 1978 los intereses y comisiones que se generen en los préstamos y avales otorgados por CONADI*.

*La cantidad total de intereses y comisiones que adeudaba AYSA a la Corporación en 1978 era de Lps. 975,692.69, se han convertido en acciones Lps. 948,700.00, quedando pendientes de transformación Lps. 26,992.69.

CONADI intervino en el financiamiento de AYSA con el fin de ayudar a formar en el país una empresa agroindustrial, para que fuese factor de desarrollo en una zona rural como Río Lindo, Cortés, decidiendo participar en el capital accionario de Azucarera Yojoa con el objeto de reestructurar y sanear financieramente la empresa. La intervención de CONADI en la formación y desarrollo de esta empresa, es calificada de muy buena y acertada.

G. VALOR EN LIBROS ACTUAL

Conforme balance interno de la empresa al 30 de septiembre de 1985, el valor total de los activos ascendían a Lps. 38,490,161.63. Es de aclarar que todavía se mantiene una pérdida de capital de Lps. 2.2 millones de un capital total de Lps. 12.0 millones.

H. ESTADO OPERATIVO ACTUAL

Azucarera Yojoa tiene una capacidad de molienda de 9,000 TM de caña diaria, o sea más de 4,000 quintales de azúcar diaria.

El nivel de utilización de su capacidad instalada de molienda, depende del área sembrada y disponibilidad de la misma, la cual es procesada por la empresa. En el ciclo de 1984, se obtuvieron 600,000 quintales de azúcar lo que equivale a un 86% de la capacidad utilizable. Al respecto, es de aclarar que la capacidad a que se hace mención es diaria, pero en el caso de los ingenios, se supone que éstos solo operan cinco meses en el año, por tal razón la capacidad instalada total es de 700,000 quintales de azúcar.

La empresa no tiene dificultades para obtener capital de trabajo, en estos momentos se encuentra haciendo los preparativos para la próxima zafra.

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En vista de que el Ingenio sólo opera cinco meses en el año, los otros siete meses se dedican a mantenimiento. Se desmonta y monta la totalidad de las instalaciones industriales, con el objeto de tener preparado toda la maquinaria para la próxima zafra. También reciben asistencia técnica de SCHEAFER, una firma especializada en este tipo de industria. Por tanto, el estado de conservación de las instalaciones y maquinaria es muy bueno.

II. EVALUACION TECNICA

A. ASPECTOS LEGALES

CONADI mantiene en Azucarera Yojoa, inversiones en préstamos directos, avales y participación accionaria. En préstamos directos lo que adeuda a la Corporación son Lps. 500,000, cantidad manejable por esta empresa y se encuentra al día Respecto al dividendo pactado en el caso de acciones preferentes, la empresa no ha cubierto totalmente sus pérdidas acumuladas, por lo que la Asamblea de Accionistas no ha decretado el dividendo preferente a que tienen derecho las acciones de CONADI. Sin embargo, CONADI tiene por su parte contabilizada esta inversión y los dividendos que producen la misma, en concepto de dividendos CONADI tiene registrado contablemente L2,337,929.00. Esta situación puede dar motivo a un conflicto legal.

En cuanto a los avales otorgados por CONADI por un monto total de L17,020,600, de momento se encuentra en suspenso el pago de capital por parte de la empresa. Yojoa solamente ha estado pagando los respectivos intereses. Esta situación se ha dado porque la empresa está a la espera de la renegociación de la deuda externa del país y en especial, la de CONADI, dejando en suspenso los pagos de capital.

Con respecto a las relaciones obrero patronales no existen conflictos legales. En 1984 se firmó un contrato colectivo con duración de tres años.

En cuanto a la acción de la privatización de la empresa, esta se puede desglosar en dos vías: compra de créditos y acciones. Respecto a la cartera de créditos es muy probable que cualquier institución financiera privada le compre a CONADI sus créditos. La venta de las acciones es otro problema si se enfoca desde el punto de la valorización de las mismas. En ninguno de los dos casos se preven conflictos legales.

