
Próspera: Partnering for Economic Development in Honduras

Break a paradigm—the world changes.

—Erick A. Brimen¹

Erick A. Brimen, CEO of Próspera LLC, an economic development platform based in Washington, DC, looked out his office window at the Potomac River below.² For the past few years, he had been fostering efforts to bring economic development and stability to a small region in the northern corridor of Honduras, which included the island of Roatán (**Exhibit 1**), through a subsidiary called Honduras Próspera LLC (Próspera).³ He had worked with federal, regional, and local government officials; collaborated with domestic and foreign economists, investors, scholars, and legal experts; and met with local residents to develop a zone for employment and economic development (in Spanish, *zona de empleo y desarrollo económico*, or ZEDE). At last, Próspera ZEDE was slated to go live with its public launch in May 2020, as Próspera prepared to close with investors for series A funding.⁴ The funding would support its first major project within the ZEDE, called Próspera Village (**Exhibit 2**).

ZEDEs were similar to special economic zones (SEZs) used in other countries—the most successful being in China—to attract foreign direct investment (FDI). They were also called charter or model cities. SEZs typically relied on tax and industry incentives to attract FDI. ZEDEs took it one step further. Through changes to the Honduran Constitution, ZEDEs had semiautonomous governance and regulation that allowed them to establish their own laws, taxes, courts, utilities, infrastructure, and even security forces. For Brimen, the governance model was key to reducing risk in the investment. And it offered a way to address what he and many others believed was the fundamental issue that held people back and kept them in poverty—the lack of better-paying jobs.

¹ Brimen and his wife created their family name, which he said was a common practice among migrants; with the name, they wanted to signal a new beginning and their commitment to creating a world where everyone flourishes (see “The Epicenter Podcast #1 Feat. Erick Brimen-Próspera: Una idea para cambiar la historia,” YouTube video, 1:22:13, posted by “The Epicenter Podcast,” July 30, 2020, <https://www.youtube.com/watch?v=0vII2-S6KNw&feature=youtu.be> [accessed Sept. 10, 2020]).

² This is a field-based case. All information and quotations, unless otherwise noted, derive from author interviews with company representatives.

³ Honduras Próspera LLC was the first, and at this point only, venture of Próspera LLC. Both limited liability companies (LLCs) converted to corporations (Inc.) in 2021. The parent and subsidiary are referred to as one entity, Próspera, unless otherwise noted. This entity is distinct from Próspera ZEDE and Próspera Village.

⁴ Series A funding was equity financing for start-ups that followed initial seed funding. Venture capitalists, who required due diligence and a valuation, represented the largest investors. Companies often issued some type of preferred equity with limited voting rights and used the proceeds to achieve development milestones and attract talent.

Yet just as Próspera was about to close on the series A funding, the COVID-19 pandemic arrived, striking down people around the globe. In addition to the human tragedy, supply chains were severed and markets reacted. Investors were nervous as businesses looked to relocate or diversify supply chains out of Asia.

How would investors respond to this innovative business model in a developing economy during this time of uncertainty?

Honduras: Facts and Facets

Mountains covered more than three-quarters of Honduras, placing it among the world's most mountainous countries and providing natural resources such as timber, minerals, coal, fish, and hydroelectric power from mountain rivers. Though arable land accounted for less than 10% of the country's area, agriculture employed nearly 30% of residents, and almost 40% of the population lived in rural areas (see **Exhibit 3**). The subtropical climate and topography also meant the country was susceptible to floods, droughts, and hurricanes.

Honduras's central location in the Americas made it easily accessible. Honduras had ports on both the Caribbean Sea and the northern Pacific Ocean, enabling it to accommodate cruise ships, as well as various imports (e.g., fuel, machinery, and cotton) and exports (e.g., coffee, bananas, and sugar cane) (see **Exhibit 4**). Just off the northern coast of Honduras, the 1,000-kilometer Mesoamerican Reef (earth's second-largest barrier reef, also known as the Great Mayan Reef) attracted scuba divers and eco-tourists from around the world. Honduras also had the world's second-most important biological reserve after the Amazon: the Río Plátano Biosphere Reserve. In addition to natural beauty, the country was rich in urban and archaeological destinations. In all, 865,000 foreign tourists visited Honduras in 2018, and in recent years, tourism had been a focus of government efforts to bolster the economy.⁵ Travel and tourism accounted for nearly 15% of GDP in 2018,⁶ or about USD3.5 billion, and had been growing every year.⁷

Although the official language was a Spanish dialect called Castilian, roughly 10%–15% of Hondurans spoke English as a second language—the largest share in Central America. “If you wanted to have a good salary working in a banana company you needed to speak English so a lot of people invested in learning it,” Octavio Sánchez, former chief of staff to President Porfirio Lobo, said. “And they then invested in their children learning it.” English skills, low labor costs, and proximity to the US market were also useful for attracting FDI, of which the top two sources were historically the United States and Canada, followed by Mexico and other Caribbean and Latin American countries.

Honduras shared borders with Guatemala, El Salvador, and Nicaragua. These four countries were wracked by economic and political challenges that at times led to adversarial relationships among them. See **Exhibit 5** for comparisons. The area was characterized by long-standing corruption, poverty, and inequality. Honduras was Central America's second-poorest country in 2018, with per capita income of USD2,480.⁸ Poverty was

⁵ “Number of International Tourist Arrivals in Honduras from 2005 to 2018,” Statista, 2020, <http://statista.com/statistics/816564/honduras-number-of-tourist-arrivals> (accessed Feb. 25, 2020).

⁶ “Honduras—Contribution of Travel and Tourism to GDP as a Share of GDP,” Knoema, 2019, <https://knoema.com/atlas/Honduras/topics/Tourism/Travel-and-Tourism-Total-Contribution-to-GDP/Contribution-of-travel-and-tourism-to-GDP-percent-of-GDP> (accessed Mar. 10, 2020).

⁷ “Honduras—Contribution of Travel and Tourism to GDP in Current Prices,” Knoema, 2019, <https://knoema.com/atlas/Honduras/topics/Tourism/Travel-and-Tourism-Total-Contribution-to-GDP/Contribution-of-travel-and-tourism-to-GDP> (accessed Mar. 10, 2020). USD = US dollars.

⁸ “Honduras vs. El Salvador,” IndexMundi, 2019, <https://www.indexmundi.com/factbook/compare/honduras.el-salvador> (accessed Mar. 10, 2020); “GDP per Capita (Current US\$)—Nicaragua, Guatemala, Honduras, El Salvador, Belize, Costa Rica, Panama,” World Bank, 2019, <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=NI-GT-HN-SV-BZ-CR-PA> (accessed Mar. 10, 2020).

caused by endemic corruption—which cost Honduras an estimated 12% of GDP in 2019⁹—weak institutions, poor education, and high crime rates. Honduras’s border with Guatemala was among the most perilous in Central America, with parts lacking law enforcement and ruled by drug traffickers—resulting in one of the world’s highest murder rates.¹⁰ Similarly, El Salvador experienced extensive gang activity and a sky-high murder rate. The poverty and dangerous living conditions encouraged citizens to migrate to the United States, as El Salvador, Guatemala, and Honduras accounted for the lion’s share of migrants apprehended on the US border with Mexico (see **Exhibit 6**).¹¹ Hence, one goal of developing ZEDEs, which had the potential to create jobs, foster economic vitality, and raise living standards across the region, was to mitigate the systemic shortcomings that led to mass illegal immigration. Brimen believed that “Honduras has an enormous amount of untapped potential waiting to be let loose if given the tools and conditions with which to do so,” as he had “long dreamt of a day in which all individuals are born into circumstances compatible with each having the ability to reach their full potential.”¹²

Octavio Sánchez: The ZEDE Master

Sánchez had spent his early childhood in Costa Rica. He was surprised when his family returned to Honduras and he saw children and parents begging in the streets. His parents explained that Costa Rica was a democracy and had a better government. This raised Sánchez’s awareness of and passion to explore the question of what it would take for Honduras to become a developed nation.

The Honduran people answered some of that question in 1982, when the government of Honduras adopted a new constitution. The constitution established a presidential representative democratic republic and separated powers among the executive, legislative, and judicial branches. Slightly more than 10 years later, when he was 18 years old, Sánchez wrote a book about underdevelopment¹³ and decided that being part of the government was the avenue to improve the lives of others in his country. He went to law school—the traditional path to a government position in Honduras—and then earned a master of laws degree (LLM), with a concentration in international finance, from Harvard Law School. He began his path in government as an adviser and secretary of culture to President Ricardo Maduro (2002–6) and later became chief of staff to President Lobo (2010–14). As Sánchez explained,

When I got to be part of government, I realized that it’s very difficult or almost impossible to change things from inside the government. At first, I thought that things didn’t change because the right people were not in control, but that’s not really that case. It’s more than that. There are so many vested interests that prevent things from changing, that it’s almost impossible to have a significant impact in the lives of the country’s people. I began to wonder if something else could be done.

