

NATIONAL ACTION PLAN

Honduras

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INTRODUCTION

Since the 1990s, the expansion of regional integration initiatives and the desire for an improved standing for Honduras within the world economy have been priorities on the agenda of the commercial policy of the Honduran Government. The adoption of a tariff reduction program and the entrance of Honduras to the General Agreement on Tariffs and Trade (GATT) in 1994 and subsequently to the World Trade Organization (WTO) in 1995 have been of particular importance. On a hemispheric level, Honduras has actively participated in negotiations on the Free Trade Area of the Americas (FTAA) since 1998. An important bilateral agreement was signed with Mexico, Dominican Republic, Chile and Panama, and actually negotiating with Canada. In June 2001, Honduras entered the Free Trade and Investment Agreement with El Salvador, Guatemala, and Mexico.

Honduras' commitment to the expansion of free trade in the region is exemplified by its successful participation in previous negotiations, and now through its active participation in the upcoming FTAA negotiations. The Government of Honduras views regional integration initiatives as an important tool in addressing its own urgent economic development needs, and it enters these FTAA negotiations with a strong commitment to participate actively in the negotiation process. The Government also understands its responsibility to strengthen its capacity to implement this agreement and is committed to doing so. However, most important to the Honduran Government is ensuring that a FTAA negotiation will bring the desired economic benefits to the country and to all levels of the population

ANTECEDENTS

In terms of institutional, legal, and policy reforms dealing with commerce, investment, and competitiveness in Honduras, work in several areas has been done with support of several projects and programs financed with international financial cooperation.

In the matter of Customs Union, due to the assistance provided, at a regional level, by PROALCA/ SIECA, support will be provided in policy development, institutional and legal reforms in the areas: common customs administration, tariff harmonization; free mobility of goods and services; tributary harmonization and the mechanism of tributary income collection; intellectual property; common commercial policy and the registries, including: a) mutual recognition of sanitary registries for foods and drinks, medicines and compatible goods and farming inputs; b) mutual recognition of registries of importer and hydrocarbon distributor; c) harmonization of sanitary and phytosanitary measures; d) harmonization of technical standards.

The Company, Booz Allen, with the support of USAID G-CAP has made an evaluation of the legal and commercial surroundings identifying a series of

policy initiatives and institutional reforms oriented to collapse the commercial barriers, especially those prevailing in customs procedures, requirements for the export and the import of goods making emphasis in the aspects related to phyto-sanitary norms. In reference to the construction of foundations to foment the private initiative, special emphasis has been made in the new Property Law implementation, the creation of the Property Institute, the approval of the Personal Property Guarantees Law. The laws that regulate the establishment of businesses must be simplified in order to stimulate small and medium companies' incorporation to the formal economy, additionally; the Civilian Procedures Code must be modified to facilitate the administrative procedures.

Regarding the World Bank, within the framework of the National Program of Competitiveness (NPC), it is working on the **Reduction of time and costs of administrative procedures**; time and costs reduction plus increasing transparency as far as it concerns Government requirements for the establishment of new companies in the country, administrative procedures, simplification of export requisites, eliminate or simplify bottle necks that affect the normal operations of a company.

Reduce anticompetitive behavior by companies and improve consumers' protection, support, create and develop the ability of the Government agency in charge of the stimulation of competition and consumer protection, as well as develop consensus within Congress for approval of the First Draft of the Competitive Law Project.

IDB-NPC has been strengthening the management of commercial negotiations and the application and administration of treaties. The technical capacity for the promotion of exports, dialogue and consultation mechanisms regarding treaties have been started with the public and private sector. PROALCA IR4 has worked on a communication strategy for the negotiation process, consultancy within the public and private sector and the diffusion of CAFTA-RD results.

US Trade Development Agency (USTDA) is a Trade Information Exchange Portal of the Ministry of Trade and Commerce under development; it will be a focal point for the collection and integration of commerce information, providing analysis and information through commerce associations.

This document is in response to the National Action Plan guidance paper dated October 3, 2002. As requested, the National Action Plan for Honduras is divided into two parts:

Part A outlines the current national organizational and policy-making structure for negotiation and implementation of trade agreements.