B. ASPECTOS TECNICOS

Azucarera Yojoa produce azúcar blanca y melaza. En el ramo de la industria de la producción de azúcar derivada de la cana de azúcar, esta empresa se ha convertido en los últimos años en líder en Honduras en cuanto a eficiencia, lo cual se refleja en el costo del quintal de azúcar producido. Sin embargo, AYSA no solamente produce azúcar, ha seguido la estrategia de integración por lo que también produce cana de azúcar. Esto le permite un cierto grado de independencia y seguridad en sus operaciones fabriles. Ya que un ingenio no puede permitirse mantener la opción de solo comprar cana a productores independientes, aún bajo la óptica que se redujeran sus costos. La seguridad en el flujo de materia prima es importante. En época de zafra, un día parado

significaba un costo muy alto, por lo ue no permiten que la oferta de materia prima esté en manos de particulares en un 100%, ya que esta acción dejaría expensas de la toma de decisiones de estas personas o instituciones que se dedican al cultivo de cana de azúcar. Al respecto AYSA produce más de 54,000 TMM de cana de azúcar lo que le da un 17% de seguridad en el suministro de materia prima. Sin embargo, este volumen es producido en un area mayor a 14,000 manzanas, por lo que si se relacionan estas dos cifras resulta en un rendimiento muy bajo por área. Pero este hecho no es del todo cierto, ya que no toda el área de las fincas que poseen son utilizadas, en unos casos no es utilizada ni la mitad de la tierra disponible, debido a factores de orden técnico, topográfico y edáficos. Además, comparando área sembrada con rendimiento, es indicativo el hecho que unas fincas tienen una producción mayor que otras. De esta manera se puede concluir que en el área de fincas o producción de cana, la empresa tiene activos ociosos y en unos casos pobres rendimientos. Sin embargo, este es el costo que paga la empresa por un 17% de independencia en el suministro de materia prima.

En cuanto a la eficiencia productiva por quintal, AYSA ha redoblado sus esfuerzos para mantener o reducir con gran éxito sus costos de operación, los cuales son más controlables que los ingresos, además se ha venido contribuyendo con la reducción de los gastos financieros a través de contrataciones de préstamos y haciendo mejor utilización de su liquidez, lo que ha resultado en la obtención de reducciones en los costos totales unitarios, tal cus se muestra en el Cuadro No. 2.

CUADRO No. 2 : COSTO DE PRODUCCION

Ano	Costo Total Miles (Lps.)	Producción (Miles QQs.)	Costo Promedio por QQ.
1981	17,767.9	428.6	41,455
1982	19,808.8	520.1	38,087
1983	19,194.1	544.4	35,257
1984	19,811.0	600.0	33,018
1985	18,563.0	502.0	33,030

La empresa cuenta con la asesoría de SCHEAFER, consultores técnicos que han sugerido cambios y/o adiciones al equipo, que han resultado en mejorar el rerdimiento y bajar los costos promedios en los últimos anos.

Sobre el suministro de materia prima, la fuente es la misma empresa y productores independientes. Generalmente la compania provee a estos productores independientes de elementos indispensables para la producción de cana. Estos elementos significan en primera instancia un costo para la empresa, por lo que son cargados al productor y deducidos a la hora de liquidación que generalmente se dá cuatro meses después de terminada la

que la ayuda otorgada por Compania Azucarera Hondureña (CAHSA) en los primeros anos de operación fué de un gran valor. CAHSA es una empresa azucarera líder en Honduras y la más antigua, por lo que hubo una transmisión de conocimientos y experiencia hacia la nueva empresa.

Dada la participación de CONADI en esta empresa en el aspecto financiero, no puede haber lugar a duda de su importancia. Como resultado de esta participación CONADI se ha convertido en el mayor accionista y acreedor de una empresa sólidamente establecida.

Debido a la coyuntura derivada de estar a la espera de la renegociación de la deuda externa y de no hacer los pagos de capital a los acreedores externos, avalados por CONADI, esta empresa ha mejorado ostensiblemente su liquidez de tal manera que ha usado menos las líneas de crédito locales, las cuales resultan más onerosas que las líneas de crédito externas. Este hecho ha contribuido grandemente a mejorar el resultado de sus utilidades netas positivas en los últimos anos, de tal manera que si los precios internacionales del azúcar se mantienen, en unos dos anos más la empresa habrá cubierto totalmente las pérdidas de capital que actualmente registran sus estados financieros.

Una vez que el gobierno finalice la negociación de la readecuación de la deuda externa, esta deberá ser pagada por AYSA de acuerdo a un análisis que habrá de efectuarse respecto a su capacidad de pago. Actualmente no se tiene nada concreto al respecto.

El Cuadro No. 3 presenta la estructura de la deuda de la empresa al 3 de agosto de 1985. El Cuadro No. 4 indica el riesgo sistemático de CONADI en AYSA o la misma fecha. El Cuadro No.5 detalla los principales acreedores de la empresa.