After 27 years of uninterrupted democratic, constitutional governance, Honduras experienced a major challenge to its constitution in 2009. The Honduran army—following orders from the Supreme Court—ousted President Manuel Zelaya from office when he tried to extend his term beyond the constitutionally mandated four years. The next day, Congress named its president, Roberto Micheletti, to serve the remaining seven

⁹ “CrisisWatch: Tracking Conflict Worldwide: Honduras,” International Crisis Group, 2020, <https://www.crisisgroup.org/crisiswatch/march-alerts-and-february-trends-2020#honduras> (accessed Feb. 10, 2020).

¹⁰ “Corridor of Violence: The Guatemala-Honduras Border,” International Crisis Group, 2014, <https://www.crisisgroup.org/latin-america-caribbean/central-america/guatemala/corridor-violence-guatemala-honduras-border> (accessed Mar. 10, 2020).

¹¹ Sofia Menchu, “More than 2,000 Migrants Enter Guatemala with Mexico in Their Sites,” Reuters, January 16, 2020, <https://www.reuters.com/article/us-usa-immigration-honduras-guatemala/over-2000-migrants-enter-guatemala-with-mexico-in-their-sights-idUSKBN1ZF2MG> (accessed Mar. 10, 2020).

¹² Erick Brimen, “Prologue of a Book Project: Honduras Próspera,” *Erick Brimen* (blog), June 28, 2019, <https://www.erickbrimen.com/post/prologue-of-book-project-honduras-prospera> (accessed Feb. 24, 2020).

¹³ Octavio Rubén Sánchez Barrientos, *Mayan Lineage: The Rebirth of a Civilization*, Cuadernos Universitarios Collection No. 80 (Tegucigalpa: National Autonomous University of Honduras, Editorial Universitaria, 1993), <https://docsend.com/view/eev9g5exrfz9ss9p> (accessed Aug. 21, 2020).

months of Zelaya's term. Though the Honduran Constitution called for the removal from office of anyone who tried to change the term limit, the United Nations, European Union, and Organization of American States (OAS) condemned Zelaya's removal as a military coup and refused to recognize Micheletti's presidency as legitimate. Secretary of State Hillary Clinton noted that under US law, formally declaring a military coup in Honduras would suspend all US aid to Honduras and its people. Rather than make a formal declaration and suspend all aid, the United States instituted a no-contact policy with the new government and terminated several assistance programs, including antidrug programs, totaling USD36 million (of USD51 million in US assistance).¹⁴

After this event, previous trends in decreasing poverty, unemployment, and underemployment reversed. As poverty, crime, and gang violence soared, Hondurans fled, migrating to the United States by the tens of thousands.¹⁵ In response, the Honduran Congress—at the time led by Juan Orlando Hernández, a member of the conservative National Party of Honduras—adopted a number of constitutional reforms during President Lobo's administration. In 2012, following years of pressure from the United States, the Congress passed a constitutional reform allowing extradition of Hondurans charged with drug trafficking, terrorism, or organized crime.

In June 2013, Hernández left his leadership role in Congress and campaigned for the presidency on a foundation of restoring law and order. Thirteen months after his November 2013 election, Hernández made good on his promise, and Honduras extradited its first citizen to the United States on drug trafficking charges. Dozens more followed or turned themselves into the authorities, and crime dropped dramatically. As president, Hernández continued to support anticorruption, economic, and other reforms, including ZEDEs. In 2015, six years after the removal of Zelaya, the Supreme Court voted to remove the single-term limit, opening the opportunity for Hernández to pursue a second term in 2018.

ZEDE: Special Economic Zones within Honduras

At a 2009 conference, economist Paul Romer—later a Nobel laureate and chief economist at the World Bank—unveiled a bold idea in a talk titled, “Why the World Needs Charter Cities.” He proposed that developing countries designate large tracts of uninhabited land as city-scale administrative zones (like SEZs or ZEDEs) governed by guarantor-developed nations. The guarantor nations would create and oversee investment zones free from the host countries' politics, laws, and regulations. Romer's idea was based on freedom of movement for businesses and citizens. In theory, these zones would attract businesses through good rules and governing structures, including reliable courts led by foreign judges. In turn, the businesses would attract residents through good employment and economic opportunities.¹⁶

Romer's idea appealed to a variety of stakeholders interested in launching large-scale projects that would spur economic growth in countries as diverse as China, South Korea, and the United Arab Emirates. Among those stakeholders were Sánchez and several colleagues, who had been discussing ideas to lift Honduras out of poverty for years. His colleagues included Ebal Díaz, Javier Azcona, Carlos Pineda, Xavier Arguello, and Mark

¹⁴ “Review of U.S. Response to the Honduran Political Crisis of 2009,” US Government Accountability Office, October 20, 2011, <https://www.gao.gov/assets/gao-12-9r.pdf> (accessed Mar. 30, 2021).

¹⁵ Anna Brown and Eileen Patten, “Hispanics of Honduran Origin in the United States, 2011,” Pew Research Center, June 19, 2013, <https://www.pewresearch.org/hispanic/2013/06/19/hispanics-of-honduran-origin-in-the-united-states-2011/> (accessed Mar. 18, 2021).

¹⁶ Paul Romer, “Why the World Needs Charter Cities,” TEDGlobal 2009 (conference), July 2009, http://ted.com/talks/paul_romer_why_the_world_needs_charter_cities/transcript?language=en (accessed Feb. 25, 2020).

Klugmann.¹⁷ They believed that Romer's idea could work in Honduras. They contacted Romer about establishing charter cities in their homeland, and he initially supported the idea. As Sánchez relayed,

A friend (Mark Klugmann) told me in 2003 about the special zones that China had created. These special economic zones were areas of experimentation. A boundary was put around small areas and the government allowed that small area to operate under different rules. And in the case of China, that was very successful. The focus on governance and poverty alleviation was appealing. So I decided to try and convince politicians that the idea of creating a special zone or several special zones in Honduras was a good one.

Sánchez believed the investment in such areas was “a business investment that made sense.” Yet it was more meaningful than that for the Honduran people. The Honduran dream was to go to the United States because it offered more opportunities to be happy, healthy, safe, and successful. Still, most Hondurans wanted to achieve that dream without having to leave their country. Sánchez's belief was that these zones could create that same environment in Honduras. He and his colleagues worked to understand what they needed to do for an economic zone, like those that had been successful in China, to work in Honduras. At first, they thought it would be appropriate to draft a new Honduran Constitution to garner political support for the economic zones. They pivoted when that opportunity never materialized. Instead, they worked to build support for the zones within their political networks.

In Honduras, there was pushback to the notion of these special economic zones. Most notably, the Court of Constitutionality of Honduras (its Supreme Court) declared unconstitutional the first constitutional amendment, passed by the Congress in 2011, which would have enabled development of ZEDEs. However, following the controversial dismissal of several judges in 2012, Congress introduced a revised constitutional amendment (Decree 236-2012) and ratified it (Decree 9-2013). Article 329 of this amendment gave Congress the exclusive power to establish ZEDEs.¹⁸ On September 6, 2013, Congress followed with an Organic Law (Decree 120-2013) that provided the legal and operational framework for ZEDEs.

Hernández, then president of the National Congress, helped reinforce the legal guarantees in the constitution, through treaties with foreign governments and institutions, administrative changes, and adjustments to the geopolitical landscape that shifted ZEDEs from a dream to a reality. Honduras created ZEDEs as a legal structure for a new administrative division. ZEDEs provided an opportunity to expedite reform by isolating their activities to specific parts of the country. The passing of the amendment put into place the structure for ZEDEs' strong autonomy at the judicial, economic, and administrative levels: under the national government but with their own political systems. With legal, economic, administrative, and political protections for job creators, the zones paved the way for foreign investors to begin economic development projects. “One of the surprising things to watch from a sociological and psychological point of view was the lack of opposition to the idea inside Congress,” Sánchez said. “And it's very simple to explain because there are no vested interests inside the ZEDE.”

A government-appointed Committee for the Adoption of Best Practices (CAMP) would oversee the zones. CAMP would select a Honduran technical secretary (akin to a governor) for each zone. The first CAMP, announced in 2014, had 21 members from around the world, including nine US citizens, four Hondurans, and three Europeans. Sánchez explained the key conditions for success:

¹⁷ Ebal Díaz later served as chief of staff and secretary of state under President Hernández (2014–). Javier Azcona was the son of President José Azcona (1986–90), and Xavier Arguello was the son-in-law of the brother of former President Ricardo Rodolfo Maduro Joest (2002–6). Mark Klugmann was a speechwriter for Ronald Reagan and a political adviser to several presidents of Central American countries.

¹⁸ Congress had the power to create a ZEDE with a public referendum receiving approval from two-thirds of the voters. The public referendum was not required for areas with low population density.