Part B is divided into three broader areas: 1) Trade negotiation preparation and participation; 2) Trade agreement implementation; and 3) Transition to free trade.

This Action Plan will evolve over time, being revised and re-worked as necessary, particularly in light of implementation and structural changes. The

Plan will serve as a management tool for mobilizing and managing trade capacity with support from public and private sectors, as an integral component of the country's trade development strategy.

PART A: NATIONAL CONTEXT AND POLICYMAKING STRUCTURE

1. *The Secretary of Industry and Commerce*

The Secretary of Industry and Commerce (Secretaría de Estado en los Despachos de Industria y Comercio -SIC) is the public body responsible for the development and administration of economic policy (both domestic and foreign) and the management of Honduras' foreign trade negotiations and agreements. Specifically, the Secretary is responsible for the development, coordination, implementation and evaluation of policies concerning the following issues:

- Unilateral, bilateral, and multilateral trade agreements
- National and international trade in goods and services
- Economic integration and export promotion
- Industry development and promotion
- Business development and promotion of Private investment
- Industrial processing zones and other free zones
- Illegal competition practices
- Consumer protection
- Intellectual property rights
- Small and medium enterprises

To effectively carry out its duties, the Secretary of Industry and Commerce is organized into two Undersecretaries: the Vice-Secretary of Business Development and Internal Commerce and the Vice-Secretary of Economic Integration and External Trade (SIECE).

Since April 2001 (Executive Decree PCM-002-2001), responsibilities for foreign trade have fallen under the mandate of SIECE, which is divided into four General Directorates: the General Directorate of Economic Integration and Commercial Policy; the General Directorate of International Negotiations; the General Directorate of Treaty Administration; and the General Directorate of Foreign Trade Promotion and Investment.

The Vice-Secretary of Business Development and Internal Commerce is also divided into several General Directorates. These are the General Directorate of Intellectual Property, the General Directorate of Consumer Protection, the General Directorate of Micro, Small, and Medium Enterprise Growth, and the General Directorate of Business Development.

The Secretary of Industry and Commerce coordinates with other state institutions and private sector organizations in the development, design and implementation of the commercial policy, involved in international trade. The roles of these institutions are discussed below.

2. Secretary of Finance and the Executive Directorate of Revenue (DEI)

The Secretary of Finance is responsible for the development, coordination, execution, and evaluation of all policies related to public finance and the national budget. Its mandate is to assure compliance with priorities defined by the President of the Republic. These include: all affairs related to public finance; the collection and administration of revenues; public funds appropriations; fiscal control over import and export operations and other activities related to customs services; fiscal oversight of operations carried out in free zones; the enforcement of measures to prevent fiscal fraud; all matters relating to tax obligations; follow-up and evaluation of the execution of the national Budget.

The DEI is a decentralized unit of the Secretary of Finance. Administratively, technically, and financially, it is autonomous from the Secretary. The DEI is responsible for the administration of all tax revenues, including customs revenues. Additionally, the DEI provides collections training, supervision, control, and oversight in the enforcement of fiscal laws.

3. The Central Bank of Honduras (BCH)

The Central Bank's main responsibility is to establish monetary, credit and exchange rate conditions that promote the economic development of the country. The Central Bank maintains control of the money supply, exchange rate policy, credit standing and bonds. Additionally, it provides bank supervisory services and acts as economic and financial advisor to the State. The Central Bank acts as the State's representative to the International Monetary Fund and other multilateral institutions.

4. Secretary of Agriculture and Livestock

The Secretary of Agriculture and livestock is responsible for the development, coordination, implementation, and evaluation of policies related to production, conservation, supports producers and distributors of agricultural products and primary agricultural materials as well as the derivative products of aquaculture, aviculture, and apiculture. It also provides support to the modernization and competitiveness of these industries.

5. Secretary of Natural Resources and the Environment (SERNA)

The Secretary of Natural Resources and the Environment is responsible for the development, coordination, implementation and evaluation of policies relating to water resources, energy and the environment. Additionally, SERNA provides overseeing to ensure that industrial and commercial activities or projects are in accordance with national environmental regulations and laws.

