

Louisiana Alliance/Presidential Program for Investments in Honduras

EXECUTIVE SUMMARY

Background

The International Business and Trade Development Department of MetroVision Partnership Foundation (MetroVision), the economic development partnership of the New Orleans Regional Chamber of Commerce, has been very active in Central America since the early 1990s and has introduced businesses from New Orleans and Southeast Louisiana to potential partners throughout Mexico, Central and South America. The organization has been especially involved in developing trade contacts with potential business partners in the Republic of Honduras.

In 1998, the Government of Honduras approached MetroVision regarding the development of a long-range plan to encourage in-country investment. A study detailing the strengths and challenges faced by Honduras was completed, and MetroVision and Honduras' Presidential Program for Investments joined forces to begin to address a number of these issues. The Louisiana Alliance/Presidential Program for Investments in Honduras (ALIANZA) grew out of this initial dialogue.

In October 1998, Hurricane Mitch struck Central America and of the five nations affected by the storm, Honduras was the hardest hit. During the relief effort that followed, the New Orleans region responded to the call for aid under the leadership of MetroVision and other community organizations.

After extensive discussions with the public, private and academic sectors in both Louisiana and Honduras, the resulting economic development and reconstruction plan (the ALIANZA) quickly gained momentum, earning the support of U.S. Senator Mary Landrieu (D-LA) and Honduran President Carlos Roberto Flores to begin the development of this plan.

In June, 1999, a MetroVision-led delegation comprised of public, private and academic leaders traveled to Tegucigalpa, Honduras for the signing of the ALIANZA cooperative agreement between MetroVision, the university partners (Louisiana State University Agricultural Center, Loyola University New Orleans, Tulane University School of Public Health and Tropical Medicine, Southeastern Louisiana University and the University of New Orleans) the Government of Honduras and the Fundacion Gran Proyecto de Transformacion Nacional. The day's events, including a personal meeting with President Flores, garnered extensive interest in both Honduras and Louisiana.

During June through September 1999, the five university-partner teams traveled to Honduras to further define and develop the identified areas of the ALIANZA proposal and to receive final clearance from both the Honduran public and private sector. The ALIANZA document, which consisted initially of 20 proposals, was completed in the fourth quarter of 1999. The proposals included the following subject areas: agriculture; workforce development; streamlining and simplification of business registration and licensing; environmental impact training; energy management and conservation; water resources; legal and accounting educational support; banking reform; healthcare management training and rural development through sustainable micro enterprises.

In August 2000, MetroVision received notification that six of the ALIANZA proposals had been awarded funding by the United States Agency for International Development (USAID) in conjunction with present Hurricane Mitch reconstruction efforts. The project began October 1, 2000 and was extended for completion to March 31, 2002. The projects focused in the areas of forestry, agriculture, banking, energy, water resources and simplification of business registration and licensing.

In order to effectively plan for the activities during the short duration of this project, a 15-month work plan was initially prepared for October 2000 through December 2001. During this time, the work plan demonstrated changes and additions within each project sector as conditions dictated. The work plans were submitted to USAID Honduras on November 13, 2000. Work began on the projects in December 2000 after receiving clearance from USAID Honduras. The six project activities, aligned with the USAID mission objective of fostering economic growth for Honduras, are:

- 1.1 Forestry Development
- 2.1 Agricultural Reconstruction and Strategic Development
- 3.1 Banking Reform
- 4.1 Energy Management and Conservation
- 5.1 Water Resources Development
- 6.1 Strengthening and Simplification of Business Registration and the Licensing Process

Projects Implemented

The purpose of this section is to give a brief summary, objectives and outcomes for each of the six project activities contained in this final report. Complete and detailed reports for each of the project activities are included in Part I and II of the Final Report.