First, a world-class rule of law enables us to create a zone that operates under common law, which has rules that are far more flexible than the ones we have in our version of continental law, which is a mix of Dutch, French, Italian, and Spanish continental law. Second, the ability to bring in foreign judges to set us on a course that will be created by those laws. Third, and most important, is that because of the flexibility in the common law, you will be able to do things much, much faster in the zones than anywhere else in Latin America... You can go against a law if a judge considers it unjust or unfair, and the judge can create a new set of rules.

Sánchez also noted that the constitution and the Organic Law were difficult to amend. Removing the government's right to establish ZEDEs would necessitate a constitutional amendment, which required a two-thirds vote by Congress in two consecutive sessions, or a decision by the Supreme Court. Changes to the Organic Law would require it to be amended, repealed, or interpreted by Congress with a two-thirds vote or declared unconstitutional by the Supreme Court. Three cases went before the Supreme Court challenging the constitutionality of the ZEDE amendment and law, and all were struck down. Moreover, as Sánchez explained, "Congress could not touch a ZEDE until it had a permanent population of 100,000 Honduran permanent residents." And even then, a referendum had to be held, asking those residents if they wanted to continue living under the ZEDE framework. In addition, Sánchez noted that the bilateral treaty with Kuwait "stated that for the next 50 years, the Honduran government would guarantee that ZEDEs will be in place." This provision created barriers because the Organic Law of ZEDEs required any rule that applied to one group of investors to apply to all.

In addition, the ZEDE legislation could ameliorate other problems that prevented investment in the country. Among the obstacles to attracting investors were issues related to the rule of law and property rights. For example, only 20% of privately held land was properly titled, and sorting out those mistakes or obtaining a proper title could take years to resolve in Honduras's weak judicial system.¹⁹ Furthermore, the 2019 Institutional Quality Index ranked Honduras 134th of 191 nations,²⁰ and Transparency International's 2019 Corruption Perceptions Index ranked it 146th of 180, down 11 places from 2018. Between the ZEDE structure and the International Monetary Fund (IMF) approval for a combined SDR224.8 million (USD311.3 million, or 90% of Honduras's quota for standby credit), the Honduras government seemed poised to "stabilize the economy, reduce vulnerabilities, and strengthen inclusive growth."²¹

In Sánchez's view, the "heroes" most responsible for supporting ZEDEs and expending political capital to secure their success were former presidents Ricardo Maduro and Porfirio Lobo, along with current President Hernández. If Próspera ZEDE generated well-paying jobs by 2025—with wages paid in US dollars instead of Honduran lempiras to protect workers from devaluation and at 10% more than the Honduran minimum wage for a given job—Sánchez hoped that with enough jobs created, in five years no Honduran politician "would dare to publicly go against ZEDEs."²² In addition, 10 years out, he thought successful ZEDEs would get the attention of others willing to invest in Latin America. "If it goes beyond those 10 years, I think ideas like this will start to get replicated all over the region," Sánchez said. "Because Honduras will have shown that ZEDEs can make a difference in a country and change people's lives."

¹⁹ "Honduras," 2021 Index of Economic Freedom, <https://www.heritage.org/index/country/honduras> (accessed Mar. 18, 2021).

²⁰ "Institutional Quality Index 2019," RELIAL (Red Liberal de America Latina), 2019, Mexico DF, Mexico.

²¹ "Honduras: Staff Report for the 2019 Article IV Consultation and Request for a Stand-By Arrangement and an Arrangement under the Standby Credit Facility," International Monetary Fund press release, IMF Country Report No. 2019/236, <https://www.imf.org/en/Publications/CR/Issues/2019/07/18/Honduras-Staff-Report-for-the-2019-Article-IV-Consultation-and-Request-for-a-Stand-By-48509> (accessed Mar. 30, 2021). SDR = special drawing rights, an IMF currency; see Swaminathan S. Anklesaria Aiyar, "Can IMF Currency Replace the Dollar?," CATO Institute, April 5, 2009, <https://www.cato.org/commentary/can-imf-currency-replace-dollar> (accessed Apr. 5, 2021).

²² If a subcontractor were operating within the Próspera ZEDE, it could pay workers in lempiras, but the pay would still have to be at least 10% above Honduran minimum wage.

Erick Brimen: A Vision of Próspera in Honduras

Much as the seeds of Sánchez's motivation to work in government were sown during his childhood, Brimen's passion to found Próspera was a product of his upbringing. Born in Venezuela, he had seen the shortcomings and ultimate downfall of an ideology called Chavismo that "ultimately ended up destroying the economy, despite at best, its good intentions." The ideology, which included nationalized business, expansion of social welfare programs, and price controls, was introduced by Venezuelan president Hugo Chávez and was based on using cheap exports from the country's rich oil reserves to fund social assistance programs and win allies in the region instead of reinvesting in new capacity. In Venezuela, the result was a loss of economic, political, and civil freedom.²³ Brimen was saddened and disappointed by how the economic elites in his country had failed to stand up for human rights, liberty, and democracy, and instead had become comfortable living on big government contracts. So when a critical mass of economic elites, the political class, and the people at large in Honduras stood their ground and rejected Honduran president Zelaya's flirtation with a similar ideology in 2008–9, Brimen was inspired. "It felt like a moment of pride for them," he said, "And it signaled something about the people being unique in the region."

After obtaining experience in managing investments in the developing world, Brimen decided to spend the rest of his life working on a business model that would leverage private capital to advance economies in countries whose people had difficulties creating a living. He named the company Próspera because "it is about creating the conditions for wealth to be created...with merit and hard work...that no one has the capacity or moral authority to finger point to who deserves more...so that anybody can prosper."²⁴ When he looked around to see where he could execute the business model that he had envisioned, Tristan Monterroso, a pastor in Roatán, reintroduced him to Honduras, which had implemented the necessary legal innovations to make it possible. On Brimen's trip to investigate the possibilities in Honduras, he met Sánchez. Brimen wanted to find a place where his work would result in rapid, significant employability and make a positive impact on income per capita within 5 to 10 years. Brimen believed the business model, which he called a "social economic development enterprise," would be the platform to achieve his dream. He explained,

A social economic development enterprise offered good governance as a service in exchange for a fair and voluntary fee paid by direct beneficiaries. In addition, a better-run and more legally stable jurisdiction would enhance the benefits from building and operating a traditional model of real estate development. This enables a private and for-profit enterprise to internalize the positive externalities of creating generalized prosperity.

The model showed some similarities to a public-private partnership (PPP). PPPs were essentially long-term contracts between private entities and government agencies to provide public services or assets, under which the private entity bore significant risk and managerial responsibility. PPPs followed a variety of models, and the contracts could extend up to 30 years. The most common model was Design, Build, Finance, Maintain, and Operate (DBFMO), in which a government transferred elements of project construction, financing, and operations to a commercial entity, making DBFMOs more comprehensive than some other types of PPPs (see **Exhibit 7**).²⁵

Proponents of PPPs for infrastructure in developing countries often had bitter ideological clashes with governments, nongovernmental organizations (NGOs), civil society organizations, and local residents over whether such arrangements were equitable, beneficial, and sustainable, usually because of disputes over locations and costs, operations and maintenance, user fees, and myriad other issues. As more experience with

²³ "Venezuelan Democracy Rallies after Failed Coup," *Financial Times*, April 2, 2017 (accessed Aug. 24, 2020 via Factiva).

²⁴ <https://www.youtube.com/watch?v=0v1L2-S6KNw&feature=youtu.be>.

²⁵ "PPP Arrangements/Types of Public-Private Partnership Arrangements," World Bank Group, Public-Private-Partnership Legal Resource Center, 2012, <http://ppp.worldbank.org/public-private-partnership/agreements> (accessed Feb. 25, 2020).

PPPs accumulated, critics issued new assessments, based on empirical research, acknowledging that PPPs in middle-income countries were more likely than those in low-income countries to generate value. Research also suggested that a country's legal and regulatory frameworks played an important role in PPPs' success, but, ironically, a weak government was often a justification for using a PPP. Large-scale transformational PPPs were typically less successful, but an alternative was a collection of smaller projects, which were easier to finance.²⁶

The concept for PPPs dramatically increased in the 2010s in discussions among the G20 (i.e., Group of 20 industrialized countries) that increasingly focused on the need to massively increase infrastructure investment in developing countries. G20 pronouncements emphasized the benefits of achieving that goal through large projects involving the private sector. That meant regional or cross-border infrastructure initiatives involving private investment and management, initiatives that would have transformational impacts on countries or even regions, of which Latin America and the Caribbean were a significant focus. During this period, the G20 also considered modifying the mandates of national banks and international development institutions, so that they could take the lead, thereby attracting more private-sector engagement.²⁷ By 2020, a large share of countries—developed and developing—had used PPPs to build economic and social infrastructure such as roads, bridges, public transportation, schools, prisons, and hospitals.²⁸

Brimen's business model dealt with the roots of the problem that prevented people from reaching their full potential and achieving economic success—education, jobs, and health care—instead of addressing the symptoms of poverty through donations. Moreover, he argued that traditional impact investing, supported by NGOs, foundations, and development finance institutions, offered a lower return on investment because of intangible social returns. His model sought to attract a larger pool of investors seeking market returns. The social economic development enterprise model offered an innovative approach by “internalizing the positive externalities of dealing with social needs effectively”—in other words, monetizing good governance. In doing so, the platform increased returns and reduced risk. For Brimen, it was about beating the benchmark. As he explained about investing in Próspera,

On the one hand, it looks like a more traditional real estate development—master plan community scale project. Most of our efforts go towards getting the best use of land and contractors, LEED certification—nothing unique. On the other side, there is government revenue paid through taxes and fees for services. By offering governance as a service, Próspera is also able to optimize non-real estate issues like zoning, planning, and regulation, making the real estate more valuable as economic activity grows. Most of our effort goes to employing best business practices that lower cost efficiency per unit of value delivered. The incentives of political or governmental agencies to create bigger budgets, more people, and more clout do not incentivize lower costs. This model injects market dynamics and incentives into the machinery that delivers the service of government. And our competitors—as we might call the alternative sources of that same service—charge much higher. So you add those two things and it's not meeting benchmark, it's exceeding benchmark.