6. Secretary of Foreign Relations

The Secretary of Foreign Relations is responsible for the development, coordination, implementation and evaluation of the country's foreign policy and international relations. Other duties include: support and coordination of the consular and diplomatic service; the advancement of political, economic and cultural relations including international cooperation; and issues concerning the national borders and sovereignty of Honduras.

7. Secretary of Health

The Secretary of Health is responsible for all issues concerning the development, coordination, implementation and evaluation of policies regarding protection and rehabilitation of the health of the population, assuring the compatibility of these policies with the strategies of the President of the Republic. Other responsibilities include the sanitary regulation of production and distribution activities of food products for human consumption and their compliance with established norms and regulations, the sanitary control and supervision of production and sale of chemical products, pharmaceuticals, and cosmetics, as well as similar substances produced for human consumption.

8. Secretary of Tourism

The Secretary of Tourism is responsible for all issues related to tourism, including development and promotion of tourism services, regulation and supervision of the industry, and foreign investment promotion in the tourism sector.

9. The Legislative Branch

Honduras has a unicameral Congress which is elected **every four years coinciding with the presidential elections**. As mandated by Article 205 of Decree No 131 (January 11, 1982), the Congress has the following responsibilities regarding foreign trade:

1. Develop, interpret, reform and repeal laws;
2. Approve or reject international treaties that the Executive Branch supports;
3. Establish laws through which subsidies and grants are implemented to improve public well-being and promote economic and social development;
4. Develop and abolish customs procedures and free zones upon the initiative of the Executive Branch; and
5. Regulate maritime, land and air commerce.

For trade services, there are several commissions whose main responsibility is to create sectoral policies. These include the National Banking and Securities Commission and the National Telecommunications Commission.

Private Sector Organizations

There are various groups that participate in the development of commercial policy as it relates to the private sector. These include the Honduran Council for Private Enterprise (COHEP), various chambers of commerce, most importantly those in Tegucigalpa and San Pedro Sula, the National Industry Association (ANDI), the Foundation for Investment and the Development of Exports (FIDE), the Honduran Chamber of Insurers, the Honduran Association of Banking Institutions (AHIBA), the Foundation for the Development of Exports (FPX), and the Honduran Association of Maquiladores. There are also other producer associations in agriculture, commercial, and service sectors. The most prominent of these organizations are presented below.

10. The Honduran Council of Private Enterprise (COHEP)

The Honduran Council for Private Enterprise (COHEP) is a civilian, non-profit organization, which represents the interests of the private sector in Honduras. As the umbrella organization representing practically every established Honduran business, COHEP's main function is to coordinate the efforts of the private sector in the resolution of national problems, strengthening the entrepreneurial spirit. COHEP's role of providing advice and information to its 51 affiliated associations and chambers of commerce is considered to be very important, as is its task of organizing meetings and seminars to co-ordinate activities for all its members nationwide. COHEP's members include: chambers of commerce and industry, employers' associations, federations and foundations, including those of the self-employed. These represent some 10,000 enterprises, or 90% of the country's national and foreign employers. COHEP-members employ some eighty-five percent of the workforce (approximately 900,000 workers), with the remaining 15% being employed by Government.

COHEP is represented on and actively participates on the boards and committees of the following public sector bodies, among others: The Central Bank, the Honduran Social Security Institute, the National Vocational Training Institute, the National Electricity Board, the Minimum Wage Council, the Public Services Supervisory Commission, the Workers' Health Commission, the National Tax Commission, and the National Environmental Advisory Council.

COHEP is a member of the International Organization of Employers (IOE), the Federation of Private Enterprises of Central America and Panama (FEDEPRICAP), the Inter-American Council for Trade and Production (CICYD), and the Association for European-Latin American Enterprise Co-operation (ACE). Moreover, COHEP participates in the activities of the ILO, representing Honduran employers.

11. *The Foundation for Investment and the Development of Exports (FIDE)*

FIDE is a non-profit, private institution founded in 1984 to promote investment, support export development and to act as a link between government and other private institutions in the development and promotion of new legislation conducive to improving the business climate in Honduras.