A. Forestry Development – *Description, Objectives and Conclusions*

Description - One of the most complex and challenging issues facing the world today is realistically balancing sustainable economies and sustainable natural resources. Increases in world population and per capita income have resulted in unprecedented demands for fiber-based products. These demands, in turn, often cause degradation of the environment and depletion of forest resources. Although Honduras has significant forest resources, the rate of deforestation and resource degradation has accelerated over time. At this juncture, the pursuit of sustainable forest development in the broader context of natural resources conservation is critical. Sustainable forestry can be achieved in a number of ways including by growing, harvesting, processing, and marketing wood more efficiently with less impact on the environment, and by extending the life and utility of wood in use.

Technology transfer to identify both traditional and alternative markets for wood use, new technologies to grow better trees, environmentally sound forest management and harvesting practices, and value-added processing techniques are central to the development of a sustainable forest policy that gives equal consideration to economic opportunities and environmental concerns of forest resources.

This project, primarily a technical transfer effort, focuses on areas including forest soils, forest management, forest products utilization and value-added wood processing. The Louisiana State

University Agricultural Center (LSU AgCenter) assembled specialists in areas including forest soils, forest management, wood products utilization/processing, economic/rural development and marketing/business development to work with counterparts in Honduras.

Objectives - The objectives identified in the work plan are as follows:

1. Identify a Honduran working group of individuals that can discuss critical issues in the forest industry.
2. Develop a plan of action for collaboration between LSU AgCenter specialists and the above group.
3. Plan, discuss and develop workshops on:
 - a. Soils and environmental sustainability
 - b. Sustainable forest management and certification
 - c. Value-added wood products development and processing
 - d. Forest products marketing and business development and forest/rural sector development
4. Develop and initiate demonstration and other projects to be undertaken by LSU AgCenter and counterpart team members in Honduras during the life of the project
5. Develop a five-year forestry plan that addresses major issues identified by the project and appropriate course of action for the near-term

Conclusions - Based on stakeholder input and decision processing over the course of the project, the top two-ranked priorities for industry development both have to do with marketing. The top ranked recommendation is to conduct market research that can help identify market opportunities for Honduran wood-products producers. Second ranked is the need to develop a comprehensive national marketing strategy and implementation plan. Next ranked is the need for government involvement in forming the foundation for industry development at the national level. This is followed by the recommendation to form a national forest-sector development council that would have representation from all key stakeholder groups including industry, government, academia, non-governmental organizations (NGOs) and international consulting support.

The LSU AgCenter forestry team developed and implemented an interactive planning component in the framework of the informational and educational roundtable/workshops that were conducted in the project. These sessions were divided into three parts. The first was a presentation by LSU AgCenter team members on the specific workshop topic. The second part focused on issue generation and discussion. Finally, the third part concentrated on developing action plans to address identified issues.

The planning techniques used on the project resulted in tangible deliverables across a broad spectrum of forest sector stakeholders in Honduras. Significant professional and personal relationships were developed between LSU AgCenter team members and Honduran counterparts.

In the long-term, forest-sector development in Honduras can contribute to an increase in rural employment and a lessening of poverty. The success of development projects, such as the ALIANZA, will be measured in the future by their ability to encourage environmentally sound forest management practices and sustainable growth of the forest-based industry sector.

It is recommended that this first step in sectoral development be continued to a second phase that would entail large-scale implementation of recommendations developed in this project.

B. Agricultural Reconstruction and Strategic Development – *Description, Objectives and Conclusions*

Description - Due to the significant impact of Hurricane Mitch on the entire agricultural sector in Honduras, the LSU AgCenter contacted President Carlos Flores to offer assistance to and collaboration with the Ministry of Agriculture and Livestock (SAG). Further in February 1999, the LSU AgCenter invited by SAG sent a team of faculty for assessment purposes. This team's visit resulted in the LSU AgCenter submitting a comprehensive report to the Minister. The report identified potential areas (for collaboration and assistance) in which the LSU AgCenter has experience and expertise. Due to the fact that the faculty team worked closely with SAG and other concerned agencies, the report complemented the reconstruction strategies developed by SAG at that time.