The metrics Próspera used for impact centered on generating well-paid jobs. That required figuring out how to attract employers. While many would say that tax incentives were key, Brimen argued that that reasoning was misguided, because a business would be okay with paying taxes if it had access to a strong labor force, stable and low-cost electricity, secure physical and legal environments, and an opportunity to generate revenue and profit. Instead, infrastructure was what mattered: it acted as incentive for business and investors. Próspera's platform would make areas outside developed economies, such as Honduras, competitive places for businesses

²⁶ James Leigland, “Public-Private Partnerships in Developing Countries: The Emerging Evidence-Based Critique,” *World Bank Research Observer* 33, no. 1 (February 2018): 103–34, <https://academic.oup.com/wbro/article/33/1/103/4951689> (accessed Feb. 17, 2020).

²⁷ <https://academic.oup.com/wbro/article/33/1/103/4951689>.

²⁸ “PPP Units around the World,” World Bank Group, Public-Private-Partnership Legal Resource Center, 2020, <https://ppp.worldbank.org/public-private-partnership/overview/international-ppp-units> (accessed Mar. 11, 2020).

to relocate. The impact metrics behind the social economic development enterprise were the same metrics economists used to measure productivity and economic prosperity—employment rates, annual income, and income per person. They were also starting to target some specific programs at women because “all sorts of areas get positively impacted five times if you empower women,” Brimen said. “We are going to make a ton of money for people but the thing to imagine around impact is how the life of a child, or in many cases many children, in each household can be changed because someone (mother, father) is empowered to generate a good income for themselves,” he continued. “There’s no way to teach the experience of an empowered human being who can do things for themselves—the power of gangs is removed as these kids don’t go into gangs.”

Efforts to secure early-stage funding for Próspera were both exciting and stressful. “We went to a lot of people and got a lot of no’s,” Brimen recalled. Ultimately, Brimen’s business model attracted high-net-worth angel investors, which was typical for early-stage technology enterprises. Impact investors could also play a key role because in the worst-case financial scenario, they were investing in something that would give a nice social return but also had a big upside. These investors were individuals and not foundations. Brimen found that “institutions have certain expectations of both documentation and progress, [and] at the early stages we were just not there.” For example, investment managers for foundations’ assets typically followed an investment selection process in case things went south. More importantly, however, the early-stage funding Próspera received would lead to the next stage: both private and development finance.

With the financing from the series A, and given his business model and the determination of his team, Brimen knew the best place to build proof of concept was Honduras. While some cautioned of the business risks of corruption in the area, Brimen was prepared. He explained,

This was not my first rodeo in a developing economy that is known to be corrupt. While I was with a family office, I moved from London to Panama to start a sand mining business. Mining is notoriously corrupt everywhere in the world because it’s concession-based. I went to Panama knowing that there was a corrupt backdrop. Before going, I made it clear to the family I was working with that I was not going to participate in those types of schemes. They were also clear that they didn’t want to participate. When a situation eventually arose that someone asked us to play the game, the answer was, “Well, I’m sorry, but that’s not what we do,” and it was financially painful. But the notion of that type of risk and how I would make decisions was ingrained way before Honduras.

Now, it turns out that the best thing we did in Honduras was make it clear up front that we are an American firm compliant with the Foreign Corrupt Practices Act. We would like to be in Honduras, but creating prosperity has certain conditions. Just as it needs financial capital, it needs a non-corrupt environment. We cannot give birth to something in a corrupt manner and then expect that it won’t be corrupt later. It has never been an issue, and we’ve never been asked to give a penny. I do know that other groups have been able to make progress on things faster. I’ve never witnessed it, but I know. The way we do it is the way we do it, and there’s no other way to do it than this way if we want to build what we’re building.

Próspera ZEDE

To execute the social economic development enterprise model, Próspera partnered with the government of Honduras in 2017 through its subsidiary, Honduras Próspera, to “create a platform for prosperity” in the Próspera ZEDE. Another partner with Próspera, the North Bay Foundation, focused on community engagement in the Próspera ZEDE. The foundation fostered sustainable regional development, job creation, and community building in Honduras’s northern corridor.

Próspera's goals were to build physical infrastructure, attract FDI to foster business development, make major investments in the skills and capacities of Hondurans, and garner further political support. A review by EY suggested that investors expected returns of 12% to 18% from Central America due to uncertainty in the region, with political environment being a primary consideration. The review also noted that key success factors, based on a review of special economic zones in other countries, included the following:²⁹

- Optimal size to attract breadth of economic development
- Close proximity to existing economic activity
- Autonomy to create a predictable, yet flexible, independent regulatory and judicial systems
- Allowance of private infrastructure
- Efficient land zoning

Brimen and his team believed the ZEDE's institutional advantage in doing business in Honduras would serve as a powerful attractant for FDI, with a target of USD500 million by 2025. Próspera participated in global FDI and development investment conferences, events, and expos to introduce its model to the international community. It targeted ecosystem industry sectors that wanted to engage in a variety of interrelated businesses, and set in motion a partnership with the National Investment Promotion Agency of Honduras to leverage resources to bring more business attention to the project. Brimen and his team envisioned establishing numerous prosperity hubs throughout Honduras, each under and benefiting from the ZEDE legal framework.

Brimen found considerable support from government partners at the national level, in addition to regional and local leaders. The project also garnered buy-in from some opposition parties. Brimen said that Próspera had brought together experts in “city-scale development, municipal government, management, privatization, social services, environmental management—and the list goes on.”

While still subject to Honduran criminal law, Próspera ZEDE was a de facto autonomous municipality able to issue permits for factories and roads, settle civil disputes, and manage a land registry for commercial and residential occupants as governed by its charter and by-laws. The charter and by-laws established the powers, duties, governance, and rights of the ZEDE and its representatives, as well as articulating a bill of rights for its residents. The Council for the ZEDE had nine members who each served a seven-year term: the technical secretary approved by CAMP, four members chosen by the residents of the ZEDE, and four members chosen by Próspera. The technical secretary had executive and administrative responsibilities subject to approval by the Council for the ZEDE.

Próspera initially focused on creating two prosperity hubs in the ZEDE: on the island of Roatán (a center for tourism, education, medical innovation, and Honduran knowledge workers,³⁰ called Próspera Village) and in the city of La Ceiba (a center for manufacturing, supply chains, and services, called St. Isidore Prosperity Hub). La Ceiba and Roatán were already relatively better off than some parts of Honduras, with economies driven by tourism, agriculture, and commerce, but they still had significant economic disparity relative to other countries. The project started with the community of Crawfish Rock on Roatán (see **Exhibit 8**). Brimen explained:

While it may be hard to believe in 2020, there was this community, on a fairly flourishing island compared to the rest of the country, that did not have running water. That was both saddening, and

²⁹ “Project Oasis,” EY, August 2019 (report by E&Y Central America Inc., provided by company).

³⁰ Scholar Peter Drucker first defined knowledge workers as professionals whose work was to generate knowledge (as opposed to those whose jobs produced goods or services). For Próspera, this included lawyers, architects, professional service providers, accountants, programmers, small business owners, and entrepreneurs.

an opportunity. With 50 or so customers, we co-created a micro-utility for-profit company with members of the community that under a contract delivers metered water in standard volumes. People from the community dig up the dirt to put in the water mains, they contribute their labor for the infrastructure, and they provide maintenance and customer service. The water company makes a nominal financial return, and they share in the profits—50%. They are so happy to have clean, drinkable running water for the first time.

The same can be said about the after-school program focused on young children in the community's school that teach English language skills. If nothing else, the children can grow up to be competitive in the marketplace. That benefit now extends to their mothers who, surprisingly, didn't just send their kids to after-school but stuck around. They don't necessarily have a lot of opportunity, so we are developing a pilot with the Inter-American Development Bank to train them with computer and internet skills. Then they can work part-time from home and add up to a few hundred dollars a month. The sense of empowerment is transformative.

