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IMPACT EVALUATION:  
IIDH/IDH HONDURAS

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## Acknowledgements

We would like to thank all IIDI and IDH staff for their help and support to us in every phase of this work.

We had a great deal of learning to do in a very short period of time in order to understand IIDI and its evolution. We were well received in both Vienna, Virginia and Tegucigalpa where staff made time and took interest in seeing that we got any needed information. Having this background was important to us in order to put project accomplishments into their proper perspective and to understand why things are as they are.

The staff was very open with us in discussing the soul searching and growing pains involved in IIDI's internal development. There has been, from the outset, an expressed understanding by IIDI, IDH, and ourselves that evaluations are valuable to institutions if they are viewed as management tools to be used as a feedback mechanism to see where things are going well, but to a greater degree, to learn where improvements can be made.

We had the opportunity to meet in Miami with the ex-Director of IDH with whom we talked for several hours about the IIDI/IDH relationship, program, and history. He also arranged our initial phone contact with the current IDH Director. This was very important to our credibility. During our initial conversation I was able to explain our approach, set up logistics, and begin to develop a

relationship with IDH before arriving in Honduras. Given the very short amount of time allotted for this work, being able to discuss logistics and other details beforehand directly with the IDH Director was very advantageous since we knew what kind of in-country support could be relied on. Every effort was made not to overburden IDH with another set of demands on their small staff and tight budget.

In two and one half weeks in Honduras it proved possible to search out the background information needed to ascertain where IDH fit in the general context, as well as to interview twenty-eight beneficiaries in San Pedro Sula, La Lima, Siguatepeque, Catacamas, Juticalpa, and Tegucigalpa, giving us a good geographical and programmatic distribution of clients. Twenty-five of the twenty-eight clients interviewed had received their loans between 1979-81, the period of the matching grants, representing approximately 42 percent of the total number of loan recipients during the period.

For the above in-country support we express our appreciation to Carlos Hernandez, IDH Director; Oscar Chivas, Assistant to the Director; Pablo Paredes, Accountant; Jeremias Gomez, Supervisor; Antonio Gonzalez, Supervisor; and Blanca Sagastume, Secretary.

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Introduction:

The Institute for International Development, Inc. is a private non-profit organization with headquarters in Vienna, Virginia. It was started in 1972 to assist in the development effort by attacking poverty through assisting small and medium sized companies in developing nations to expand employment opportunities, income, and general social and economic improvement for owners/managers and employees. At the time of its establishment it was one of the very few private and voluntary organizations working specifically in the employment generation field in small and medium sized businesses as a means of providing more opportunity for individuals to improve their well-being, stimulate entrepreneurship, and foster a more solid basis for overall economic development efforts.

The initial idea was for IIDI to identify sound business propositions in the LDC's and link these to entrepreneurs in the United States who were interested in promoting the business development/entrepreneurship development objective through loans or equity investments in these businesses. IIDI would act as a broker between the U.S. financier (or entrepreneur) and the foreign entrepreneur.

In order for the U.S. entrepreneur to be a financier and sponsor, under this concept, he was expected also to provide technical and managerial assistance to the businesses being supported.

This system was organized through a network of church groups both in the United States and the LDC's. It was a system which was

novel in its approach, and was a way of promoting United States private sector involvement in LDC small and medium sized business development.

Over the years, however, IIDI has done some serious reevaluation of its program and operational methodology. The sheer logistics of linking entrepreneurs in this initial way, especially with IIDI staff all being based in the United States, were extremely difficult. The numbers of companies which could be worked with were very limited, and just getting entrepreneurs together in the technical assistance function was very costly, time consuming, and difficult. Furthermore, the companies which could use this type of assistance were larger, more capital-intensive, and used higher level technology.

Thus, IIDI revised its approach. It has gone through a number of changes over its life in an attempt to increase its efficiency of operations. A major change was in its decision to assign resident staff to various countries to do a great deal of the project identification and managerial and technical assistance work, rather than try to operate the program from the United States. A follow-on decision was also reached in 1978 to create local self-sufficient independent organizations to carry on the work in the future, freeing IIDI resources for replicating the activity in other countries.