The development of the Honduran agricultural sector in the present context of global agricultural markets is a critical element in the reconstruction program for the country. The country's bimodal agricultural production units requires that both the large and smallholder farming segments be addressed in a development plan. Critical to this development process is the coordination of education, research and technology transfer programs that effectively represent the needs of all agricultural and agribusiness sectors and the Honduran people. Given this premise, it is important to consider a review of the existing education, research and technology transfer programs presently supporting agriculture and agribusiness, and based upon this review provide strategies for a coordinated effort by public and private entities in the sector. Further, it is important to identify the comparative advantages for Honduras in the context of local and global markets, with consideration of both large and smallholder producers and marketers.

To contribute to the goal of the reconstruction of the agricultural sector, this project conducted a thorough assessment of the present status in the sector. This process was based on a strategic planning framework and involved stakeholder analysis and a participatory process to identify issues and constraints in the various crop and area specific subsections.

Objectives – The objectives identified in the work plan are as follows:

1. Assess the current agricultural situation
2. Identify areas of assistance
3. Develop a near-term development guide to immediately address needs in the agricultural sector
4. Develop a strategic plan spanning a 10-year period

Conclusions - The LSU AgCenter team has contributed to the reconstruction and development of the agricultural sector of Honduras by meeting the four objectives stated in the work plan. First, the team successfully assessed the current agricultural situation in Honduras at the macro level with inputs at the micro level. In addition, the team identified a number of areas where assistance is needed as indicated in the strategic plan document. The mechanism to assess and

identify issues impacting the agricultural sector of Honduras included the participation of a number of Honduran nationals linked to all areas of the agricultural sector both public and private. The success of the project was based on the inclusion of realistic needs as perceived by the Hondurans.

The project also imparted the knowledge of strategic planning to the stakeholders. The strategic plan document includes both near and long term activities that will make the Honduran agricultural sector competitive at the regional level. If carried out, the team feels that this action plan will provide an evolving blue print for the development of the Honduran agricultural sector.

The LSU AgCenter has included further recommendations in the action plan and the case studies included later in this document. The success of the project was two-fold. One, it provided a document that can be used to develop the agricultural sector of Honduras. Two, it imparted the knowledge of how to go about performing a strategic plan for an economic sector.

C. Banking Reform – *Description, Objectives and Conclusions*

Description - The project provided an analysis of the extent to which Honduran banks support, through lending, economic development activities in Honduras. The ultimate goal of the project was the development of reforms that would be used to increase the number of new businesses or the expansion of existing small and medium-size businesses in the country.

The analysis provided an inventory of credit opportunities currently available to new or existing businesses, an inventory of credit instruments needed in the market by businesses and recommendations to close the gap between the resources that are now available and needed resources. A second element was to analyze venture capital resources in Honduras. Through interviews and surveys, an analysis of the extent to which venture capital is available to entrepreneurs in Honduras was conducted. The analysis provided an inventory of the sources of venture capital currently available to new ventures and to growing, small and medium-size businesses. An inventory of the gap between what exists and what is needed was to formulate recommendations on methods to increase the level of venture capital.

Completion of this project will result in recommendations that, when implemented, will increase financing for new ventures and growing small and medium-size businesses. The increase in business activity fueled by increased financing will lead to a more vibrant economy for Honduras, accompanied by additional job creation which should lead to increased purchasing power for Honduran citizens.

Objectives - The objectives identified in the work plan are as follows:

1. Analysis of Bank Lending Practices - Provide an analysis of the extent to which Honduran banks support, through lending, economic development activities in Honduras with a particular emphasis on lending to and support of small and medium size business enterprises. The objective is to increase the number of new businesses and/or expansion of existing businesses in Honduras.
2. Venture Capital Analysis - Provide an analysis of the extent to which venture capital is available to entrepreneurs in Honduras and the impediments to new entrepreneurial ventures.

The objective is to increase the number of new entrepreneurial ventures launched per year in Honduras and the growth capital available to small and medium-size businesses.