Some of the work Brimen described was accomplished with the North Bay Foundation, which focused on K–12 education, business development (with emphasis on empowering women), community engagement and excellence, indigenous and Garifuna cultural awareness, support for property owners, an after-school program for children, and adult education on making handicrafts for tourists.³¹ The ultimate goal of the North Bay Foundation approach was to nurture the enormous potential of people in the northern corridor by, Brimen said, “developing a community spirit and culture which both exemplifies the American informal cultural institutions...while simultaneously strengthening the unique aspects of local indigenous culture.”

As part of phase 1 of development, Próspera purchased plots of land in Roatán's Próspera Village and secured purchase rights to expansion zones in the surrounding area. The land could be developed, leased, or sold depending on the company's cash flow considerations. Roatán's Próspera Village was designed to be smart and sustainable in order to attract tenants and revenue. It was envisioned as a “garden city,” with roughly 400–600 state-of-the-art residences designed by Zaha Hadid Architects, a firm founded by Dame Zaha Hadid, the first female recipient of the Pritzker Architecture Prize. The project also included a “buy one, build one” component: for every Zaha Hadid residence constructed, Próspera would build a sister home in a local community. The design of the village also involved some mixed-use facilities, of which the first was scheduled for completion by September 2020. The village, powered by investment in clean energy (to safeguard the lush ecosystem), required an estimated USD25 million and expected to create more than 15,000 jobs. For another USD22.5 million, the island community would also have access to high-speed internet through the installation of an undersea cable. In Honduras, only 32% of the population had internet access (see **Exhibit 9**). Within Central America, only Nicaragua has lower access.³²

Both entities and individuals residing in the ZEDE would pay an annual membership fee. The fee for entities varied by industry, while the fee for individuals varied by type of residency (USD1,300 permanent residency for foreigners, and USD260 for Hondurans)³³. Moreover, Próspera would also capture a small percentage of economic activity, as it had a 50-year contract as a general service provider for administrative

³¹ Garifuna was the name of an Afro-indigenous population in the Caribbean, made up of West Africans who survived shipwrecks off the coast of St. Vincent during the slave trade and integrated with the indigenous Kalinago population. At the end of the 18th century, the British exiled the Garifuna to the deserted Roatán.

³² “Individuals Using the Internet (% of Population) – Honduras,” World Bank Data, <https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=HN> (accessed Mar. 30, 2021).

³³ If land that was inhabited by Hondurans was purchased for a Próspera ZEDE, those living on the land would have to collectively agree to become residents of Próspera. Once an agreement was reached, those Hondurans wishing to become Próspera residents would pay USD260 annually.

functionality. It proposed low taxes on corporate income (1%), individual income (5%), land value (1%), and retail value-added (5%), with an eventual cap of 7.5% on tax revenue as a percentage of GDP.³⁴

Próspera Village was to be the base for numerous collaborative hubs that would support the economic development of the village and Roatán more broadly. The first three were to focus on medicine, education, and innovation. CEMESA, the largest health care provider in Honduras, signed a letter of interest to construct an USD80 million medical center in Próspera Village during phase 1. Not only would it provide world-class health care to an underserved region (improving the health of the local community), but the center would also be focused on serving US medical tourism to generate revenue. Building the center would create nearly 20,000 jobs—the heartbeat of Próspera’s social economic development enterprise model. And nearly 38,000 additional jobs could be created with the development of an aircraft maintenance center to service the additional travel to and from the area.

The education hub would build schools for the people of Próspera Village and nearby communities, spurring economic development and fostering “research, science, and the advancement of human knowledge.” People would also learn new skills, boosting productivity. Several universities, both domestic and foreign, expressed interest in moving into the education hub. The Technical University of Munich was contracted to anchor the hub, and it was expected that Babson College, Georgetown University, the Massachusetts Institute of Technology, and others would also participate.

Próspera Village’s innovation hub was to host technology entrepreneurs, start-ups, and research firms focused on improving people’s lives. Planned activities would include fintech, banking, drone development, aircraft maintenance, and electronic and autonomous cars. Again, the Próspera setup allowed for customizable regulation, allowing these entities to thrive. In return, it would obtain a small but meaningful equity stake in strategic partners and the firms.

Once phase 1 of development was complete, phase 2 (in years two to four) would focus on the St. Isidore Prosperity Hub in La Ceiba, Honduras’s third-largest city. Phase 2 goals included a banana processing plant (with capital required of USD12.5 million, and creating 7,300 jobs), a coffee processing plant (USD15 million; 8,760 jobs), a modular building construction factory (USD25 million; 5,325 jobs), and a marine service center (USD140 million; 34,580 jobs). Moreover, in 2019, a PPP concession was put in to bid to modernize the airports of both La Ceiba and Roatán, with the goal of making them regional hubs for passengers and cargo (USD120 million; 15,000 jobs). See **Exhibit 10** for phase 1 and 2 milestones.

There were several key performance indicators (KPIs) that Brimen and Próspera would use to measure the impact of their work. First and foremost was the number of Hondurans hired and their salaries. Second was the number of beneficiaries of those hired through the Próspera platform. Employers had to contribute 8% of compensation to employees’ savings accounts and offer 90% of day labor opportunities to Hondurans. On the investment side, Próspera would track the FDI’s country of origin and number of firms operating in each ZEDE, as well as the dollar amount invested in the project from all sources. It would also assess the mix of residents, the cost of electricity and basic public services, and improvement in criminal and civil violations.

The idea of generating this many job opportunities through the execution of the social economic development enterprise kept Brimen going. “There’s goodness to be done in the world,” he said. “Lifting people up, training them, dealing with the environment—and that tends to have less value in society.” There were two capstones to Brimen’s experience so far. First, he came to realize that Hondurans were full of

³⁴ The individual income tax rate was 10% and 50% of income was taxable, resulting in an effective income tax rate of 5%. Business income tax rate was 10% and 10% of income was taxable, resulting in an effective tax rate of 1%. Retail value added tax was 5% and 50% of the sales price was taxable, resulting in an effective rate of 2.5%. Only land, not property improvements, were taxed.

aspirations and potential. And second, through Próspera, they now had a tremendous opportunity to unleash that.

Próspera, Coronavirus, and Supply Chains

When the coronavirus was classified as a pandemic, Brimen and his team at Próspera went through the same drill as most people around the world. They canceled travel, stayed at home, and scrambled to ensure that business continued remotely, among other matters. In terms of their relationships and Honduras partnerships, there was extra concern around what would happen in Honduras to large parts of the population, who might not have the ability to meet even their basic food needs. The first cases of coronavirus in Honduras were suspected to have been caused by two women who had been traveling in Europe. The country's first death was reported on March 26, 2020. This tragedy kept Brimen and his team in constant contact with Próspera team members in Honduras, as they tried to help out and do what they could around the pandemic.

As the financial markets were falling, Próspera was in the middle of closing a financial round. It had to decide what to do given these challenging circumstances. "When you look at a global pandemic, you see a significantly greater need out there," Brimen said. "There's actually a reason to lean into it." He told the people on his team that the impact they could have was disproportionately large because everything else was deteriorating.

Numerous multinational firms had moved their supply chains to Asia and were proactively exploring opportunities to bring production closer to home. Latin America was of primary interest for many, though few had experience or knowledge about doing business there. Brimen and his team thought they could offer competitive investment opportunities and have impact with the ZEDE structure, Próspera's social economic development enterprise, and the appreciative local Honduran population, but the markets were shaky. Was this the time to push ahead, or should they wait until more was known about the pandemic?

Exhibit 1

Próspera: Partnering for Economic Development in Honduras

Map of Honduras



Source: "Honduras—Details," World Factbook, US Central Intelligence Agency, <https://www.cia.gov/the-world-factbook/countries/honduras/map> (accessed Feb. 15, 2021).

Exhibit 1 (continued)

Aerial View of the Island of Roatán



Source: Company documents, used with permission.