FIDE's mission is to promote and facilitate investment, exports and the continued improvement of international competitiveness on both the foreign and national level. FIDE has been extremely effective in its investment and export promotion agency and has also been effective in maintaining a strong public private sector policy dialogue initiative over the years.

12. *Other Private Sector Organizations*

- *The National Industry Association (ANDI)*
- *Cortés Chamber of Commerce and Industry (CCIC)*
- *Honduran-American Chamber of Commerce (AMCHAM)*
- *Tegucigalpa Chamber of Commerce and Industry (CCIT)*

PART B: TRADE CAPACITY BUILDING ASSESSMENT

I. TRADE NEGOTIATION PREPARATION AND PARTICIPATION

The Honduran trade negotiators are civil servants chosen from the General Directorate of International Negotiations, the General Directorate of Economic Integration and Commercial Policy, or the General Directorate of Treaty Administration. All three Directorates are affiliated with the Vice Secretary of Economic Integration and External Trade.

1. *Institutional Development for the management of External Commercial Policy Program*

This program includes technical assistance for investigation, analysis, development, and evaluation of commercial policies. It is required to develop the institutional capacity of the Ministry of Trade and Commerce for commercial policy development, analysis, investigations and evaluations of economic and social impacts derived from the signing of commercial agreements, Customs Union on public finances, commerce, investment, poverty reduction and to propose actions and policies that help the productive sectors adjust and take advantage of opportunities that commercial opening offers.

This program includes original activities and plans for specialized personnel retention, equipment, training, financing investigation needs and future commercial negotiations mainly with the WTO, ALCA, Customs Union, and European Community and signing of new commercial treaties.

This year, Honduras assumes the Presidency Pro Tempore of the SICA and will require more financial and logistics support to develop the different events to be programmed in the host country. Training and Training of professionals from the Ministries of Trade and Commerce, Agriculture, Ranching and other related institutions will be based on commercial negotiation techniques in subjects related to Customs Union, Economic Integration, ALCA, and WTO; and the management of themes related to the treaties' administration, mainly CAFTA-DR.

II. TRADE AGREEMENT IMPLEMENTATION

The General Directorate of Treaty Administration of the Office of the undersecretary of Economic Integration and Foreign Commerce was created in 2000 and is the body entrusted with overseeing implementation and compliance with legal obligations arising out of the international trade agreements.

The Free Trade Agreement between Central America, Dominican Republic, and the United States (CAFTA-DR) has been catalogued as a commercial agreement of the new generation because it gathers the dispositions of the World Trade Organization (WTO) enforced after NAFTA; additionally, it incorporates new aspects that have appeared in the international trade arena during the last years. Among the subjects negotiated for the treaty are: 1) Markets access: 1.a) Tariff treatment; 1.b) Rules of origin and customs' procedures; 1.c) Sanitary and phyto-sanitary measures; 1.d) Safeguards; and 1.e) Technical barriers for commerce; 2) Public contracting; 3) Investment; 4) Services; 4.a) Over-boarder services 4.b) Financial services; 4.c) Telecommunications 5) Electronic commerce; 6) Intellectual Property; 7) Labor; 8) Environment; 9) Transparency; and 10) Solution of controversies.

According to Public Administration Law, it is the responsibility of the Ministry of Trade and Commerce to outline the nation's commercial policy and consequently guide the negotiation of commercial agreements and treaties, as well as protecting their administration and implementation.

Considering the complexity and importance of the attributions and functions assigned to the Ministry of Trade and Commerce, especially concerning effective administration and implementation of different agreements and commitments acquired with the subscription of commercial treaties, especially with the CAFTA-DR, it is necessary to push programs, projects, technical and financial support mechanisms within the Ministry of Trade and Commerce and other Government institutions with direct and shared responsibilities in that field, to obtain an opportune and effective implementation.

1. Treaty Administration and Implementation Program

The Ministry of Trade and Commerce is undergoing a process of reforms and institutional reorganization to adapt their legal and institutional structure to the demands of the new framework of commercial policies, aiming for a successful implementation. The value of seizing the opportunities and managing the challenges that the CAFTA-DR implementation entails will depend on the success of this stage.