Conclusions - The economy, the overall financial system and, in particular, the banks of Honduras exist in an environment that includes important political, legal and economic (PLE) contextual factors. These factors are unique or at least somewhat extreme in comparison to international or even, in some cases, Latin American standards. The most important contextual factors at this point in time include (1) corruption throughout the political, legal and business communities in Honduras, (2) lack of implementation of existing regulations, (3) the pressures and uncertainties associated with a change in the political system created by the elections in November 2001 and (4) the absence of a strong push for extensive economic and financial reform from within the country. Any recommendations for financial system reforms, including bank reforms, must be evaluated within this context.

Similarly, the chances of the recommended reforms outlined in this document being successful may, or in some cases will, depend largely on changes in political, legal and economic factors and related practices. For example, if a country (Honduras) is perceived to be the most corrupt in its business practices in the whole of Latin America, no simple reform proposal such as a change in banking laws to foster foreign investment is likely to be effective. Perceptions of current business practice in Honduras indicate that bribes are perceived as necessary to get and do business in the country. International investors who entertain the idea of investment in Honduras find that there are many examples in the courts that prove non-Honduran business people cannot successfully enforce the terms of a contract in a Honduran court. The corruption endemic in the business, political and legal institutions make it difficult to attract the kinds of businesses that might bring long-term investment to the country. The lack of manpower and, more importantly, the will to enforce existing anti-corruption legislation render such laws in many cases virtually meaningless.

Two things have become apparent during the course of this project. First, more than banks have to be reformed, or reformulated, in order for Honduras to have real and meaningful financial system and banking reforms. The recommendations made in this report have long-term implications for some of the areas of corruption. But, while they will go far to improve the banking system, they cannot clean up the overall political, legal and economic environments that exist in Honduras today. Nevertheless, if the reforms and recommendations suggested herein are adopted and implemented in an extensive and timely fashion, some of the environmental and PLE- related problems are likely to be redressed.

Second, on a more positive note, the suggested reforms presented here, if adopted as a package, would be an important step toward achieving the major objectives of this project. Those objectives include the following expected benefits for small and medium-size businesses in Honduras: (1) a major expansion of the number and length of loans available, (2) lower costs in interest rates being paid by borrowers, and (3) decreases in loan approval time when obtaining financing. These benefits would apply to new and existing business enterprises.

Although, the terminology used in the description portion of this project report seems harsh at times it is factually based on the experienced and research gleaned from the Honduran Banking industry by this team of investigators.

D. Energy Management and Conservation – *Description, Objectives and Conclusions*

Description – Hurricane Mitch and its after effects heavily damaged Honduras’ energy sector and some of its energy infrastructure. Honduras, the fourth poorest country in Latin America, has an average per capita annual income below \$800 and a poverty rate higher than 65 percent (Source: USAID Year 2000 Congressional Report). Improving infrastructure can stimulate new investments and foster sustainable, stable economic growth. Sufficient and reliable electric power supplies play an important role in the foundation of this infrastructure.

The energy management team’s objectives were to recommend interim solutions to Honduras’ emergency and short-term energy problems, and to help establish a national strategy for energy and natural resources for future development. While initial priority was given to providing interim solutions, these considerations were made with long-range planning objectives in mind. The ultimate goal is to help provide Honduras with a means of becoming a self-sufficient supplier of economical, reliable and environmentally acceptable electrical power.

This project made evaluations and recommendations for proper utilization of energy resources, power generation options, reducing electric transmission and distribution loss reductions, fuel options, energy management and conservation, education and training, environmental issues, new technology applications, business and infrastructure planning strategies and site selection.