Exhibit 2

Próspera: Partnering for Economic Development in Honduras

Próspera Village Master Plan (750 acres)



Exhibit 2 (continued)

Initial Development (58 acres)



Exhibit 2 (continued)

Architect Drawings of Próspera Village



Exhibit 2 (continued)

Residential Properties, Próspera Village

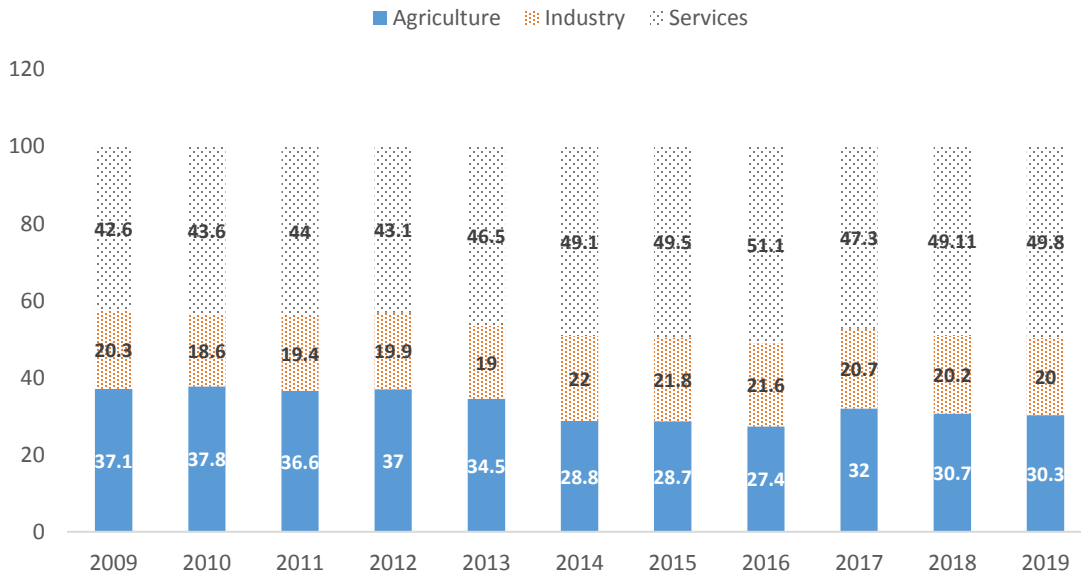


Source: Company documents, used with permission.

Exhibit 3

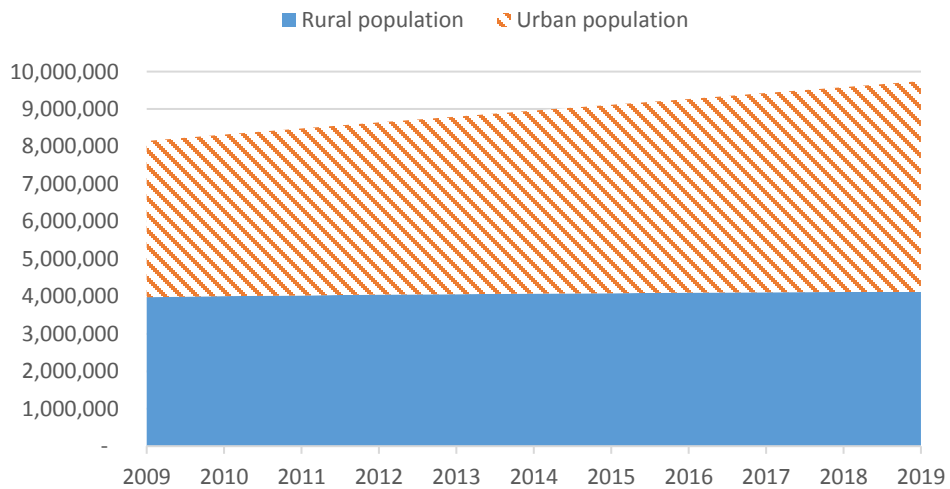
Próspera: Partnering for Economic Development in Honduras

Distribution of Employment by Economic Sector (percentage of total employment), 2009–19



Data source: Statista.

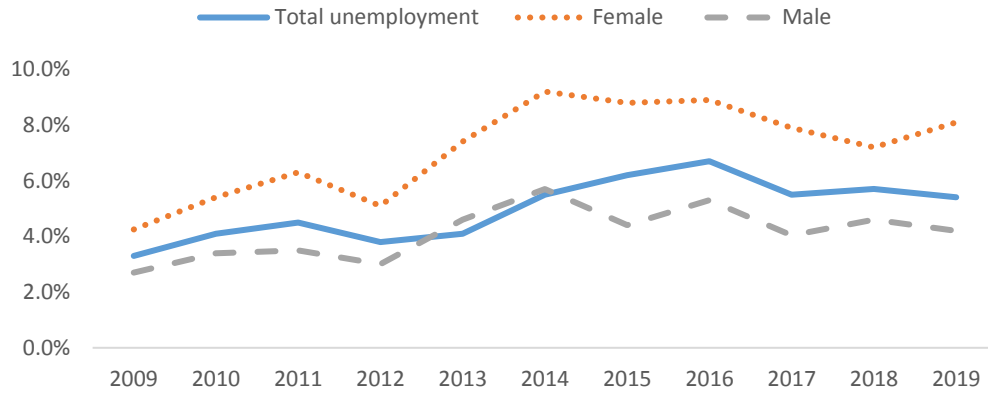
Total Honduras Population, Urban and Rural, 2009–19



Data source: World Bank.

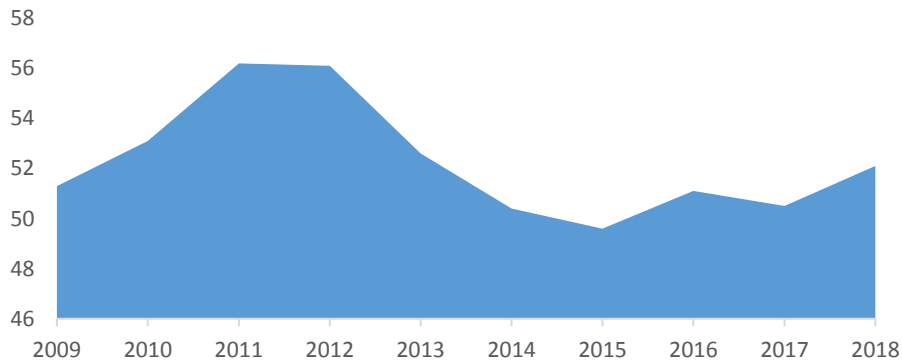
Exhibit 3 (continued)

Unemployment in Honduras (percentage), 2009–19



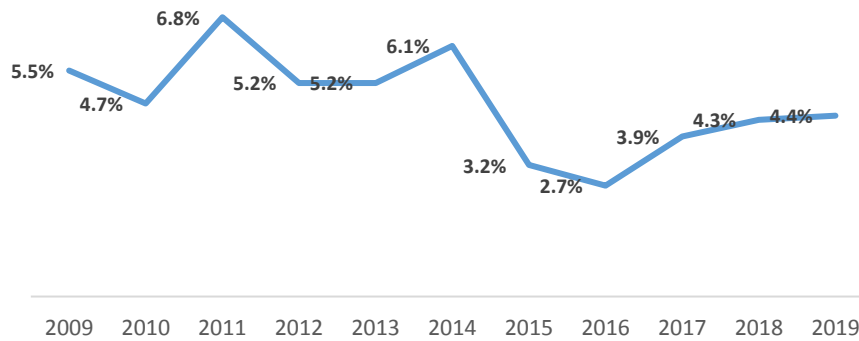
Data source: EMIS Data.

Gini Index, Honduras, 2009–18



Data source: Federal Reserve Economic Data (FRED) Graph Observations, Federal Research Bank of St. Louis, <https://fred.stlouisfed.org>.

Inflation in Honduras, 2009–19

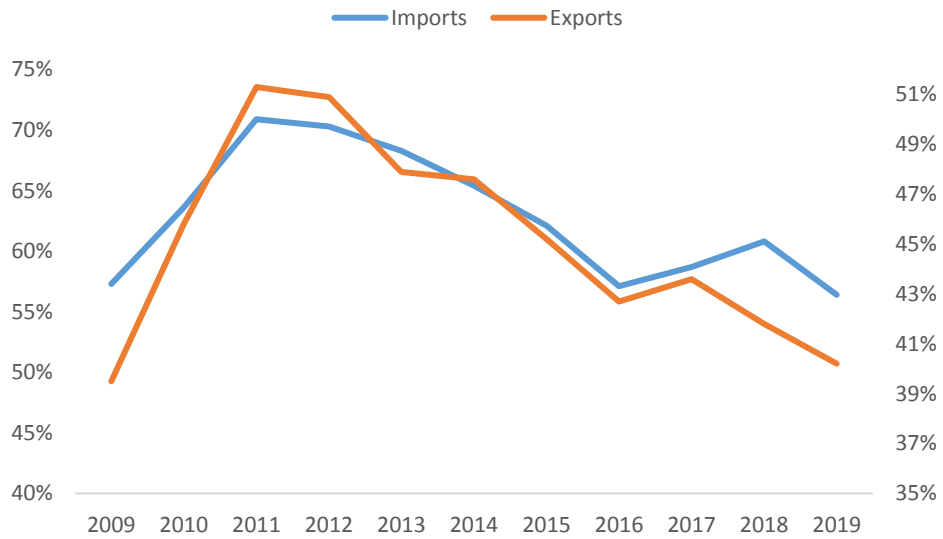


Data source: FRED.