Therefore, international cooperation is required to develop the institutional, technical, and operational capacity of the Ministry of Trade and Commerce for the administration and implementation of treaties, the nation's external commercial policy, and mechanisms of coordination within the private sector, especially in the following areas: i) Tariff-rate quotas (TRQ) administration; ii) Enforcement of the safeguard mechanisms; iii) Sanitary measures; iv) Rules of origin; v) Technical standards; vi) Tariffs; vii) Commercial opportunities identification and seizing; viii) Divulgence; ix) Information systems; and x) Training.

In order to fulfill its objectives, the treaty administration and implementation program will be composed of four subprograms:

- i) Commercial mechanisms administration and implementation;
- ii) Diffusion of commercial norms, requirements, and opportunities;
- iii) Information systems; and
- iv) Training.

1.1 Subprogram of Commercial Mechanisms Administration and Implementation:

This subprogram will be integrated by legal and institutional reforms, regulations, manuals, and procedure preparations in the following areas: i) TRQ's administration; ii) Enforcement of the safeguard mechanism iii) Sanitary measures; iv) Rules of origin; v) Technical Standards; and vi) Tariffs.

Legal framework: Among the activities that will be accomplished by this Subprogram the following may be mentioned: i) Creation and performance of the Sanitary and Phyto-sanitary Matters Committee; ii) Support adjustment of the present Sanitary and Phyto-sanitary Law, elaborating its regulations.

Regulations: i) Elaboration and implementation of the general regulation for the distribution and allocation of tariff-rate quotas of imported farming products; ii) Elaboration and implementation of a general regulation for special agricultural safeguard; iii) Elaborate and implement a system for the regulation for plants and products certification; iv) Elaborate and implement a national origin regulation; v) Elaborate and implement a national regulation for products' origin verification; vi) Elaboration and

implementation of the program of tariffs charged to imported and exportable goods.

Manuals and procedures: i) Elaboration and implementation of manuals and operative procedures for registry, control, and monitoring of goods subject to tariff-rate quotas ii) Elaboration and implementation of manuals and operative procedures for registry, control, monitoring of goods subject to application of special agricultural safeguards.

1.2 Subprogram of Diffusion of Commercial Policies, Norms, Procedures, and Opportunities

The Government of Honduras with assistance of IDB has prepared a “**CAFTA-DR Communication Strategy**” which contains outlines of the CAFTA-DR strategy, publicity and promotion tools. Its implementation is programmed for the year 2005. PROALCA IR4, on the other hand, fulfilling the objective to obtain a greater understanding of the technical requirements for the entrance of Honduran goods to the US market and to increase the public support for the CAFTA-DR, prepares the project “**Information Strategy for Seizing CAFTA**” which includes training activities, seminars, and workshops explaining how the production sector can profit from CAFTA; providing statistical information, according to location, on products with commercial opportunities not being seized; providing statistical information on products with revealed competitive advantages; and the design of dialogue and agreement mechanisms for Congress.

Among the other activities to be developed for the treaty administration, are: i) Publicizing the external commercial policy of Honduras; ii) Publicizing the laws, regulations, manuals, and operational procedures of the areas above stated.

1.3 Commercial Information Systems Subprogram

Among the programmed activities in the subprogram are the elaboration, actualization, and maintenance of the web page of the Ministry of Trade and Commerce and the portal containing: a) The External Commercial Policy of Honduras; b) The General Regulation for the Distribution and Allocation of Tariff-rate Quotas of Imported Farming Products; c) The distribution, allocation, and use of tariff-rate quotas for imports; d) The General Regulation for the Administration of the Special Agricultural Safeguard; e) Registry, control, monitoring of goods subject to tariff-rate quotas; f) registry, control, monitoring of goods subject to the application of the special agricultural safeguard; g) registry, control, monitoring of processing plants and certified products based on the system; h) National origin rules to determine when a product is considered original from a certain country; i) Automatic procedures for the export and import of products (CENTREX); j) Updated statistics on commercial flows

(imports and exports); k) Updated lists of rates and taxes charged to imported and exportable goods.

1.4 Training Subprogram

Among the activities that are to be carried out by this Subprogram, is the training of technicians and employees from the Executive Income Directorate, the Ministries of Agriculture, Ranching, Trade and Commerce, on how to apply the law, manuals, regulations, and procedures in the areas above mentioned.