PART IIIDI/IDH Objectives:

In 1979 IDH was registered in Honduras as a private non-profit development organization. It was IIDI's "subsidiary" in Honduras and remained dependent on IIDI for U.S. financial and some staff support until December 31, 1981.

The IIDI/IDH project established a number of principal objectives:\*

1. Reduce unemployment, malnutrition, migration to the cities and related social problems through the creation, expansion and strengthening of small enterprises.
2. Promote operational growth of small businesses, groups, and individuals who are unable to obtain credit from the national banking system by providing an alternative credit source.
3. Promote and encourage the growth of small businesses by providing administrative and technical assistance.

In order to reach these objectives IIDI/IDH had two principal operational components. The most important is the loan fund and credit system through which loans are made to individuals for a wide range of purposes. IIDI/IDH also operates four seminars of three days each per year throughout the country to provide low level training and orientation in notions of management control, administration, legal subjects, et cetera.

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\* These were drawn from the Institutional Analysis of IIDI/IDH in Honduras.

As for any additional management assistance, IDH simply does not have the staff available, time, or money. The ACORDE project which was going to be the technical and managerial assistance arm of IIDI/IDH never materialized.

Reviewing the loan portfolio over the life of the program approximately 50 percent of all loans were for either agricultural production or for processing (one loan in particular, US\$50,000, to start a feed mill). The rest of the loans were for industry, predominantly, a large number of which were located in secondary towns and cities outside Tegucigalpa.

IIDI/IDH PORTFOLIO<sup>1</sup>  
(over the life of the project)  
Exchange rate: L2 to US1

	<u>Amount (L)</u>	<u>Percent</u>
Agriculture	21,150	3.2
Cattle <sup>2</sup>	164,400	25.2
Chickens	40,850	6.3
Bees	12,000	1.9
Industry <sup>3</sup>	299,200	45.8
Other	<u>115,186</u>	<u>17.6</u>
TOTAL	652,786	100.0

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1 Taken from IDH Institutional Analysis 1981.

2 Includes a L50,000 loan to one client for diversified agriculture.

3 Includes a L100,000 loan to SEDALCO feed mill for start-up.

Program Context:

In order to put IIDI/IDH work into perspective we spent several days identifying and talking with both government and private agencies involved in small business and small agricultural development to find out what kinds of programs were reaching what types of beneficiaries. We were interested in seeing how much was being done and to what degree of effectiveness to provide credit access to small producers. We also needed to find information on the small business and agriculture sectors in general, including sectorial definitions, numbers of firms, and socio-economic profiles, if at all possible, of small businesses in order to understand their relative importance within the economy and to know how much relative support each area was already receiving. Our concern was to understand where IIDI/IDH fit into the greater picture of SSE work in Honduras. We wanted to know the economic and institutional context within which IIDI and IDH had been operating.

We visited the following organizations in order to get the information we needed.

°Centro de Desarrollo Industrial (Industrial Development Center) (CDI)

This organization, sponsored by AID, was designed to provide credit, management and technical assistance to small and medium sized businesses and artisans.

°Programa de Tecnologías Rurales (Rural Technologies Program (PTR)

Part of the CDI system, also sponsored by AID, was designed to attack rural underdevelopment by creating

employment and increasing rural production and productivity. Emphasis was given to appropriate technologies and a loan fund was created, but to date no disbursements have been made.

°Fondo Nacional de Desarrollo Industrial (National Industrial Development Fund) (FONDEI)

A World Bank sponsored program for business development credit through the Central Bank.

°Fondo de Garantía para el Fomento de la Pequeña Industria (Guarantee Fund for Small Business Development)

A World Bank sponsored program for guaranteeing small business loans through the FONDEI.

°Banco Nacional de Desarrollo (BANADESA) (Previously BANAFOM)

Primarily devoted to agricultural credit to individual farmers, groups, and cooperatives. Makes loans to very small producers (US\$100-2,000) as well as to large operators. With recent changes BANADESA will concentrate on rural areas while CDI will cover urban/semi-urban small business/artisan manufacturing credit.

