

U.S.-CENTRAL AMERICA FREE TRADE AGREEMENT (US-CAFTA)

**NATIONAL ACTION PLAN
FOR TRADE CAPACITY BUILDING**

HONDURAS

NOVEMBER 1, 2002

CONTENTS

INTRODUCTION.....	3
PART A. NATIONAL CONTEXT AND POLICYMAKING STRUCTURE.....	4
0.1 The Secretary of Industry and Commerce.....	4
0.2 Secretary of Finance	5
and The Executive Directorate of Revenue (DEI).....	5
0.3 The Central Bank of Honduras (BCH)	5
0.4 Secretary of Agriculture and Ranching	5
0.5 Secretary of Natural Resources and the Environment (SERNA).....	5
0.6 Secretary of Foreign Relations	6
0.7 Secretary of Health.....	6
0.8 Secretary of Tourism	6
0.9 The Legislative Branch.....	6
0.10 The Honduran Council of Private Enterprise (COHEP)	7
0.11 The Foundation for Investment and the Development of Exports (FIDE).....	8
0.12 The National Industry Association (ANDI)	8
0.13 Cortés Chamber of Commerce and Industry (CCIC)	8
0.14 AMCHAM.....	
PART B: TRADE CAPACITY BUILDING ASSESSMENT	8
I. TRADE NEGOTIATION PREPARATION AND PARTICIPATION	9
1.1 Market Access: Non-Agricultural Goods.....	10
1.2 Market Access: Agriculture.....	10
1.3 Customs Procedures	11
1.4 Services and Investment	11
1.5 Intellectual Property.....	12
1.6 Subsidies, Antidumping & Countervailing Measures	13
1.7 Government Procurement	13
1.8 Dispute Settlement	14
1.9 Competition Policy.....	14
1.10 Sanitary & Phyto-sanitary Measures	14
1.11 Standards	15

- continued -

II. TRADE AGREEMENT IMPLEMENTATION.....	1
2.1 Market Access: Agriculture.....	16
2.2 Customs Procedures.....	16
2.3 Services.....	16
2.4 Intellectual Property.....	17
2.5 Subsidies, Antidumping & Countervailing Duties.....	17
2.6 Government Procurement.....	17
2.7 Dispute Settlement.....	18
2.8 Competition Policy.....	18
2.9 Sanitary & Phyto-sanitary Measures.....	18
2.10 Standards.....	19
III. THE TRANSITION TO FREE TRADE.....	
3.1 A National Competitiveness Initiative.....	20
3.1.1 Strengthening of government institutions and public sector reform in the areas affecting competitiveness.....	21
3.1.2 Greater regional/international trade and integration.....	22
3.1.3 Additional areas of concern to be addressed in a national competitiveness initiative.....	24
3.2 A Rural Development Initiative.....	26
3.2.1 The Problem.....	26
3.2.2 A Rural Development Program.....	27
3.3 Specialized Assistance to Specific Sectors Most Likely to be Affected by a Free Trade Initiative.....	28

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 of the commercial policy agenda of the Government of Honduras. Of particular importance have been 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. 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.

This document responds to the National Action Plan guidance paper dated October 3, 2002. As requested in that guidance paper, 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 broad 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 implementing obligations and structural changes. The Plan, therefore, will serve as a management tool for mobilizing and managing trade capacity building assistance, from both public and private resources, as well as an integral component of the country's trade development strategy.

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 US-CAFTA 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 US-CAFTA 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 Government of Honduras is to ensure that a US-CAFTA negotiation will bring the desired economic benefits to the country and to all levels of the population.

PART A. NATIONAL CONTEXT AND POLICYMAKING STRUCTURE

0.1 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 formulation and administration of economic policy (both domestic and foreign) and for the management of Honduras' foreign trade negotiations and agreements. Specifically, the Secretary is responsible for the formulation, coordination, implementation and evaluation of policies concerning to the following issues:

- Unilateral, bilateral, and multilateral trade agreements
- National and international trade in goods and services
- Export promotion and economic integration
- Industry development and promotion
- Private investment promotion and business development
- 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 specific functions of the Secretary of Industry in Commerce are examined in detail in Part B, sections I and II.

In the formulation, design and implementation of commercial policy, the Secretary of Industry and Commerce coordinates with other state institutions and

private sector organizations involved in international trade. The roles of these institutions are discussed below.

0.2 Secretary of Finance and The Executive Directorate of Revenue (DEI)

The Secretary of Finance is responsible for the formulation, 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 the 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; and 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.

0.3 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.

0.4 Secretary of Agriculture and Livestock

The Secretary of Agriculture and livestock is responsible for the formulation, coordination, implementation, and evaluation of policies related to production, conservation, and support 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.

0.5 Secretary of Natural Resources and the Environment (SERNA)

The Secretary of Natural Resources and the Environment is responsible for the formulation, coordination, implementation and evaluation of policies relating to water resources, energy and the environment. Additionally, SERNA provides

oversight to insure that industrial and commercial activities or projects are in accordance with national environmental regulations and laws.

0.6 Secretary of Foreign Relations

The Secretary of Foreign Relations is responsible for the formulation, coordination, implementation and evaluation of the country 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 and international cooperation; and issues concerning the national borders and sovereignty of Honduras.