Objectives – The objectives identified in the work plan are as follows:

1. Classify the national electric power needs into four categories: (a) baseload for future growth, (b) peakload shaving, (c) minimum load for isolated areas and (d) installations for increased efficiency, cleaner emissions and improved reliability
2. Prioritize the needs and evaluate the options for power generation
3. Evaluate renewable energy resources
4. Evaluate the distributed generation (DG) option for isolated areas including micro turbines, fuel cells, solar energy and mini-hydro turbines.
5. Strengthen and expand the current energy conservation activities undertaken by the Secretaria de Recursos Naturales y Ambiente (SERNA) and the Empresa Nacional de Energia Electrica (ENEE).
6. Attract investors and leverage other donor resources to address the longer-term needs.

Conclusions – The team worked closely with ENEE, SERNA and Consejo Hondureño de Ciencia y Tecnologia (COHCIT) and the university’s Energy Conversion and Conservation Center (ECCC) to address identified areas of mutual interest. The recommendations provided in the final report can assist ENEE expand its energy conservation program, computerize its energy auditing process and design an effective preventive maintenance program using infrared thermography as a primary tool. Also, SERNA can strengthen its energy conservation education programs, co-host energy workshops, collaborate with its bio-energy program, and train its employees in masters degree programs available through the university. With regards to COHCIT, ECCC can collaborate in its rural electrification program. The ECCC team also approached representatives of the World Bank, IDB, the United Nations and private companies to discuss the potential for donations aimed at improving Honduras’ energy infrastructure.

This project's long-term focus is on rural electrification including the utilization of indigenous renewable energy resources. Improving access to and the reliability of electric power will stimulate economic growth. This process can aid the country's small-scale entrepreneurs, farmers and poor communities.

E. Water Resources Development – *Description, Objectives and Conclusions*

Description – The general objective of this project is to provide advanced training for Honduran engineers. As a part of the training, the water resources database for Honduras was evaluated to determine its adequacy for water resources projects. The trainees received advanced instruction in the following areas: open channel hydraulics, sediment transport, hydrologic modeling, geographic information system and database development, water quality measurements, water treatment process chemistry, design of water supply and sewer systems, hydraulic and numerical modeling and environmental modeling. The available historic stream flow, rainfall, sediment and water quality data were assembled through the project contacts with United States Geological Survey (GIS), Secretaría de Recursos Naturales (SERNA), Servicio Autónomo Nacional de Acueductos y Alcantarillado (SANAA) and Empresa Nacional de Energía Eléctrica (ENEE). One of the vehicles for assessing the database was the case study. The trainees completed the following case studies:

- flood frequency analysis for all major river basins;
- regional flood analysis;
- low flow analysis;
- low duration curves for the major rivers;
- stochastic modeling of monthly flows and
- hydrologic modeling of the Choluteca River and the development of a water quality database.

Objectives - The objectives identified in the work plan are as follows:

1. To provide advanced training for Honduran engineers in water resources engineering. The main objective of this component is training. As a part of the training, the water resources database for Honduras was evaluated to determine its adequacy for water resources projects. The available historic stream flow, rainfall and sediment and water quality data were assembled through the project contacts with GIS, SERNA, SANAA and ENEE
2. Assessing the database using a case study mechanism, which the trainees will implement.

Conclusions – Two highly trained water resources/environmental engineers will return to Honduras at the conclusion of this project. These engineers, who currently work for SANAA, will be in a position to assist and train water resources professionals in the private and public sectors in the use of the hydrologic databases. In addition they will help ensure the maximum utilization of the monitoring infrastructure that the USAID Mission has developed during the Hurricane Mitch Recovery Project. In addition, a compilation of case studies on applications of the historic water resources database is available for use by engineers in the public and private sectors of Honduras. The case studies and databases include information on regional flood, drought frequency analyses and water quality.

F. Strengthening and Simplification of Business Registration and the Licensing Process

– Description, Objectives and Conclusions

Description - After Hurricane Mitch, there was an obvious need to rebuild Honduras' infrastructure. This tragic situation presents an opportunity for many businesses – both Honduran and foreign. Honduran people may choose not to begin or to expand a business, because of difficulties with the business registration and licensing process. In a similar fashion, foreign companies may choose not to locate in Honduras because of these difficulties.