III. THE TRANSITION TO FREE TRADE

The Government of Honduras has been executing Programs and Projects to promote the readiness of the Honduran economy for competitive international trade conditions, to be able to take advantage of the commercial opportunities that those markets offer, to resolve internal structural problems that reduce competitiveness of exportable products and limit the possibilities of other opportunities for businesses that are still not being taken advantage of.

Within those Programs and Projects, is the Program for Fortifying Competitiveness: Facilitating trade and productivity enhancement, with financial support of the World Bank whose long term objective is to increase the productivity of the private sector and consequently the competitiveness and economic growth of Honduras; in so doing increase employment and reduce poverty. In the short term, improve the investment climate in Honduras and the capacity of the companies to export, with the aim of preparing Honduran companies to take advantage of the commercial opportunities available through the negotiation of treaties.

Within the main activities to be executed by the Program are: i) the creation of technological innovation centers for wood furniture, handcrafts and textile; ii) Development of a National Quality System and recognition of the importance of having a system for quality and environmental certification; iii) development of training for the labor force; iv) Improve the Economic Development of Selected Pilot Areas with high potential for development; v) promotion of direct foreign investment of greater added value; vi) improvement of the quality and reduction of the basic infrastructure and logistic costs.

Many of these activities are being refocused to take advantage of the FTAs. The concessions agreed to by the signing of the CAFTA-RD have positive effects for Honduras, mainly because it provides permanent access, under clear and transparent rules in preferential commercial conditions, to the greatest market and main commercial partner, the United States. DR-CAFTA means newer and greater trade investment opportunities for the present and a potential supply of goods and services, which will promote cooperation and economic

balance among the contracting countries. All these factors contribute to diminishing the risks associated with export activities and access to markets. At the same time, CAFTA expects local companies to reposition their production lines in order to reduce costs basing production decisions upon the demands of the market.

Considering this framework of reference, Honduras needs to design and implement "Free Trade Transition Programs" that must lead to a reassignment and improvement in the use of local resources by national companies to allow them to compete at international and regional levels. Here are two of the programs designed with the technical support from PROALCA IR4, IADB., and BCIE.

1. *Program of Modernization of the Productive Sectors (FOMPRO)*

The new commercial environment offers Honduras the opportunity to give a qualitative jump towards high levels of economic growth and social welfare, by developing and taking advantage of the competitive strengths of key sectors: the agro-food, forest, tourism, small and medium enterprises.

The successful execution of the DR-CAFTA, requires a diversity of goods and services that are or could be products supplied by the country, as long as it obtains the modernization, consolidation and extension development of the existing companies. The promotion of new investments will strengthen trade with the United States, as well as national, regional and extra regional markets.

The key growth sectors and commercial opportunities will have to fulfill the following characteristics:

A- Revealed competitive advantages, products that are being exported to those markets share the possibility of increasing their export values;

b. - Products that are being exported to the United States by any of the Central American countries; Honduras is not doing it yet but it does have the necessary climate conditions to go ahead with it all.

c. - Products that are being imported by Honduras from any of those countries where locally there exists the conditions necessary to produce them in a competitive way.

The objectives of FOMPRO are to facilitate the processes of change for the sensitive production sectors, to promote alternative sources of income in a sustainable form and to modernize and increase the competitiveness of sectors with productive potential in the framework of commercial opening process.

The FOMPRO operation plan is based on a logical, pragmatic methodology, processes that begin with:

- Identification of the niches in the target market, based on tendencies and historical behavior of the exports and imports of goods and services;
- Particular study of the niche in the target market, referred to as: knowledge of the present and potential buyers, competition, requirements, sanitary and phyto-sanitary norms of access, quantification of the present and expected demand, prices, conditions of negotiation and any other aspect that allows to characterize the niche in the market of interest;
- Identification and selection of the regions in the national scope, that offer appropriate conditions for the production of eligible sorts and activities with which it plans to enter the target markets; likewise, selection of production companies and association of producers with potential to export.
- The selected regions, companies and producers must fulfill minimum requirements, referred to as: knowledge and experience of the identified productive activities, to operate with an appropriate technological level, land availability in a required size, irrigation, facilities of processing and storage, physical access, availability of credit and information of market
- Evaluation of the weaknesses of the companies and producers, with the purpose of proposing programs for reengineering the products, production, administrative and managerial processes when they are required.