0.7 Secretary of Health

The Secretary of Health is responsible for all issues concerning the formulation, coordination, implementation and evaluation of policies regarding the protection and rehabilitation of the health of the population, and 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, and the sanitary control and oversight of the production and sale of chemical products, pharmaceuticals, and cosmetics, as well as other similar substances produced for human consumption.

0.8 Secretary of Tourism

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

0.9 The Legislative Branch

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

1. Formulate, 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 to promote economic and social development;
4. Formulate and abolish customs procedures and free zones upon the initiative of the Executive Branch; and
5. Regulate maritime, land and air commerce.

For services trade, there are several commissions whose main responsibility it is to formulate 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 formulation 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 producers' associations in the agriculture, industry, and service sectors. The most prominent of these organizations are presented below.

0.10 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 and in 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 in order to co-ordinate the activities of interest to all its members nationally. 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 the Government.

COHEP is represented on and actively participates in 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 (CICYP), and the Association for European-Latin American Enterprise Co-operation (ACE).

Moreover, COHEP participates in the activities of the ILO, representing Honduran employers.

0.11 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 formulation and promotion of new legislation conducive to improving the business climate in Honduras.

FIDE's mission is to promote and facilitate investment and exports and the continual improvement of international competitiveness on both the firm 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.

Other Private Sector Organizations

0.12 The National Industry Association (ANDI)

0.13 Cortés Chamber of Commerce and Industry (CCIC)

0.14 Honduran-American Chamber of Commerce (AMCHAM)

0.15 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. Input on intellectual property issues for trade negotiations comes from the General Directorate of Intellectual Property, which falls under the Vice Secretary of Business Development and Internal Commerce. Input on standards related issues comes from the Department of Normalization and Metrology which is affiliated with the General Directorate of Production and Consumption (which, in turn, falls under the jurisdiction of the Vice Secretary of Business Development and Internal Trade).

Most Honduran trade negotiators are recent college graduates who have been working at the Secretariat of Industry and Commerce for a few years at most, and often for considerably less than that. This means that only a minority have any experience in negotiating trade agreements that Honduras has previously conducted with Chile, the Dominican Republic, Mexico, or Panama. In addition, many trade negotiators are graduates of the state-run National Autonomous University of Honduras (UNAH) or private Honduran universities with an undergraduate degree in international trade or international relations. Instruction for the international trade degree is focused on assisting Honduran firms to export non-traditional products and therefore is limited to marketing issues and fulfilling bureaucratic requirements such as properly completing customs forms. Very little instruction is offered in international trade law.

Another problem afflicting Honduras's trade negotiation team is low remuneration that leads to high turnover as many employees of the Secretary of Industry and Commerce leave as soon as they have acquired sufficient on-the-job training that can be more lucratively applied to positions in the private sector. There is also high turnover at the upper managerial level because every time there is a change in the political party controlling the national government, there is also a change in the makeup of upper management. The result is very few experienced upper level personnel with adequate international trade negotiating experience.

For the most part, the Honduran trade negotiators' contact with the private sector is limited to COHEP. The negotiators send information and requests for guidance on issues related to ongoing trade agreements to COHEP. COHEP funnels this information or requests for input to those 51 member associations it feels would be most interested in the subject matter for comment.

The greatest need for Honduras's trade negotiating team lies in receiving training in international trade law and adequate trade negotiating skills. In designing any trade capacity building program, it is important to keep in mind the high turnover rates resulting from low remuneration. In addition, the short time frame proposed by the Office of the United States Trade Representative for concluding the negotiations for a U.S.-Central America Free Trade Agreement (*i.e.*, December 2003) imposes an additional time constraint. Accordingly, any assistance should not only be directed at training the current team of government negotiators but it should also be earmarked to efforts that allow the government to bring in qualified personnel from the private sector to serve as consultants and/or back up support to the current team. Although these outside persons may be veterans of previous trade negotiations, they may also require some training. However, this training is more likely to be short term in nature.

Another pressing need in Honduras is to fully engage the private sector in upcoming trade negotiations. In the past, the response of the private sector has oftentimes not been proactive and meetings called by the Secretary of Industry and Commerce result in poor turnout and/or meager private sector input.

1.1 Market Access: Non-Agricultural Goods

The negotiating group maintains contact with the Secretary of Finance and the National Institute of Statistics (INE). The National Institute provides import and export statistics, although this data is not necessarily compatible with trade data maintained by the Central Bank or the National Customs Service. The negotiators also have contacts with the private sector through COHEP and the Honduran Association of *Maquiladoras* who are invited to express the concerns of their membership and are kept abreast of progress in negotiations through briefing workshops.

Capacity Building Issue	Priority
Training in International Trade Law & Trade Negotiating Skills	1
Ability to Monitor Trade Flows <ul style="list-style-type: none"> • Access to Reliable Trade Statistics 	1
Adequate Computer Resources <ul style="list-style-type: none"> • Proper Training in Using Computer Software Programs & the Internet • Efficient access to statistical data bases 	2

1.2 Market Access: Agriculture

The negotiators maintain regular contact with the Secretariat of Agriculture and Livestock, which provides advice. Occasionally the negotiators may also seek advice from the Council on Forestry Development (COHDEFOR). The

negotiators also maintain contact with the private sector through COHEP and ANDI.