CUADRO No. 3: ESTRUCTURA DE LA DEUDA - Al 30 de agosto de 1985

Condiciones	Monto (Lps.)	Proporción (%)
Corto Plazo	14,034,000	47
Largo Plazo	15,775,000	53
Total	29,809,000	100
Moneda Local	12,385,000	42
Moneda Extranjera US$ 8,712	17,424,000	58
Total	29,809,000	100

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CUADRO No. 4: RIESGO SISTEMATICO DE CONADI

Concepto	Monto (Lps.)
Avales	17,020,600
Intereses Acumulados	407,710
Comisiones Sobre/Avales	(894)
Financiamiento Directo	1,262,389
Ints./Financiamiento Directo	13,049
Sub Total	18,678,854
Acciones	
Comunes	3,425,556
Preferentes	2,605,470
Total	24,709,874

La Corporación posee en garantía de los fondos colocados en esta industria, la primera hipoteca civil y mercantil de los bienes presentes y futuros de la empresa.

CUADRO No. 5: PRINCIPALES ACREEDORES NACIONALES Y EXTRANJEROS

Nombre	Monto (Lps.)	Garantía
Norwest American Bank	16,000	Aval de CONADI
Wells Fargo Bank	1,070	Aval de CONADI
Banco Atlántida	284	Fiduciario
Ahorro Hondureno	500	Fiduciario
BANMER	464	Prendaria
Fondo Azucarero	6,075	
Total	24,393	

La empresa cuenta con estados financieros auditados por la firma Arthur Anderson & Co., al 30 de septiembre de 1984, los cuales no contienen ninguna salvedad respecto al registro de las operaciones de AYSA.

El Cuadro No. 6 presenta los resultados de la empresa para el periodo de 1979-1985.

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CUADRO NO. 6: RESULTADOS

Concepto	Año						
	1979	1980	1981	1982	1983	1984	1985
Utilidad de Operación	1,439	2,704	699	4,366	4,995	6,503	4,892
Utilidad Neta					659	1,836	1,212
Pérdidas	(2,249)	(1,939)	(385)	(167)			

E. ASPECTOS LABORALES

Existe un sindicato formado por el personal que no está involucrado en la administración de los departamentos de la empresa. Esta asociado al SITIAMASH y afiliado a la FESITRANH. El SITIAMASH agrupa a todos los sindicatos de los ingenios. Sus ideas son de tendencia democrática.

La empresa otorga empleo directo a 1,100 personas. De éstas 310 personas son empleados permanentes y el resto temporales por cinco meses aproximadamente que es el tiempo de época de zafra. De los 310 empleados permanentes, 51 se encuentran ubicados en el área administrativa y técnica.

Debido al incremento de la eficiencia en el proceso de cana, los ciclos de zafra se han ido acortando, de tal manera, que parte de los empleados permanentes se sb-utilizan en época muerta. Por tal motivo, la administración está buscando mecanismos para reducir el número de empleados buscándole usos alternativos.

En el ano 1984 se firmó un contrato colectivo con el sindicato con duración de tres anos. Las relaciones obrero-patronales se consideran cordiales. Hay motivación en todo el personal. Existe además una bonificación que ha sido instituida por la empresa, la cual es equivalente a un mes de sueldo, el cual es entregado a todos los empleados que no devengan horas extraordinarias al final de la zafra.

F. ASPECTOS DE MERCADO

Para la industria azucarera, existen tres tipos de mercado y dos tipos de producto. Los mercados son: el mercado interno, cuota U.S.A. y el resto del mundo. Los tipos de productos son: azúcar y melaza.

El mercado nacional es atendido por CESA (Central de Ingenios, S.A.) y cada ingenio tiene su participación en este mercado. AYSA posee el 12.5% del mercado nacional e igual porcentaje en la cuota de U.S.A. El resto de su producción es exportado.

Debido a la proximidad del punto de embarque, Compañía Azucarera Hondureña (CAHSA) produce azúcar morena para exportar [illegible] y AYSA azúcar blanca. Se tienen coeficientes establecidos para equiparar la cantidad intercambiada de azúcar.

Las ventas al mercado de U.S.A. y al resto del mundo las hace a través de CARGILL, por el sistema de órdenes ejecutables consideradas con el precio del mundo en la bolsa de valores. El precio al mercado de U.S.A. es subvencionado por Honduras y este mercado le asigna cuotas a los países productores. En el caso del resto del mundo, el precio está determinado por la oferta y demanda de azúcar en el mercado mundial.

En el caso del mercado nacional el precio está determinado por el gobierno. En estos momentos el precio interno es 200% más alto que el precio del mercado mundial. Por esta razón, el gobierno, al fijar este precio, está obligando al consumidor local a subvencionar a la industria azucarera nacional.

