

A.I.D. EVALUATION SUMMARY - PART I

PD-ABE-773
19369

1 BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS
2 USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office <u>USAID/Honduras</u> (ES# <u>FY 92-1</u>)		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input type="checkbox"/> Slipped <input checked="" type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY <u>91</u> Q <u>3rd</u>	C. Evaluation Timing Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>
D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)			

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
522-0289	Privatization of State-Owned Enterprises	1986	12/92	\$4.0MM	\$4.0MM (grant) \$6.5MM (LC)

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director	Name of Officer Responsible for Action	Date Action to be Completed
1. USAID will support legislation granting the Privatization Commission authority over the CONADI Liquidation Board and other entities involved in privatization which is pending approval in Congress.	USAID/H	Ongoing
2. A proposal to restructure the Privatization Commission will be reviewed by the GOH.	GOH	Ongoing
3. The public education/information campaign to bring about support from the private sector and forestall potential labor opposition will be continued through COHEP.	COHEP USAID/H (PSP)	Ongoing
4. Support for privatization initiatives of all government entities planning to divest will be continued.	USAID/H (PSP)	Ongoing
5. The use of local currency to underwrite severance pay will continue to be a project component.	USAID/H (DF, PSP)	Ongoing

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation:	(Month)	(Day)	(Year)
	09	28	1992

G. Approvals of Evaluation Summary And Action Decisions:				
Name (Typed)	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
	RMoyers (in draft) 06/22/92		CZambrano / DS... <i>[Signature]</i>	Marshall D. Brown <i>[Signature]</i>
Signature	Richard Whelden <i>[Signature]</i>	See Section L of this ES "Comments by Mission"		
Date	9/13/92			

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

The purpose of the Privatization of State-Owned Enterprises Project (522-0289) is to assist the Government of Honduras (GOH) to achieve its goal of developing an effective strategy for the divestiture of state-owned enterprises. The purpose of this final evaluation is to draw conclusions about overall Project success and to identify the lessons learned to be applied to the design of a possible follow-on project. The research was carried out using standard descriptive data collection and quantitative analytical techniques. The major findings and conclusions are:

The Project has attained its quantitative goals and, especially when compared to other similar efforts elsewhere, has been successful. The project has produced measurable results, especially in privatization in the public service area. The design and strategy of the project were well conceived and effective.

Economic benefits have been clearly demonstrated, as measured by creation of jobs, tax receipts, export and foreign exchange earnings, balances of payments, and reductions in the fiscal deficit, and the external debt.

A central coordinating authority at the cabinet level is essential for an effective privatization process

Despite implementation difficulties, the privatization process in Honduras works, and Mission support should be continued for a second phase.

Lessons Learned

Clear and determined presidential leadership is essential for a privatization project to succeed. A central authority empowered to manage the privatization process is essential.

The political environment is perhaps the most important determinant for the success or failure of privatization. Not to deal with the politics of privatization would be fatal.

The role played by severance payment is key. This effectively blunts criticism from organized labor and cushions the impact of lay-offs.

It is important to have an open privatization process with built-in institutional checks and balances.

COSTS

1. Evaluation Costs				
1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Robert S. Landman	CARANA Corp.	36 PDs	\$23,121	USAID/H
Alain Thery	CARANA Corp.			
2. Mission/Office Professional Staff Person-Days (Estimate) _____ 15		3. Borrower/Grantee Professional Staff Person-Days (Estimate) _____ 3		

A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
 Address the following items:

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| <ul style="list-style-type: none"> • Purpose of evaluation and methodology used • Purpose of activity(ies) evaluated • Findings and conclusions (relate to questions) | <ul style="list-style-type: none"> • Principal recommendations • Lessons learned |
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Mission or Office: USAID/Honduras	Date This Summary Prepared: January 1992	Title And Date Of Full Evaluation Report: Evaluation of Project 522-0289 Privatization of State-owned Enterprises in Honduras. 09/91
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Purpose of Evaluation and Methodology Used: The purpose of this final evaluation was to draw conclusions about overall project success and to identify lessons learned to be applied in similar activities in the future. Evaluation objectives included: measurement of project achievements at the goal and purpose levels; determination of the sustainability of development accomplishments; and, provision of recommendations and identification of lessons learned. Specific analytical methods included: semi-structured interviews with key private, public, and labor individuals; review and content analysis of selected project and institutional documents; analysis of secondary data; and, on-site visits and observations.