Capacity Building Issue	Priority
Training in International Trade Law & Trade Negotiating Skills	1
Effective Intra-Governmental Agency Coordination	1
Effective Communication & Coordination with the Private Sector	1
Ability to Monitor Trade Flows <ul style="list-style-type: none"> • Access to Reliable Trade Statistics 	2
Adequate Computer Resources <ul style="list-style-type: none"> • Proper Training in Using Computer Software Programs & the Internet • Efficient access to statistical data bases 	3

1.3 Customs Procedures

The negotiators have regular meetings the Secretaries of Finance, Agriculture, Health, and the Executive Directorate of Revenue Collection. Occasionally the negotiators may also contact the Secretary of Tourism in cases involving tariff exemptions associated with new tourism development projects. There is also a formal link to the Congress. The negotiators have links with the private sector through COHEP and ANDI as well as the Chamber of Commerce of Tegucigalpa, mostly for the purpose of receiving complaints and requests for assistance rather than for negotiators to disseminate information to the private sector on trade negotiations.

Capacity Building Issues	Priority
Training in International Trade Law & Trade Negotiating Skills	1
Effective Intra-Governmental Agency Coordination	1
Effective Communication & Coordination with the Private Sector and the DEI	2
Adequate Computer Resources <ul style="list-style-type: none"> • Proper Training in Using Computer Software Programs & the Internet • Efficient access to statistical data bases 	3
Ability to Monitor Trade Flows <ul style="list-style-type: none"> • Access to Reliable Trade Statistics 	4

1.4 Services and Investment

The negotiator has informal links with at least twelve other ministries or government agencies that deal with services ranging from transport to telecommunications. The negotiator is linked to the private sector through the COHEP, although a sector-specific association will also be directly contacted when necessary. Occasionally, there will be mixed public and private sector committee meetings to discuss upcoming trade negotiations and issues that need to be addressed. Input also comes from the National Commission on Banks and Insurance and the Central Bank on matters related to financial services. The National Telecommunications Commission provides input on matters related to telecommunication services. In all three cases, this input is limited to providing advice on existing legal regulations.

Capacity Building Issue	Priority
Training in International Trade Law & Trade Negotiating Skills	1
Effective Intra-Governmental Agency Coordination	2
Effective Communication & Coordination with the Private Sector	3
Adequate Computer Resources <ul style="list-style-type: none"> • Proper Training in Using Computer Software Programs & the Internet • Efficient access to statistical data bases 	4

1.5 Intellectual Property

The General Directorate is in regular contact with the Executive Directorate of Revenue Collection, the Public Secretary, the Security Secretariat, and the National Telecommunications Commission (CONATEL). These institutions are also part of an intra-agency group that is drafting regulations to enforce intellectual property rights at the borders and regulations to combat piracy in Honduras. The General Directorate has directly consulted with specific private sector associations or enterprises that may have an interest in intellectual property issues arising in the context of trade negotiations such as the pharmaceutical industry. The General Directorate also offers conferences, seminars and workshops at private and public institutions and universities in order to increase understanding of intellectual property rights. The General Directorate receives technical assistance from the World Intellectual Property Organization (WIPO), the WTO, and SIECA/PROALCA.

Capacity Building Issues	Priority
Effective Intra-Governmental Agency Coordination	1
Effective Communication & Coordination with the Private Sector	2
Adequate Computer Resources	3

<ul style="list-style-type: none"> • Proper Training in Using Computer Software Programs & the Internet • Efficient access to statistical data bases 	
--	--

1.6 Subsidies, Antidumping & Countervailing Measures

Honduras has limited experience in claims at government and private level. It's required a technical cooperation to training the negotiators .

Capacity Building Issues	Priority
Training in International Trade Law & Trade Negotiating Skills	1
Improved Access to Relevant Statistical Data	2

1.7 Government Procurement

The government procurement system in Honduras is decentralized. Each Secretary or government entity responsible for procuring goods or services on its own. There is, as of yet, no centralized office or web site where one can obtain information on product or service requirements for different government agencies whether it be at the national, departmental, or municipal level. Notices for bids at the national level are published in the official newspaper *La Gaceta* and in a newspaper of mass circulation. The Law on State Contracts was passed on September 17, 2001 and replaced a 1985 law on government procurement that was deemed to insufficiently guarantee transparency. The agency that is supposed to oversee enforcement of the new law on government procurement, the Legal Office of Contracts and Requisitions (*i.e.*, Oficina Normativa de Contratación y Adquisiciones) has not yet come into existence. For the time being, the National Treasury and the General Directorate of Administrative Provisioning provide oversight of government procurement at the national level. The only link with the private sector is through the COHEP and consists mostly of providing information at meetings on provisions in upcoming trade negotiating rounds that affect this area. There is little feedback from the private sector, since reportedly this is not considered an issue of great importance. At this moment the Secretary of Industry and Commerce is negotiating a Government Procurement Central American Agreement.