Exhibit 4

Próspera: Partnering for Economic Development in Honduras

Imports and Exports of Goods and Services in Percentage of GDP



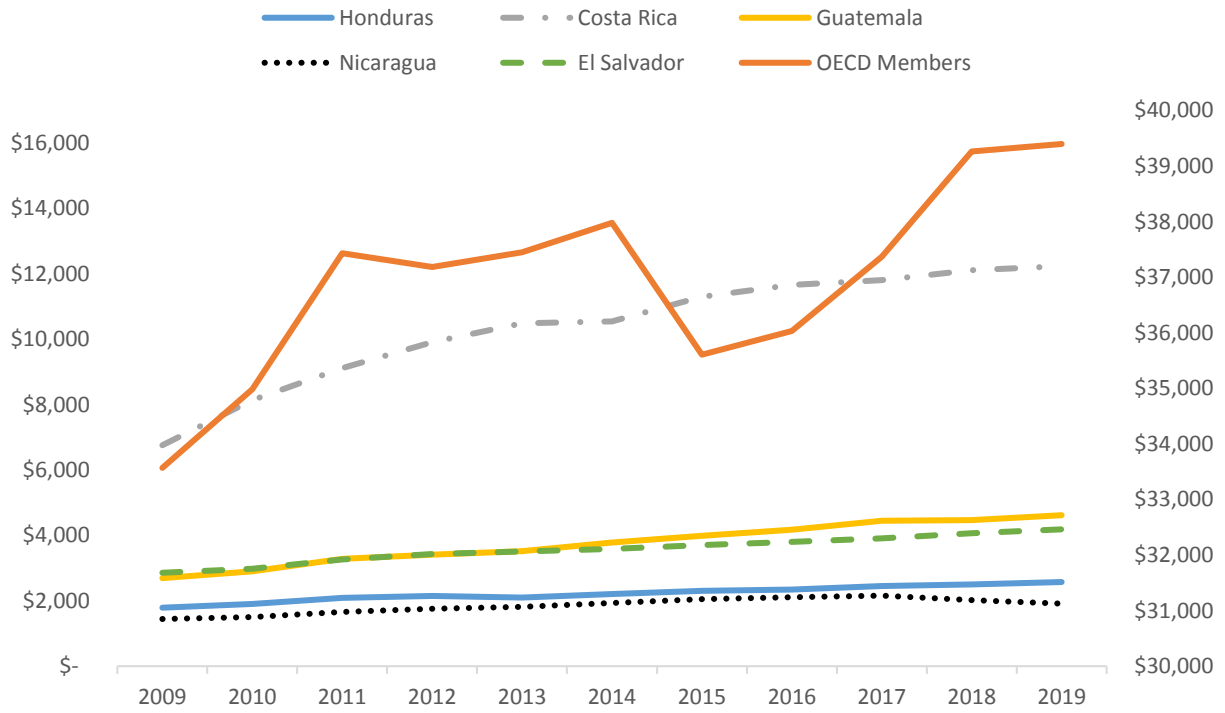
Note: Right y-axis is exports; left y-axis is imports.

Data source: “GDP (current US\$) – Honduras,” World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?contextual=region&end=2019&locations=HN&start=2009> (accessed Mar. 19, 2021).

Exhibit 5

Próspera: Partnering for Economic Development in Honduras

GDP per Capita (in current US dollars), 2009–19

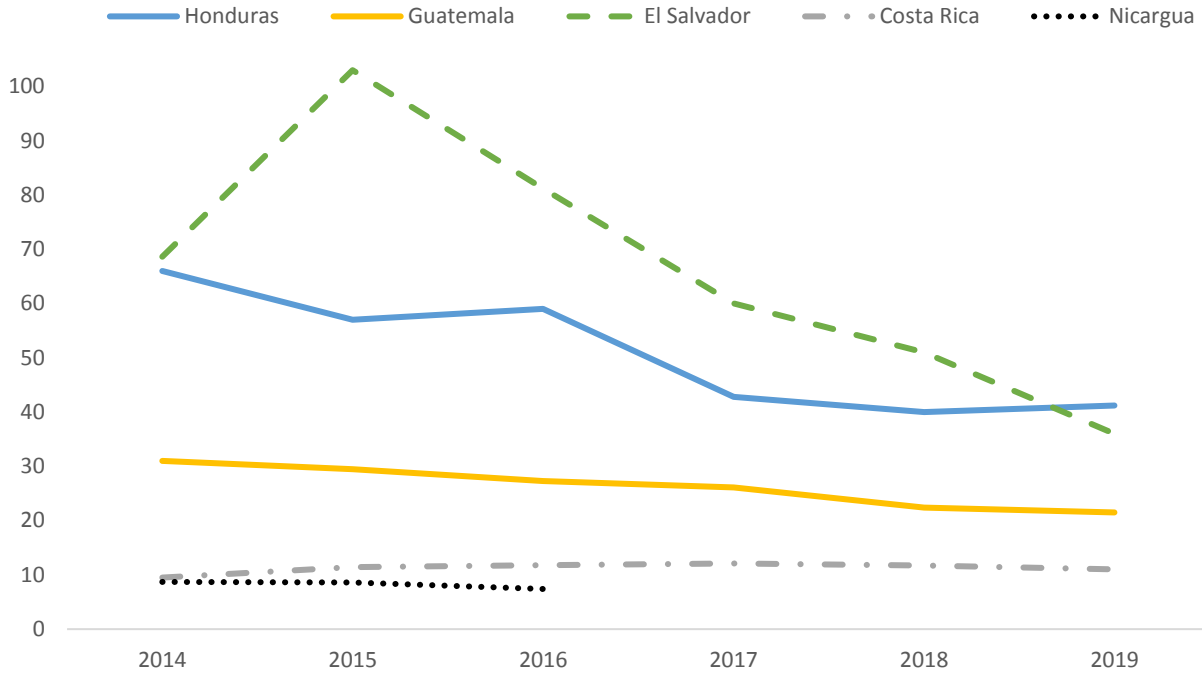


Note: Right y-axis is OECD members.

Data source: World Bank.

Exhibit 5 (continued)

Homicide Rates per 100,000 inhabitants, 2014–19



Data sources: “Homicide Rate in Honduras from 2014 to 2019 (in number of homicides per 100,000 inhabitants),” Statista, <https://www.statista.com/statistics/984779/homicide-rate-honduras/>; “Homicide Rate in Guatemala from 2014 to 2019 (in number of homicides per 100,000 inhabitants),” Statista, <https://www.statista.com/statistics/984814/homicide-rate-guatemala/>; “Homicide Rate in El Salvador from 2014 to 2019 (in number of homicides per 100,000 inhabitants),” Statista, <https://www.statista.com/statistics/696152/homicide-rate-in-el-salvador/>; “Homicide Rate in Costa Rica from 2014 to 2019 (in number of homicides per 100,000 inhabitants),” Statista, <https://www.statista.com/statistics/984826/homicide-rate-costa-rica/>; “Intentional Homicides (per 100,000 people),” World Bank Data, <https://data.worldbank.org/indicator/VC.IHR.PSRC.P5> (all accessed Mar. 19, 2021).

Corruption Percentage Index, 2019

Region	Score
Developed economies (average)	74.5
Emerging economies (average)	38.3
Guatemala	26
Honduras	26
Nicaragua	22
El Salvador	34
Costa Rica	56
Western Hemisphere	39.7

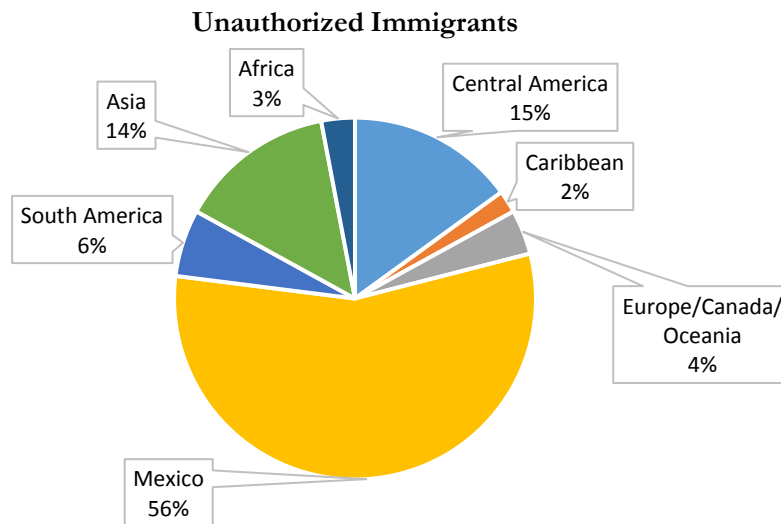
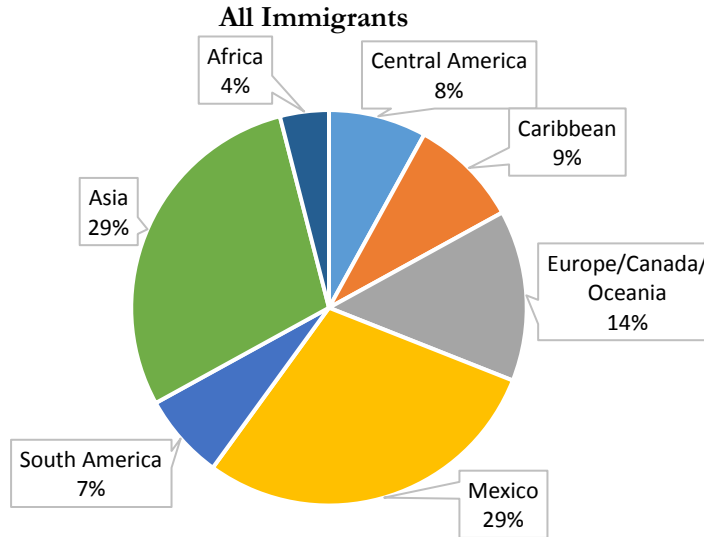
Note: 100 = very clean; 0 = very corrupt.