Purpose of Activities Evaluated: The purpose of the project is to support Government of Honduras (GOH) initiatives to plan and implement the privatization of state-owned enterprises (SOEs) thus contributing to the goal of achieving long-term, equitable growth. The Project was expected to demonstrate the feasibility of implementing a comprehensive privatization program in Honduras, and make a significant contribution to sustained economic growth.

Findings and Conclusions: In qualitative terms, the project has achieved, if not exceeded, its objectives, i.e. it has helped establish privatization as a functioning process achieving results. Quantitatively, the project has met its goal of divestiture of 12 to 15 SOEs, having sold the assets of 14 companies. As a result, a significant net economic gain has been observed.

The design and strategy of the project were well conceived and effective. They worked well and according to plan. The basic assumptions were extremely precise. Problems that were encountered were not a factor of the project design but rather the result of virtually inevitable politics.

The political commitment to privatization on the part of the administration is mixed. While stated public policy clearly articulates support for denationalization, the management ability to move the process forward is lacking. This has seriously impeded divestiture of the National Development Corporation (CONADI) assets.

The lack of legislative amendment to provide the Privatization Commission the authority to coordinate the privatization process and exercise oversight responsibilities over the public entities involved in the denationalization of state enterprises has been a major impediment to privatization, especially with respect to CONADI. CONADI remains in de facto control of its own dissolution.

There is a growing concern that transparency of the process is being seriously compromised by the Liquidation Commission, due to irregularities in the transfer of selected assets, eg., CONADI refuses to disclose the names of interested private investors, despite the fact that this is information which should be made available to the public. The midterm evaluation indicated that the transparency of the privatization process was intact. However, since that time, it has become increasingly evident that the integrity of the privatization process is being compromised by injudicious actions on the part of the Liquidation Commission.

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A functioning privatization process is still in place -- despite the fact that only one SOE has been privatized by CONADI in the last 18 months. This is shown by the significant strides made toward expanding privatization as evidenced by the divestitures in the Public Works and Transportation Ministry (SECOPT), the Social Security Institute, and the Ministry of Natural Resources. The GOH is expanding privatization beyond the divestiture of the SOEs cited specifically in Decreto 161-85, in effect creating a de facto national privatization policy. This is an important gain. However, there continues to be a significant lack of effective policy and management coordination at the senior administration level.

The role of USAID local currency severance payments is a key factor in consummating privatizations in the public agencies. Without this valuable resource, it is highly unlikely that the achievements of the project would have been so significant.

Employee Stock Ownership Program (ESOPs) remain an attractive investment alternative for privatizing SOEs and parts of public service agencies. However, workers encounter problems in raising sufficient capital for buy outs.

While a de facto privatization policy exists, it needs to be codified in order to be enforceable. In addition, economic policies and bureaucratic practices which conflict with the goals of privatization need to be identified and reformed. Similarly, the GOH needs to make a clear distinction between privatization as a goal itself and privatization as one of several key strategies to promote economic growth and jobs. This is especially important in mobilizing public and union support.

Organized labor continues to oppose privatization, but has yet to mobilize any effective resistance. The opposition has been desultory and moderate. In the case of SECOPT, for example, one third of the workforce was laid off without a major confrontation with the unions. In return, a small number of specific jobs was retained, a favorable trade-off by any measure. This is significant because much stronger opposition was anticipated as the project sought to expand into public agencies.

The Technical Working Group (TWG) is satisfactorily managed and has a competent and trained staff. USAID/H and the TWG have maintained a low public profile consistent with the project design and strategy. This has proven to be very effective in establishing the project as a Honduran initiative.

It was not possible to evaluate quantitatively the impact of the privatizations completed. While most sources were cooperative in providing information, frequently data were incomplete, of questionable reliability, conflicting or simply did not exist. A major problem was that privatized companies do not provide information about their operations beyond what is legally required. TWG-collected data, however, suggested clear economic trends.

In terms of economic impact, the project contributed to creation of jobs, tax receipts, export and foreign exchange earnings, balance of payments and reductions in the fiscal deficit. It is particularly important to emphasize the fact that while USAID/H funds represent a one-time expense, the positive results of the project are recurrent.

Marketing and public education activities have improved markedly. However, CONADI's virtual management paralysis has put these efforts on hold.

Principal Recommendations

It is imperative that the Privatization Commission be invested with adequate authority to be able to make binding decisions in order to manage the privatization process effectively. The Commission should have its own permanent staff with a Minister of Privatization, a Vice-Minister, and a small professional staff.