Capacity Building Issues	Priority
Training in International Trade Law & Trade Negotiating Skills	1
Effective Intra-Governmental Agency Coordination	2
Effective Communication & Coordination with the	2

Private Sector	
Adequate Computer Resources <ul style="list-style-type: none"> • Proper Training in Using Computer Software Programs & the Internet • Efficient access to statistical data bases 	3

1.8 Dispute Settlement

Honduras has little experience in utilizing dispute settlement mechanisms at the bilateral or multilateral level (WTO). This implies qualified human resources with access to cases being ventilated at multilateral forums, to documents and databases with information on the subject.

Capacity Building Issues	Priority
Training in International Trade Law & Trade Negotiating Skills	1
Adequate Computer Resources <ul style="list-style-type: none"> • Ready Access to relevant national & international legislation 	2

1.9 Competition Policy

Honduras has no Law on competition policy. There is therefore no institution that oversees enforcement of competition policy in the country. There is, however, a General Directorate on Consumer Protection that is affiliated with the Vice Secretary of Business Development and Internal Commerce.

Capacity Building Issue	Priority
Training in International Trade Law & Trade Negotiating Skills	1
Effective Intra-Governmental Agency Coordination	2
Effective Communication & Coordination with the Private Sector	3

1.10 Sanitary & Phyto-sanitary Measures

The contact point for matters related to Sanitary and Phyto-sanitary Measures in Honduras is the National Service of Agricultural and Animal Health (SENASA), which falls under the jurisdiction of the Secretary of Agriculture and Ranching. Information on sanitary and phyto-sanitary measures is transmitted at the national level through the national epidemiological network, at the regional level through the OIRSA web page, and through the OIE on an international level. OIRSA and OIE are also utilized to learn about sanitary and phyto-sanitary measures imposed by other countries (and complement information that may be

directly sent by the other country). Sanitary and phyto-sanitary measures are developed through periodic consultations that may involve the Secretariat of Industry and Commerce, the Secretariat of Health, the State Attorney's Office, the Executive Directorate on Revenue Collection, and various General Directorates of the SAG. The Honduran government currently does not use the Internet to provide domestic exporters with information on foreign sanitary and phyto-sanitary measures (or foreigners of Honduran measures), although this information can be obtained from SENASA upon request by fax or courier service. The private sector is directly informed whenever reforms or new sanitary or phyto-sanitary measures are proposed.

Capacity Building Issue	Priority
Training in International Trade Law & Trade Negotiating Skills	1
Improved Access to Relevant Information & Studies	2

1.11 Standards

Honduras needs to improve those regulatory aspects pertaining to norms, certification, measurements and weights . Norms must be complemented with documented facts and actualization of regulations pertaining to accreditation.

Capacity Building Issue	Priority
Training in International Trade Law & Trade Negotiating Skills	1
Improved Access to Relevant Legislation, Regulations, and Laws	2

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 in the context of international trade agreements.

2.1 *Market Access: Agriculture*

Capacity Building Issue	Priority
Effective Intra-Governmental Agency Coordination	1
Effective Communication & Coordination with the Private Sector	2

2.2 *Customs Procedures*

There is a need to improve communication between different government entities (including the Central Bank) which provide input or are affected by issues related to customs procedures resulting in trade negotiations. Communication links between the Executive Directorate of Revenue Collection and the private sector must be improved. In addition, there is a need to improve communication links between the Executive Directorate of Revenue Collection and customs posts throughout the country. The Executive Directorate of Revenue Collection requires new equipment that would, among other things, allow it to replace faulty weights.

Capacity Building Issues	Priority
Effective Intra-Governmental Agency Coordination	2
Effective Communication & Coordination with the Private Sector	2
Effective Internal Communication within Government Agencies	2

2.3 *Services*

Capacity Building Issue	Priority
Revision and Modernization of Legislation Affecting the Services Sector	1

2.4 Intellectual Property

There is a need to hire more personnel for the legal office of the General Directorate of Intellectual Property in order to handle the increasing number of requests that are processed through the Registry Office on a daily basis. Laws dealing with IPR must be implemented and enforced.

Capacity Building Issues	Priority
Establishment of New or Improvement of Existing National Institutions Dealing With Intellectual Property Issues	1
Implementation and Enforcement of Laws & Regulations Dealing with Intellectual Property Rights	2
Formulation of Long Term Policies on Intellectual Property (e.g., new legislation)	3

2.5 Subsidies, Antidumping & Countervailing Duties

There is a pressing need to hire personnel with an adequate background in law and/or economics to represent or defend the Government of Honduras in antidumping and countervailing duty cases. As a short-term measure there may also be a necessity to provide funds to hire lawyers from the private sector to adequately represent the interests of Honduras. A longer-term solution would be to create a properly staffed national agency that is responsible for bringing and defending unfair trade practice cases on behalf of the Government of Honduras.

Capacity Building Issue	Priority
Hire Properly Trained Personnel to Staff New AD/CVD Unit or Work on AD/CVD Issues Within Current System	1
Establishment of a Special Government Unit for Handling AD/CVD	2

2.6 Government Procurement

There is a need to implement the section of the 2001 Law on Government Procurement that calls for the establishment of the Contracts and Requisitions Office of Contracts and Requisition. In addition to overseeing enforcement and issuing necessary regulations that will further the overall goals sought through the law, this agency should also be the central point for disseminating information on government procurement requests at the national and, preferably, also at the departmental and municipal levels. This will require establishing close communication links between the Legal Office (once it comes into existence) and all government entities seeking to procure goods and services. The Legal Office of Contracts and Requisition should also be responsible for creating and maintaining a web site to provide information on the rules and regulations

concerning government procurement in Honduras. In addition, this web site should serve as a centralized point of reference for all interested parties on government procurement needs at the national and, preferably also at the departmental and municipal level.