Por los factores anteriormente expuestos, puede decirse que actualmente la industria azucarera de Honduras es rentable debido a los mecanismos creados por el Gobierno con el objeto de regular los precios. De otra manera la industria nacional del azúcar tendería a desaparecer.

En el Cuadro No. 7 se presenta el destino de las ventas de AYSA y los precios estimados en el ciclo 1984/85.

CUADRO No. 7: PROYECCIONES DE VENTAS

Destino	Miles (QQs)	Precio (QQs)
Local	297	Lps. 50.00
U.S.A.	171	42.00
Mundo	189	10.00

Fuente: Documentación de la empresa.

Analizando la situación anterior, y comparándola con los costos de producción a primera vista podría decirse que no es rentable vender al resto del mundo. Sin embargo, el costo de ventas y en especial el de la materia prima principal (cana de azúcar) está determinado por una fórmula que incorpora las cantidades y precios de venta del azúcar que consigue la empresa en los diferentes mercados a los cuales vende sus productos. Por tal razón a estas empresas les conviene vender al resto del mundo porque su costo de ventas será afectado o mejorado de acuerdo al precio mundial. O sea que este riesgo en parte se lo trasladan al productor independiente quien suple buena parte de la materia prima. Se considera que el hecho de trasladar parte del riesgo al sector productor independiente, eventualmente puede conducir a un conflicto si los precios pagados a este sector suplidor de materia prima se vieran deteriorados considerablemente.

Si se analiza el caso desde el punto de vista de destino del producto y costo de producción, se concluye que unos mercados son más rentables que otros. Sin embargo, debido a los elementos que distorsionan la libre competencia no se puede generalizar tal efecto, y es difícil decir que la cana cuesta tanto en dinero por cantidad porque su costo está determinado por los diferentes precios a los cuales se vende la producción en los diferentes mercados.

En el ciclo de 1985, la empresa obtuvo un margen de ventas del 75%. Se excluye lo relativo a gastos de venta que son un 7% de las ventas. Se anexan Estados Financieros de octubre de 1984 a septiembre de 1985.

III. INFORMACION COMPLEMENTARIA

A. IMPACTO SOCIAL Y ECONOMICO DE LA EMPRESA

La contribución económica y social de la empresa al país durante el ano 1984, fue la siguiente: (1) Genera empleo directo a 1,100 personas, pagando anualmente por concepto de sueldos y salarios un promedio de L3,224,854.00; (2) Contribuye a la generación de ingresos para el estado, mediante el pago de impuestos L1,772,278.00 (directos L1,770,212 e indirectos L2,066.00); (3) Pago a terceros en concepto de alquileres L214,698.00 (4) Generan un Balance Neto de Divisas del orden de L5,169,909.00.

La acción de privatización de la empresa, no tendría ningún efecto en los indicadores anteriores. El único efecto negativo es el monto que dejaría de percibir el estado al no contar en el futuro con una inversión rentable en capital accionario en una empresa como AYSA, y el margen financiero que producen a CONADI los préstamos otorgados a esta empresa.

B. INTERESADOS EN COMPRA

La Compania Azucarera Hondurena S.A. (CAHSA), le comunicó a CONADI el interés que tienen en la compra de 20,000 acciones de AYSA a Lps. 60.00 cada una. La Junta Directiva de CONADI resolvió no vender estas acciones al precio antes mencionado en vista de que CONADI adquirió esos títulos por un valor nominal de Lempiras 100.00. Esta propuesta fué concretada mediante carta de CAHSA, fecha el 3 de abril de 1985.

C. INFORMACION DISPONIBLE

Proyecciones financieras realizadas por la empresa que se encuentra disponibles en los archivos de CONADI.

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IV. COMENTARIOS

A. INTERROGANTES

1. Quienes son los duenos de las acciones preferentes?

2. Analizar el problema de pagos de dividendos preferentes a CONADI

3. Status del proceso de renegociación de la deduda de la empresa, en relación a los préstamos avalados por CONADI. Cual es la porción de la empresa respecto a los pagos de capital de estos préstamos?

4. Que interesados existen para comprar las acreencias de la emprea con CONADI? Cual es el valor de mercado de las acciones de CONADI en AYSA (tanto comunes como preferentes).

5. Posibilidades de vender parte de las tierras de la empresa. Porque son tan bajos los rendimientos agrícolas?

6. Verificar el volumen de cana producida en sus propias tierras.

7. Status de la política de reducir el número de empleados.

8. Política azucarera nacional.

9. Status actual de la oferta de compra de acciones por parte de CAHSA.

B. IMPLICACIONES PARA LA PRIVATIZACION

Es un candidato atractivo cuyo anâlisis amerita ser profundizado.

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