In order to contribute to achieve FOMPRO's objectives, it has been constituted by subprograms: 1) Subprogram of Businesses Advisory Services and 2) Subprogram of Credit and Financial Services for Competitiveness.

1.1 Subprogram of Businesses Advisory Services

The areas to be attended are: Training, technical assistance and technological innovation, Enterprise organization with commercial aims, commercialization and sales, Administration and finances of the company and market, feasibility and design studies.

1.2 Subprogram of Credit and Financial Services for Competitiveness

The financial services subprogram of FOMPRO is the instrument that will allow supporting the general strategy of the program, according to the criteria of investment selected in the components of Businesses Advisory Services, help from the MIPYMES, Forest Sector and Rural Tourism.

FOMPRO by its own nature, objectives and goals, proposes to supply a diversity of financial and non financial products adapted to the needs of the beneficiaries which correspond to production, processing, commercialization, promotion of exports, administration of risks and production infrastructure activities with the purpose of impelling the national economy, according to globalization and business openings. The financial and non financial services on the basis market studies, type of products to generate, conditions and potential of the zones, technological level, experience of the beneficiary, requirement of investment, technical and financial studies and other indicators which will serve as basis to determine the orientation of the resources in the region, sectors and production activities; as well as, the investment in physical infrastructure and services.

This subprogram will assist the following activities 1) financial Services for production investment 2) financial Services to sustain the trade and promotion of exports 3) financial Services for administration of risks.

1.2.1 Financial services for Production Investment

The production investment was determined under the following criteria:

The investment will be done in selected regions, applying the following criteria: a) by its agro climatic conditions and availability of resources, b) type of production activity identified with the potential of national and/or extra regional trade; c) Projects that demonstrate the technical and market feasibility, based on technical, economic and financial studies will be financed; d) credit will be granted to the applicant who proves to have experience in the activities for which he/she asks for resources, with the purpose of lessening the investment risks; e) It will evaluate the impact of the investment in terms of employment generation, profitability, environmental impact and its damping; f) those investments that generate an important value added will be preferred, and g) so will those activities or proposals with possibilities of integration in production chains.

1.2.2 Financial services to support Activities of Trade and Export Promotion

- **Financial services to support trade.**

The identification, characterization and selection of the most advisable markets are some of the stages of greater importance in running a company or production activity that expects usefulness and sustainable growth.

FOMPRO includes financial services to support the activities related to trade: a) Technical Advisory services for the elaboration

of market studies; b) business and commercialization plans; c) Assistance and Advising in matters of process technologies and product preparation, packing and product presentation for the markets; d) financing for the fulfillment with norms and requirements of sanitary control and legal requirements demanded by the products destination markets; e) and finally financing for the provision of raw materials.

- **Financial services for the Promotion of Exports**

Considering that in the country, the appropriate financial and natural resources required by the exporting sector are scarce, the small and medium exporter are limited and forced to choose unsuitable lines of credit, with limitations such as: inadequate terms, guarantees, financial product alternatives and other factors. Acknowledging these needs, FOMPRO proposes to make the financial resources available to assist the export sector to finance the following investments: a) Constitution, registry and certification of companies and products; b) work capital with an export purpose; c) logistic and physical distribution, storage, transport, international loading and unloading; customs expenses, customs clearing and payment of insurances; d) Training in the preparation and adjustment of raw materials products and samples; e) credit for participation in events of promotion of businesses and f) purchase of information and publicity packages.

1.2.3 Financial services for Risk Administration

These services pursue the following objectives:

To stimulate production and value chain integration and compliance, among producers, processors, storage companies, traders, financial services, insuring services, technical assistance services, in order to share the risks in the investments and allow an adequate administration of the resources that are responsible for different factors on the chain; facilitate and guarantee the access to financing sources when instruments like: insurances, guarantee funds, certificates and pignoratious bonds are in use.