Capacity Building Issues	Priority
Adequate Computer Based Information System	1
Transparency & Effective Notification Procedures	2

2.7 Dispute Settlement

Funds should be provided to permit staff of Office of Treaty Administration to attend dispute resolution panels at the WTO or in other trade blocs as observers. There is a need to establish a procedure and single contact point to which the private sector can address complaints arising from alleged failures to comply with obligations arising under international treaty obligations.

Capacity Building Issues	Priority
Adequately Trained Personnel	1
Clear Delineation of Jurisdiction & Procedures for Filing Complaints	2

2.8 Competition Policy

There is a need to approve legislation on competition policy in Honduras. Enforcement of that new law should be entrusted to a special government agency or private sector institute that should also ideally have oversight over Consumer Protection Law (and separated from the Vice Secretary of Business Development and Internal Commerce).

Capacity Building Issues	Priority
Implementation of Competition Policy Legislation	1
Creation of New Institutional Body to Enforce Consumer Protection & New Competition Policy Legislation	2

2.9 Sanitary & Phyto-sanitary Measures

There is a need to improve means of communicating relevant information on foreign sanitary and phyto-sanitary measures to domestic exporters through the Internet, as well as communicating such information on Honduran measures to international trading partners. The accredited laboratories testing animal and vegetable health as well as food health safety for human consumption needs to be modernized. There is a need to increase the number of accredited

laboratories, improve the level of technology utilized in these labs, and increase the training of lab workers.

Capacity Building Issues	Priority
Computerized System for Information Dissemination to the Public	1
Increased Cooperation from Comparable International Bodies	2
Modernization of Existing Laboratories	1
Installation of New Accredited Laboratories	1
Improved Skill Levels of Existing Personnel	1
Expansion of Qualified Technical Personnel	1

2.10 Standards

Capacity Building Issues	Priority
Modernization of Existing Metrology Laboratory	3
Modernization of Honduran Legislation on Standards Accreditation and Certification	4

III. THE TRANSITION TO FREE TRADE

Just as trade negotiation preparation and trade agreement implementation represent major challenges for Honduras, so does the transition to free trade. Although Honduras has made important advances, such as increased diversification of the economy and expanded participation in regional and international markets, the country remains poorly positioned within the region to take full advantage of existing trade agreements, let alone a new agreement such as the US-CAFTA.

Honduras will require a great deal of assistance in the transition to free trade if it is to benefit from the US-CAFTA. However, one should not interpret “benefit” as simply increased trade and investment. In the case of Honduras it means increased and more equitable distribution of the benefits of free trade, measured in terms such as improved income distribution; increased market access for marginalized sectors of the population, particularly in rural areas; additional assistance to those sectors of the economy that are most likely to be adversely impacted by the initial effects of free trade; and assistance to those sectors of the economy that are most likely to be able to participate competitively in regional and international markets.

Honduras anticipates that it will require assistance to build on existing initiatives and programs in three main areas if it is to achieve its objectives as a negotiating member of the US-CAFTA. These are:

- A national competitiveness initiative;
- A rural development initiative;
- Specialized assistance to those sectors most likely to be affected by a free trade agreement.

3.1 A National Competitiveness Initiative

The ability of Honduras to reap the benefits of a US-CAFTA agreement in a way that positively affects the country’s economic development depends on a multitude of factors. These factors are grouped here under the title “A National Competitiveness Initiative.” This proposed initiative, which builds upon a recently approved program entitled “National Competitive major components: 1) Strengthening of government institutions and public sector reform in the areas affecting competitiveness; 2) Greater regional/international

trade and integration; and 3) Additional areas of concern to be addressed in a national competitiveness initiative. These components, along with their respective subcomponents, are discussed in detail below.

3.1.1 Strengthening of government institutions and public sector reform in the areas affecting competitiveness

Public sector institutions in Honduras are severely hampered in their ability to operate by outdated structures and procedures that limit their ability to operate effectively. As discussed in previous sections, the current civil service regime, laws that affect public sector expenditures and operating procedures and recurrent pressures on the fiscal budget make it all but impossible for reform-minded government officials to implement changes within their programs and institutions that would enable Honduras to better take advantage of increased trade and investment. The negative impact of the current system can be seen at all levels – from broad-based policy decisions to the ability of public sector institutions to streamline forms and procedures that affect the day-to-day operations of businesses of every size and sector in Honduras.

Greater flexibility is absolutely necessary within key public sector institutions if the country hopes to foster expanded regional and international integration. Greater flexibility implies the freedom to hire and retain competent staff within the public sector, reform of public sector administrative procedures, and increased financial resources for key institutions working in the competitiveness arena.