The Liquidation Commission should be dissolved immediately and the Privatization Commission empowered to divest CONADI's holdings through competitively bid contracts with qualified auditing firms.

The expansion of the process to include privatization of parts of public agencies should proceed. USAID/H should study the SECOPT case closely to use as part of the basis for developing the design for a possible phase II of the project.

USAID/H should consider exploring with the GOH ways in which the public entities involved could help finance their own privatization.

It is essential for the GOH to review its economic and related policies to bring them into conformity with respect to efficient promotion of privatization, eliminating inconsistencies.

Present efforts in communicating with selected labor leaders should be maintained. The GOH should incorporate useful suggestions on the part of labor into future divestiture strategies, effectively making union leaders stakeholders in privatization. At the same time, the administration needs to make clear what its vision of privatization is. One part of that should be protection of worker rights through guaranteed minimum wages. Another important effort should aim at bringing together the private sector and labor through the Honduran Council for Private Enterprise (COHEP), to discuss and agree upon mutual benefits of privatization.

The local currency severance pay pool should be expanded as necessary to cushion lay-offs due to divestiture.

Lessons Learned

Clear and determined presidential leadership is essential for a privatization project to succeed. This needs to be manifested in the establishment of a strong central mechanism, invested with the appropriate binding authority, to coordinate the process and insure all institutional actors fulfill their respective mandates. A central authority empowered to manage the privatization process is essential.

The political environment is perhaps the most important determinant for the success or failure of privatization. Not to deal with the politics of privatization would be fatal.

Privatization should be considered one of several means toward economic growth and development, not an end in itself. Put into realistic context it can be an effective strategy for revitalizing economies and sustaining growth. By the same token, this approach makes privatization a practical remedy rather than an ideological imperative.

Not all SOEs can or necessarily should be privatized. Where the national climate is such that it would be politically counterproductive to privatize selected agencies, rationalization of their operations can be an effective alternative.

Where circumstances permit, there is a need to maintain an adequate data base on privatization. There is no other way to track the economic benefits.

The role played by severance payments is key. This effectively blunts criticism from organized labor and cushions the impact of lay-offs.

There is a need for an open privatization process with built-in institutional checks and balances. While this means somewhat less efficiency, it virtually insures integrity and credibility. There will always be efforts to subvert or evade the established process, and a transparent system is the best guard against this threat.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Attachment A: Basic Project Identification Data

Attachment B: Complete List of Recommendations

Attachment C: Final Evaluation Report Titled: Privatization of State-Owned Enterprises
Enterprises Project (522-0289)

Note: Evaluation Report was submitted to AID/W on December 11, 1991.

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

The Office of Private Sector Programs believes this evaluation was effectively carried out. The report covered all aspects outlined in the scope of work and provided valuable information on lessons learned, accomplishments, and an in-depth analysis of the obstacles and problems that are delaying the privatization process. Specific recommendations are made for resolving existing bottlenecks, and strategies for avoiding recurrence of the same problems in a possible follow-on project. The report addressed all the issues, and is comprehensive, objective and of very high quality.

It is important to note that this evaluation was conducted when only 14 entities had been privatized and the Project was virtually paralyzed due to the incompetence and political interference of some government officials. However, since the time of the evaluation, there have been changes in some of the entities implementing the process. As a result, the Project has made significant progress. Major achievements include the privatization of 12 additional entities, and work towards the divestiture of the largest cement plant in the country, which is expected to be sold for L.390 million by September 30, 1992.

The Mission is not requesting signature of this ES by the counterpart due to political sensitiveness in this period of upcoming elections. The Mission fully discussed the ES with the Ministry of Finance, who raised no objection to the substance of the ES. He, however, stated that the findings were very politically sensitive and for this reason he declined to sign. The Mission continues to believe that the five actions still open are of relevance to the privatization process, therefore, it will continue to pursue their implementation through the ongoing project and the planned extension and expects to close them.