These difficulties center around the fact that most individuals and companies find that establishment of a business in Honduras is a slow process (approximately six months to a year). Although other countries in the region have similar processes, the average time to start a business is faster in those countries.

In this report, the current state of the licensing and permitting process is assessed in light of comparative policies.

Objectives - The objectives identified in the work plan are as follows:

1. Poverty reduction, through the reactivation of economic activity: the simplification of business licensing should encourage more people to open new businesses, and therefore offer more jobs
2. Strengthened role for local government by improving local government response to citizen needs
3. Improved accountability and transparency: less contact points and more disclosure of public information

Conclusions – The business registration and licensing process in Honduras has been criticized for several reasons. These include the slowness of the process (permitting and licensing may take many months), the number of steps in the process and the lack of transparency. In this project, the team described the current state of the licensing and permitting process in Honduras. They assessed the process and compared to policies in other countries in the region. These comparisons demonstrated that reforms are necessary in the following areas: (a) significant reduction of the steps in the permitting process; (b) establishment of a “one-stop shop” (ventanilla unica) in Honduras; (c) a number of actions to spread information about the improved permitting and licensing process; (d) an educational campaign to overcome resistance to changes and (e) several actions to improve transparency.

Summary

A. Structure of the Final Report

The overall structure of the final report's inclusion of the six project activities is divided into two parts:

Part I

- 1.1 Forestry Development
- 2.1 Agricultural Reconstruction and Strategic Development

Part II

- 3.1 Banking Reform
- 4.1 Energy Management and Conservation
- 5.1 Water Resources Development
- 6.1 Strengthening and Simplification of Business Registration and the Licensing Process

Within each project activity, the following is included: a table of contents, abbreviations, executive summary, project background and description, activities and accomplishments, specific outputs, conclusions and recommendations and attachments where applicable.

B. Overall Conclusions

In the wake of the destruction to Honduras by Hurricane Mitch in 1998, an ongoing economic development dialogue with the Central American country was thrust to the forefront to help focus resources on the massive effort to rebuild and transform the nation.

As a result, the MetroVision Partnership Foundation, along with the five Louisiana universities and Honduran public and private sector organizations, convened the ALIANZA agreement designed to implement the best available methods to assist in the rebuilding and transformation of the Republic of Honduras.

Of the 20 project activities originally submitted, six were identified by USAID as critical to meeting the immediate needs of the Honduran people as a result of Hurricane Mitch and have been completed as of March 2002. MetroVision served as the primary contact to oversee the execution and completion of the six projects over an 18-month period from October 2000-March 2002.

The success of the project is contained in each of the final reports. A significant success is the contacts, relationship building and training left behind in Honduras.

Based upon these final reports, each project left a significant mark in their area of concentration, not to mention disseminating knowledge to their Honduran counterparts. For example: the building of a solar kiln by the forestry team, the development of a strategic plan by the agricultural team, the reality set forth in the banking reform project, assessment of the technical report by the energy team, training provided to two engineers by the water resources team and the evaluation of the steps to license and register a new business in Honduras.

The benefit for project activity expansion builds on the needs to further establish partnerships so as to move the ALIANZA project into phase II by bringing in the expertise of the present and those university partners not included in the initial phase of this project, as well as, the Honduran counterparts and private sector contacts established during the development of the ALIANZA project. Continuation of the ALIANZA project falls in with U.S. government initiatives to build trade capacity in developing countries through USAID's Global Development Alliance. MetroVision would continue to serve as a facilitator in the development of these partnerships and alliances between Louisiana and Honduras (private sector/companies - producers, service providers, academic institutions). In addition, these

partnerships (models) can be applied to other developing countries within the region or on a global basis supported by USAID initiatives.

Finally, MetroVision would like to acknowledge the commitment and cooperation extended by the leadership of each of the university partners as well as officials of the U.S. Agency for International Development and the project's Honduran counterparts. The success of the ALIANZA could not have been achieved without the whole-hearted participation of each of these organizations.