The Honduran government recognizes that a public sector reform project of this nature and magnitude would require a multi-year initiative that would go well beyond the scope of a competitiveness initiative. Nevertheless, the Honduran government believes that a focused public sector reform project within the Secretary of Industry and Commerce, as well as related institutions that actively participate in trade and investment policy and procedure, would be highly beneficial.

Previous initiatives to strengthen the foreign trade sector have focused primarily on training for existing employees and commodity procurement. While these types of projects have been helpful, their impact has been limited given the inherent weaknesses in the overall system that prevent public sector institutions from attracting and retaining qualified and competent individuals.

A key component of the national competitiveness initiative will be the formation of a new institutional structure that would effectively eliminate the constraints cited above, and which would allow the public sector to play a more dynamic role in this area. This institute, the Institute of Foreign Commerce, would be an autonomous government body and would be able to operate outside of current public sector constraints. A balanced board of directors, made up of private and

public sector representatives, would oversee the institution. In effect, the institution would act as the operating arm of the Secretary of Industry and Commerce. While thus far no specific structure has been agreed to, models do exist in other countries that could be analyzed and used to develop an effective framework for the Honduran case. All involved parties agree, however, that such a body should achieve a satisfactory balance between public and private sector participation, that it need not be a large institution, and that it should focus on playing a dynamic role in stimulating increased levels of trade and investment.

The creation of an Institute of Foreign Commerce that meets the criteria outlined above is a major priority at this time, and is seen as the principle vehicle through which the Government of Honduras could be more effective in the transition to free trade under the US-CAFTA, as well as in the negotiation and implementation of future free trade agreements, including the Free Trade Area of the Americas (FTAA).

Outside technical assistance and budgetary support will be essential to the establishment of the institute, as well as in the initial operating phase. Once adequate funding is established, however, this need will greatly diminish.

3.1.2 *Greater regional/international trade and integration*

Effective Trade Promotion

Effective trade promotion requires a dynamic promotion and technical assistance program aimed at stimulating private sector investment (domestic investment promotion) and participation in regional and international trade. Effective trade promotion also includes an initiative that focuses on the elimination the principal constraints to competitiveness within the trade sector.

For the most part, the private sector has taken the lead in this area, with smaller programs that are either self-funded (i.e. trade fairs funded by the Cortez Chamber of Commerce) or through programs that have been partially or wholly funded by the international donor community. Some have been more effective than others, although almost all have focused primarily on the promotional aspects of trade promotion. Some initiatives with trade promotion-related initiatives have also worked with limited resources to provide technical assistance to potential exporters, while others have focused on the elimination of constraints that most affect competitiveness within the foreign trade sector.

The potential scope and institutional location of an effective trade promotion program is still in the analysis stage, and ultimately its development and implementation depends heavily on levels of donor support for such an initiative. Possible options for where such a program would be located range from its incorporation into the Institute of Foreign Trade to the establishment of an

independent Trade Promotion Program within one of the existing private sector institutions.

Effective Foreign Investment Promotion

Foreign investment has proven to be an important and cost effective tool for job creation, developing market access, technology transfer, and increased export earnings. As in trade promotion, investment promotion requires a dynamic institution with adequate resources to target, promote and assist the expansion of foreign investment in Honduras. Any investment promotion initiative also must contain as a priority the necessity to identify and eliminate the principal constraints to foreign investment.

The Foundation for Investment and the Development of Exports (FIDE) has successfully carried out foreign investment activities over the last fifteen years, and was a pioneer in the utilization of aggressive promotional tools to attract foreign investment in Central America. Since 1988, when it first launched its investment promotion program with offices abroad, FIDE has successfully provided assistance to numerous companies that have successfully established operations in Honduras creating thousands of jobs for the country. FIDE has also played a major role in the elimination of barriers to investment and in expanding local investment in infrastructure and services to support foreign investors in Honduras. In the late 1990's FIDE was forced to scale back its foreign investment activities due to budget decreases. Nevertheless, to this day it remains the only institution that effectively carries out foreign investment activities in Honduras.

The Government of Honduras recognizes the benefits of investment promotion activities and would like to see an expanded investment promotion effort in the future. As with trade promotion activities, the scope and location of an expanded initiative in this area is also being analyzed, and several models exist as possible options.

Streamlined Trade and Customs Procedures

The Honduran government is committed to the elimination of non-tariff barriers as well as the streamlining of procedures and requirements that act as barriers to regional and international trade and investment. The principal means of identifying action areas will be the interaction between the trade and investment promotion initiatives and feedback from the private sector (both domestic and foreign). Upon the identification of a specific action area, solutions can be developed and elevated through the government structure to the Secretary of Industry and Commerce, which in turn can coordinate the solution with the appropriate government institution(s).

The modernization of the customs regime and the streamlining of customs procedures and policies is one area that has already been identified and which will require substantial technical assistance. This has been an area of concern for years, however additional resources and assistance have not been appropriated and remain urgently needed. A long-term solution to this problem will include technical assistance, training, and investment in new facilities and infrastructure. However, perhaps more importantly, it will require an institutional reform process that will ensure that the technical assistance and training are effective.

Assistance in this area is also a top priority within the Honduran Government.