Data source: “Corruption Perceptions Index,” Transparency International, https://images.transparencycdn.org/images/2019_CPI_Report_EN_2020-12-17-100307.pdf (accessed Mar. 18, 2021).

Exhibit 6

Próspera: Partnering for Economic Development in Honduras

Estimated US Immigration



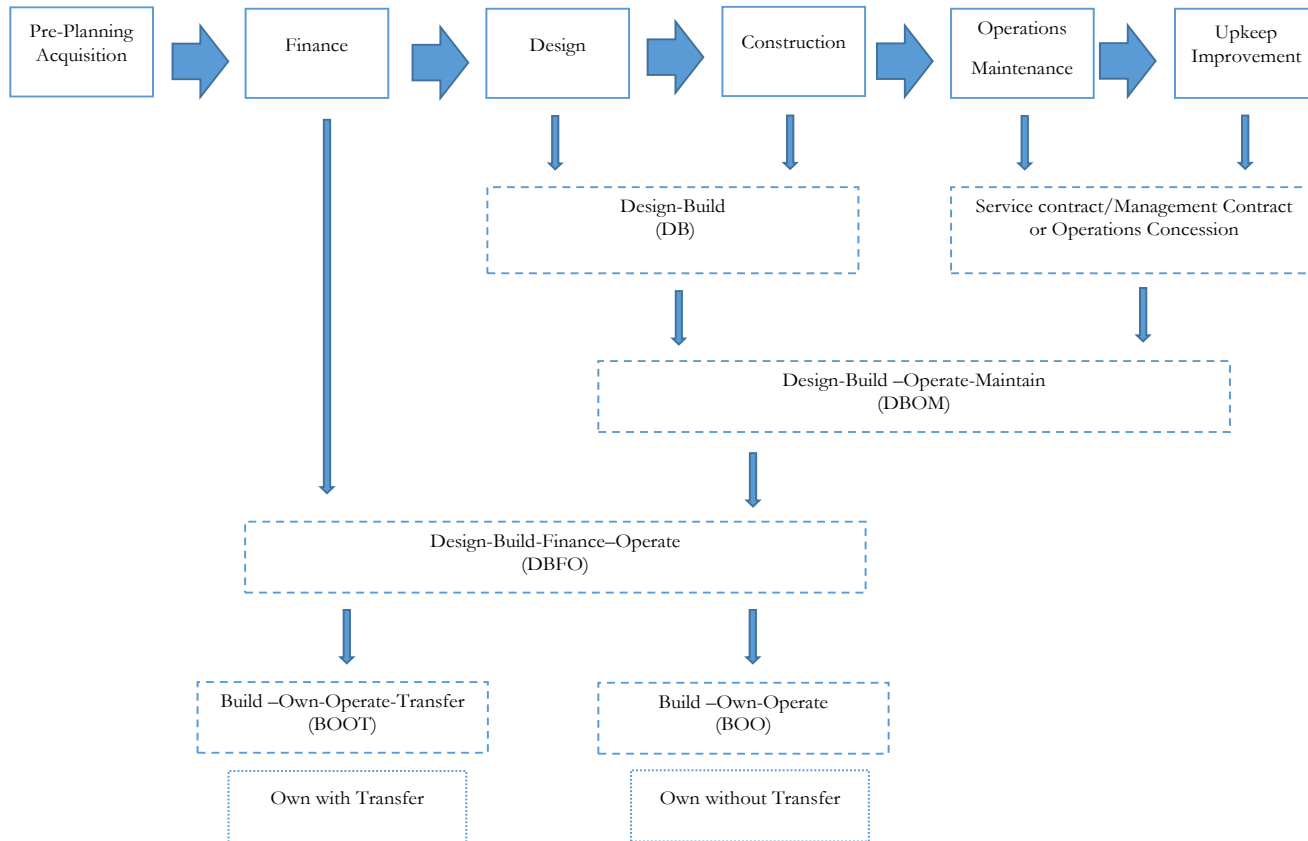
	1990	2000	2013
Honduras	42,000	138,000	317,000
Guatemala	118,000	144,000	704,000
El Salvador	298,000	189,000	436,000
Nicaragua	50,000	21,000	68,000
Total	509,990	494,000	1,527,013

Data source: "Migration Data Hub," Migration Policy Institute, <https://www.migrationpolicy.org/programs/migration-data-hub> (accessed Mar. 18, 2021).

Exhibit 7

Próspera: Partnering for Economic Development in Honduras

Types of Public-Private Partnership Arrangements



Source: *Accounting and Financial Reporting for Service Concession Arrangements*, consultation paper, International Public Sector Accounting Standards Board, March 2008, <https://www.ifac.org/system/files/publications/exposure-drafts/00288.pdf> (accessed Mar. 18, 2021).

Exhibit 8

Próspera: Partnering for Economic Development in Honduras

Community Involvement

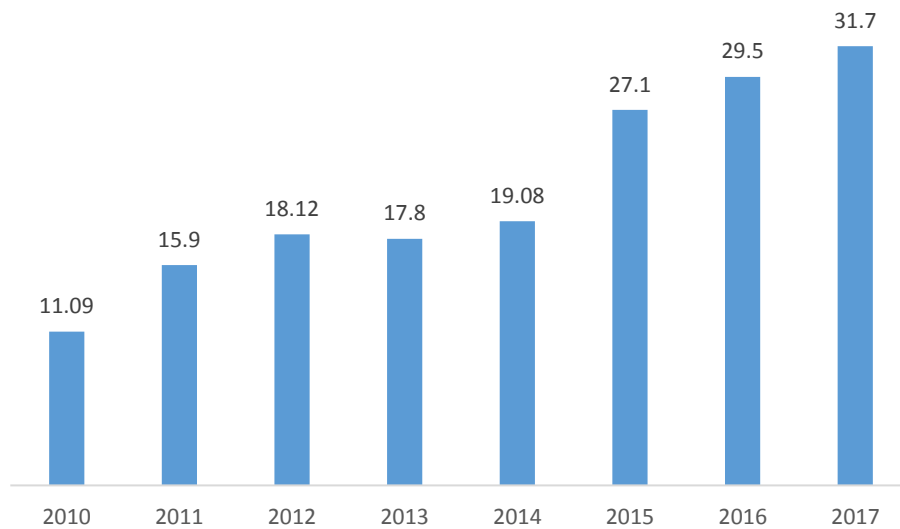


Source: Company documents, used with permission.

Exhibit 9

Próspera: Partnering for Economic Development in Honduras

Percentage of Honduran Population Using Internet, 2010–17



Data source: “Percentage of Population Using the Internet in Honduras from 2010 to 2017,” Statista, <https://www.statista.com/statistics/1055487/internet-penetration-honduras/> (accessed Mar. 18, 2021).

Exhibit 10

Próspera: Partnering for Economic Development in Honduras

Próspera Planned Development Projects

Phase 1 (6 months to 2 years): 100 Honduras and Internationals Working and Living				
<i>Project</i>	<i>Description</i>	<i>Capital (millions)</i>	<i>New Jobs</i>	<i>Status</i>
Próspera	-400-600 residential units	\$25	15,325	Prototype residence complete Q3 2020
	-Mixed use buildings			First one complete Q3 2020
	-Anchor tenants			Move in Q3 2021
St. John's Valley	Community project		-	Begin construction Q1 2021
High Speed Internet	Bandwidth to Bay Islands	\$22.5	833	400GW fiber optic line complete Q4 2020
Medical Center	Tourism medical facility	\$80	19,760	Tele/E-Health option Q1 2021
Aircraft Maintenance Center	Outsource aircraft repair/overhaul	\$155	38,285	Bid process Q1 2021
Phase 2 (2 to 4 years): Several 1,000 Honduras and Internationals Working and Living				
<i>Project</i>	<i>Description</i>	<i>Capital (millions)</i>	<i>New Jobs</i>	<i>Status</i>
Banana Processing Plant	Local bananas to export	\$12.5	7,300	Begin construction Q1 2022
Coffee Processing Plant	Centralize coffee production/process	\$15	8,760	Begin construction Q1 2022
Modular Construction Factory	Construction components for modular industry local and North America	\$25	5,325	Begin construction Q1 2022
Airport P3 Concession	Modernize regional passenger/cargo service	\$120	15,000	Begin construction Q1 2022
Marine service center	Shipbuilding /repair /maintenance post-Panamax sized vessels	\$140	34,580	Begin construction Q1 2022
Totals		\$595	145,168	

Source: Company documents, used with permission.