FOMPRO includes the following instruments for risk administration:

- Financial resources for the guarantee fund
- Financial resources for insurances
- pignoratious and mobiliary guarantee
- Certificate of deposit, article bonds.

2. Support for Competitiveness of Micro, Small and Medium enterprises in Honduras Program

Honduras has defined several National Strategies to promote the development of the country. On one hand, the National Government Plan of 2002-2006, the Strategy for Poverty Reduction and the National Program of Competitiveness. On the other hand, Honduras has been consolidating the processes from entailment to the external market; as it has signed Free Trade Agreements with Mexico, Dominican Republic, it participates in the Plan Puebla Panama and in December of 2003 it finalizes the negotiation with the United States of America. In all these efforts, MIPYME has been identified as a strategic sector that needs to be helped so that the country may take advantage of the opportunities that an extended market offers and contribute to the development and poverty reduction goals.

With the identified programs to support the competitiveness of the MYPYMES it hopes to improve employment and poverty indicators; as well as improve the productivity promoting the MIPYMES to participate in an effective way in the national, regional and extra regional, markets, supporting them with credit granting, technical assistance and training and with suitable and fortified institutional and legal surroundings.

The specific objectives are the following ones;

- To improve the climate and conditions that favor the competitiveness, considering the factors that allow diminishing risks for investment.
- To assist the MIPYMES, with technical advisory in technological transference, commercialization, credit, and information systems, taking advantage of the opportunities that commercial opening offers, elevating the levels of investment, employment, income and quality of life.
- To develop innovators mechanisms and instruments for the fortification of intermediaries who canalize the financial resources, to facilitate the MIPYMES with access to available resources.
- To increase investment alternatives through the MIPYMES for youth and women.

The sector of the MIPYMES has ample and varied necessities; there has been selected programs that the entrepreneurs have declared as the most urgent and strategic ones. The support programs to obtain the competitiveness of micro, small and medium enterprises are framed in the **National Policy to Support Competitiveness** and considering the new surroundings of the commercial opening derived from the signing of the Free Trade Agreement.

- Subprogram of Services of Enterprise Development
- Subprogram of Financial Services
- Subprogram of Enterprise Culture
- Subprogram of Markets and Exports Promotion
- Subprogram of Institutional support

2.1 Subprogram of Services of Enterprise Development

This subprogram is constituted by two basic projects: a) Constitution of a fund for hiring private operators which will provide the technical assistance services to support the MIPYMES, and b) financing for the training of operators, technical and financial services suppliers.

2.2 Subprogram of Financial Services

This Subprogram is constituted by three projects: a) Assistance for the strengthening of the Financial Intermediaries, b) establishment and implementation of information systems for the regulated and non regulated Financial Intermediaries, and c) support to the Financial Intermediaries for the innovation of Financial Services.

2.3 Subprogram of Enterprise Culture

This Subprogram constitutes two projects: a) promotion and establishment of association models of enterprise integration, to strengthen the production, processing and commercialization conglomerates, and b) promotion of the enterprising culture in the present and potential entrepreneurs, youth, and women.

2.4 Subprogram of Markets and Exports Promotion

This subprogram establishes two basic projects: a) Institutionalization of effective mechanisms for the promotion of export, through events like: fairs, wheels of businesses, entrepreneurs encounter, alliances of national and international entrepreneurs, and b) creation of commercial information systems in the public and private organizations through the creation of a special website for MIPYMES, toolbox, virtual fairs, E-Commerce.

2.5 Subprogram of Institutional Support

This subprogram is formed by two projects: a) Strengthening CONAMIPYME and DIFOMIPYME of the SIC, as the organism responsible for the application of the Support the Competitiveness of the Sector Policy, and b) establishment of the System of Evaluation of the development impact of the MIPYMES.

The expected benefits of the implementation of these programs are the following ones;

- Access to credit for natural and legal people who have not had access to financial sources or alternatives
- Penetration to markets at national and regional level for entrepreneurs who have received credit from the program, technical assistance and training through the production and value chains organization.
- To increase the added value of the MIPYMES
- To generate new sources of employment and income for the entrepreneurs and employees by means of establishing and expanding investments in enterprises in areas where the alternatives of investment and employment are scarce.