3.1.3 Additional areas of concern to be addressed in a national competitiveness initiative

The national competitiveness initiative also must address a host of other areas which each affect the competitive nature of the country. These issues have been given a lower priority ranking, although as the Honduran government moves forward with its national competitive initiative these priorities will be constantly analyzed and altered.

Macro Policy Concerns

Macroeconomic policy initiatives within a competitiveness context refer to those initiatives that are designed to bring about a stable and positive policy environment promoting a free market orientation. They include improvements in fiscal policy and in monetary policy. Given the importance of import tariffs as a revenue source for the Government, specialized assistance will also be required to assist the Government in the area of fiscal reform.

Honduras also needs assistance to improve the “rule of law” and to establish a sound, effective, and efficient legal system. The lack of a well functioning justice system represents another major disincentive for investment in the country, and technical assistance is considered to be a priority need.

The lack of personal security in Honduras is another major obstacle to competitiveness. Crime has increased dramatically, leading to a deteriorating security situation. This is a major disincentive to both domestic and foreign investment, particularly in rural areas where investment is most needed. According to a 2001 study, as many as 36% of Hondurans nationwide reported that they or a family member had been a victim of a crime within the last 12 months.

Physical Infrastructure

Improvements to physical infrastructure will also be required. Several action areas have already been identified and efforts have been made in the past to

create improvements in transportation infrastructure (air, land, sea), warehousing and industrial facilities, information and communication technology, and electrical generation and distribution.

Improvements in the Banking and Finance Service Sector

Current constraints in the banking sector include high transaction costs and poor terms of credit (availability, tenure, cost and conditions). Recent liquidations and consolidations have contributed to conservative lending practices, and with problem loans increasing (some estimate are that approximately 15% to 20% of the commercial banking system's portfolio is un-collectible), it is doubtful that conditions will improve in the short term.

Donor aid in this area is ongoing and is expected to continue in the future. Assistance in this area remains critical as it affects primarily small and medium size lenders that do not have access to other forms of credit.

Labor / Workforce Development

It is estimated that more than 1.6 million Hondurans in the workforce have not completed a basic education. The average educational level of adults in Honduras is 5.3 years and less than 70% of youth complete primary school and only 20% complete secondary school. Vocational and other job skills training is minimal and almost non-existent in rural areas where the lack of education and skills training is particularly serious. These statistics are far below international standards and adversely affect Honduras' competitive position regionally and internationally.

A vast improvement in the quality of human capital in Honduras is necessary if the country is to successfully participate in regional and international markets. There is a need to increase the percentage of the emerging workforce that completes diversified (secondary) education; increase levels of pre-school education; better rationalization of public investment in education; expanding the coverage and quality of basic education programs; increased support to secondary and technical education; and strengthening the institutional framework of the Secretary of Education. All of this will require a substantial and sustained investment in the country – an investment that will only take occur with a major commitment on the part of the international donor community.

Managerial / Entrepreneurial Development

The quality and skill level of entrepreneurs and managers varies among sectors and by size of company, particularly with regards to market knowledge, openness to trade and the ability to gain access to and apply new technologies. The problem is more acute among the small and medium size companies that work primarily within the domestic market.

The Government of Honduras intends to address this issue in one of two ways, depending on the sector. As part of its trade promotion initiative, it is hoped that managerial and entrepreneurial training can be implemented in sectors that are most likely to be competitive on a regional and international level. For managers and entrepreneurs in sectors that are deemed unlikely to remain competitive in the long run, it is expected that some assistance will be provided through a special program aimed at assisting these sectors transition into other activities.

Improved private/public sector engagement and communication

Private sector organizations have been an active and vocal participant in the overall economic development of Honduras. Institutions such as FIDE, COHEP, ANDI, and CCIC have contributed significantly in the past, and are expected to continue to do so in the future. The government is committed to continuing this open and positive policy dialog with the private sector and in improving coordination with and among these institutions, insuring that they have an active voice in the transition process. Consequently any assistance in this area that leads to improved communication and dialog is welcome.

3.2 *A Rural Development Initiative*

3.2.1 *The Problem*

Honduras is suffering from a long-term agricultural crisis. Coffee prices are now so low that over 40 percent of coffee growers are choosing not to harvest this year. Approximately 100,000 small farmers and another 100,000 seasonal pickers are affected, many of whom were also affected by this past summer's drought. The crisis has increased migration to urban areas within Honduras, applying more pressure to already limited resources. Retail sales in rural communities are down by an estimated 40 – 60%. Rural families are growing increasingly dependent on remittances (estimated at US\$500 million annually). The agriculture crisis has increased bank default rates, leading to costly government bailouts. In 2001, the crop losses caused by drought and Hurricane Michelle, the fall in international coffee and palm oil prices, and the downturn in the world economy contributed to the further weakening of the Honduran economy.

Rural poverty is perhaps the most critical problems facing Honduras today and represents the greatest development challenge facing the Government. Currently 75 percent of rural households fall below the poverty line. This involves roughly 270,000 families or a total population of two million citizens. Illiteracy is very high (42%), while access to adequate healthcare, education and other basic government services are extremely limited. The lack of alternatives for this segment of the population has led to greater levels of urban migration where employment prospects are only slightly better.