APPENDIX A

OUTLINE OF BASIC PROJECT IDENTIFICATION DATA

1. Country: Honduras
2. Project Title: Privatization of State-Owned Enterprises
3. Project Number: 522-0289
4. Project Dates: August 1986 - September 1989 (Amended to 12/30/92)
 - a. first Project Agreement: August 1986
 - b. Final Obligation Date: FY August 1986
 - c. Most Recent Project Assistance Completion Date (PACD, 12/30/92)
5. Project funding: (amounts obligated to date in dollars or dollar equivalent from the following sources)

a. AID Bilateral Funding	Grant US\$4,000,000
b. Other Major Donors	-0-
c. Host Country Counterpart Funds	US\$6,500,000 (LC equivalent)
TOTAL	US\$10,500,000
6. Mode of Implementation: AID/Privatization Commission assisted by a technical staff (TWG) through an accounting firm, Mendieta and Associates.
7. Project Designers: AID/Ministry of Finance
8. Responsible Mission Officials:
 - a. Mission Director(s) Anthony Cauterucci, MD (08/08/86 to 08/11/86)
Carl H. Leonard, AMD (08/12/86 to 11/21/86)
John A. Sanbrailo, MD (11/22/86 to 08/11/91)
B. Loc Eckersley, AMD (08/11/91 to 08/17/91)
Marshall D. Brown, MD (08/17/91 to present)
 - b. Project Officer(s) James T. Grossmann, Office of Private Sector Programs,
Director (08/08/86 to 09/12/89)
Kermit C. Moh, Office of Private Sector Programs Acting
Director (09/11/89 to 04/90)
Reese Moyers, Office of Private Sector Programs Director
(01/06/90 to present)
Victor Paz, Project Officer, (08/08/86 to present)
 - c. Previous Evaluation(s): March 1989

ATTACHMENT B: SUMMARY OF EVALUATION RECOMMENDATIONS AND MISSION RESPONSE

RECOMMENDATION	RESPONSE
1. It is imperative that the Privatization Commission be invested with adequate authority to be able to make binding decisions in order to manage the privatization process effectively	This will be done through an amendment to the Privatization Legislation that is pending approval from Congress. (Action 1)
2. The Commission should have its own permanent staff. The Chairman should be made Minister of Privatization and have a Vice Minister who would be responsible for day-to-day operations, with a small professional staff.	The GOH is considering changes in the membership and the role of the Commission. (Action No.2).
3. The Liquidation Board of CONADI should be dissolved immediately and the Privatization Commission empowered to divest CONADI's holdings through competitively bid contracts with qualified auditing firms which would be paid a market rate plus incentive bonuses.	The dissolution of the Liquidation Commission is not politically viable. However, changes in the Liquidation Board have been made.
4. The expansion of the process to include privatization of parts of public agencies should proceed. USAID/H should study the SECOPT case closely to use as part of the basis for developing the project design for Phase II.	The Mission is supporting under this project the privatization initiatives of public agencies, primarily those in the Ministry of Natural Resources and in SECOPT. Others may be included when requested by the GOH. The Mission is fully cognizant of the SECOPT case (Action No.4).
5. USAID/H should consider exploring with the GOH ways in which public entities involved could help finance their own privatization.	This is being done with the Ministry of Natural Resources in the privatization of the seed program/industry and the grain silos under this project. Others may be included when requested by the GOH.
6. It is essential for the GOH to review its economic and related policies to bring them into conformity with respect to efficient promotion of privatization, eliminating inconsistencies.	This is part of the Mission's on-going dialogue with the GOH. The new Investment Law and the reforms to the Agricultural Legislation supported by USAID are two examples of efforts along these lines.
7. To help forestall the possibility that union opposition may develop,	Through COHEP the Mission is conducting a communication campaign to explain the

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present efforts in communicating with selected labor leaders should be maintained.

8. The GOH should incorporate useful suggestions on the part of labor into future divestiture strategies, effectively making union leaders stakeholders in privatization.
9. The administration needs to make clear what its vision of and for privatization is. One part of that should be protection of workers rights through guaranteed minimum wages. Another important effort should aim at bringing together the private sector and labor through COHEP, to discuss and agree upon mutual benefits of privatization.
10. The local currency severance pay pool should be expanded as necessary to cushion lay-offs due to divestiture.

need for privatization and the benefits that can be obtained by all sectors, including labor (Action No.3).

The GOH is contemplating the inclusion of representatives from labor in the Privatization Commission. This would ensure labor becomes a part in privatization policy decisions. Mission will support this recommendation.

The evaluation of this project will form the basis for negotiations with the GOH to formulate a coherent privatization policy. The workers rights and minimum wages are guaranteed by the labor legislation. The communication program that is being conducted through COHEP brings together the private sector, labor and government.

The Mission will not expand the severance pool but will continue to support the use of local currency to cushion lay-offs (Action No.5).

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