The agriculture sector is Honduras's largest employer and is estimated to account for approximately 40 percent of its work force and is the source of employment for 75 percent of the rural population. Hourly wages for agricultural workers are half as much as the average hourly wage for all employment activities in Honduras and are the lowest wages received in Central America. A major problem remains to be the low economic value of farm enterprise activity which is due to many factors including problems of scale (three/fourths of the producers operate farms of less than 5 hectares), access to capital and technology (less than 10 percent of the arable land is irrigated), and little or no possibility of producing anything other than basic grains and other low value traditional crops.

Contributing to this problem are the natural disasters and weather phenomena that have plagued the country over the last few years (Hurricane Mitch, el Niño, been further aggravated by unusually low prices for both traditional crops (over 40 percent of coffee growers are choosing not to harvest this year due to the low prices; palm oil prices have also declined substantially) and non-traditional crops (shrimp prices have seen a decline almost equal to that of coffee). An estimated 100,000 small farmers and another 100,000 seasonal workers are affected by the coffee crisis alone.

3.2.2 A Rural Development Program

The resources required to bring about significant improvements in rural Honduras are enormous, and while the international donor community has come to Honduras' aid during times of crisis (particularly in the aftermath of Hurricane Mitch), a consistent, adequately funded long term strategy and program must be developed to bring about permanent improvements. The country's Rural Development Strategy is a major step in this process, and is described in further detail below.

Increased Productivity and Market Links

Rural development is the main component of Honduras' Rural Development Strategy, a strategy that was developed with donor support. The Rural Development Strategy recognizes that the country must diversify its agricultural production, increase productivity and create linkages between agricultural production in rural areas and higher value processing and marketing enterprises in urban centers.

Several programs are being implemented in this area by the Government and by the international donor community. These efforts are focused on increasing rural income and employment through improvements in rural productivity and better access to market information. Programs focus on a variety of aspects including technology transfer, crop research and identification of diversification efforts,

increased access to capital, new and improved market links, etc. While preliminary work in this area has been promising, considerable additional resources are necessary to make an impact of the magnitude that is needed in Honduras.

Assistance to Rural Microenterprises

Assistance to increase productivity and improve market access is important, although it is relatively expensive and would most likely benefit only a cross section of the rural population. Consequently, other strategies are needed to reach greater segments of this population. One proven, cost effective strategy involves supporting micro enterprise activity in rural areas, primarily through improved access to financial services. Through an extensive NGO network of micro finance institutions, Honduras has made major inroads in this area. However, additional (and more accessible) resources are required to increase loan funds in rural areas in addition to specialized technical assistance to develop savings and loan products that are geared to the special needs of the rural population.

Most rural households in Honduras survive on a combination of small farming activities and other off-farm sources of income – in many cases some sort of micro enterprise activity. Traditional micro enterprise credit products developed for urban areas are not appropriate for this type of rural lending. However, some pilot projects in new credit products (developed by NGOs) focusing on rural areas have shown promising results. Additional support in this area is required if this type of activity is to be expanded and made available to a greater segment of the population.

Improvements in Rural Health, Education, Security and Infrastructure

The National Competitiveness Initiative will include programs to address health, education, security, infrastructure and other requirements of the country in general. However, the initiative must also specifically address the needs of the rural sector where these needs are most acute. As a result, these themes are not developed here in greater detail, but they are mentioned to highlight the fact that rural development in Honduras will require a large, sustained initiative that cuts across all aspects of development.

3.3 Specialized Assistance to Specific Sectors Most Likely to be Affected by a Free Trade Initiative

The Government of Honduras anticipates that the implementation of a free trade agreement will lead to the displacement of some participants within sectors of the domestic economy. Possible reasons for could include a lack of access to

appropriate technology, economies of scale, and access to raw materials and inputs at competitive prices. Special attention must be focused on these sectors in order to minimize the negative impacts that such a displacement could have to the overall transition process.

In some cases, companies within adversely affected sectors might be able to improve their competitive standing enough to be able to compete while in other cases, even with specialized technical assistance and training, they might not be able to survive. For this reason, special program within the trade promotion initiative must be established to focus exclusively on providing technical assistance and training to the most adversely affected sectors. The establishment of such a program is of the highest priority for the Government.

NATIONAL COMPETITIVENESS INITIATIVE	PRIORITY
STRENGTHENING OF GOVERNMENT INSTITUTIONS AND PUBLIC SECTOR REFORM IN THE AREA OF COMPETITIVENESS	1
GREATER REGIONAL/INTERNATIONAL TRADE AND INTEGRATION <ul style="list-style-type: none"> - Effective trade promotion - Effective investment promotion - Streamlined trade procedures 	1 1 1
ADDITIONAL AREAS OF CONCERN TO BE ADDRESSED IN A NATIONAL COMPETITIVENESS INITIATIVE <ul style="list-style-type: none"> - Macro policy concerns - Physical infrastructure - Improvements in the banking and financial services sector - Labor/workforce development - Managerial/entrepreneurial development - Improved private sector engagement/commitment 	2 2 2 2 3 3
RURAL DEVELOPMENT INITIATIVE	1
ASSISTANCE TO SPECIFIC SECTORS MOST LIKELY TO BE ADVERSELY AFFECTED BY A FREE TRADE AGREEMENT	1