°Asesores para el Desarrollo (ASEPADE)

A private non-profit organization dedicated to socio-economic development. Has done consulting work for CDI in which they designed a micro-business/artisan credit system. This system was never used by CDI even though it looked like a good design which truly reached this level of entrepreneur.

°Asociación Nacional de Medianos y Pequeños Industriales (National Association of Medium and Small Businessmen) (ANMPI)

A small organization created as an advocate for this business sector. Provides some management and technical assistance. Program seems weak, without many benefits or services to offer to members. ANMPI is affiliated to a larger business umbrella group called COHEP.

°Consejo Hondureño de la Empresa Privada (Honduran Private Enterprise Council) (COHEP)

Umbrella organization for Honduran business. It has lobbying and some program development and technical assistance functions.

°Central Bank (Division of Industrial Research)

Compiles data on Honduran economy and does sectorial analyses. We attempted to get specific information on small enterprise, firm size, assets, et cetera, as well as general socio-economic profiles on micro/small/medium sized businesses here.

°Universidad Nacional Autonoma de Honduras (National Autonomous University of Honduras) (UNAH)

Went to faculties of economics and business administration to track down a thesis dealing with the provision of managerial assistance to small businesses.

°Interamerican Development Bank (IDB)/Washington

To locate macro-economic reference data.

Our visits to these places were very helpful in many ways.

We were able to get information which gave us the background orientation to small enterprise in Honduras which helped us to put IIDI/IDH's small program into perspective.

While the CDI, PTR, FONDEI, Guarantee Fund for Small Business Development and BANADESA are programs directed in whole or in part to assist small enterprise development through credit and technical and managerial assistance components, only the agricultural programs have achieved a high degree of coverage according to official statistics. Through individual loans and cooperative organizations many thousands of loans have been made by BANADESA for small agricultural production.

This is not particularly surprising given the importance of agriculture in Honduras. According to CONSUPLANE, the National Planning Agency, 59.3 percent of the economically active population in 1980 was employed in agriculture. Sixty-five and six tenths percent (65.6%) of the total population is rural.

ECONOMICALLY ACTIVE POPULATION  
1980  
(CONSUPLANE estimate of 15-64 age group)  
(26.5% of total population)

	<u>000's</u>	<u>% Total</u>
°Agriculture, forestry, hunting, and fishing	578.4	59.3
°Mining	3.0	.3
°Manufacturing	122.0	12.5
°Construction	32.9	3.4
°Commerce, restaurants, hotels	80.8	8.3
°Other (probably artisan and small business included)	<u>158.4</u>	<u>16.2</u>
TOTAL	975.5	100.0

According to BANADESA figures 53,923 loans of under US\$2,500 were made by their organization alone in 1981.

EXTRACT BANADESA 1981 PORTFOLIO  
(Exchange rate: L2 for US\$1)

<u>Loan size (L)</u>	<u>Number of Loans</u>	<u>000's Lempiras Total Value</u>
0-200	19,677	2,098.1
201-500	15,661	5,291.1
501-1,000	9,395	6,796.1
1,000-2,500	6,684	10,476.6
2,501-5,000	<u>2,506</u>	<u>8,802.5</u>
	53,923	33,464.4

These figures indicate substantial coverage for small agricultural production and rural enterprise not including the other banks and cooperative organizations which on-lend to farmers.

On the other hand, the Honduran SSE programs working in urban manufacturing, non-agricultural production, commerce, and services are new, for the most part, and have established delivery systems, loan and guarantee eligibility requirements which, when combined, will only allow them minimal coverage of the sector and will encourage the selection of larger small business and middle income clients.

One program directed at small artisan businesses has a multi-million dollar budget and in 1981 reached slightly over 100 clients. FONDEI is not specifically directed at the micro/small business sector and the Guarantee Fund is having trouble because few private banks are entering the program. Honduras general recession and tight money on all fronts may be partially responsible for this. For whatever reasons, this is a problem given the importance of manufacturing to the economy. It has been underrated and, thus, compared to agriculture, does not have the coverage agricultural development schemes have had. To have the needed impact programs must find ways to reach literally thousands of entrepreneurs. Twelve and a half percent of the economically active population in 1980, or 122,000 people, are involved in manufacturing and the "other" category (probably including many artisan small businesses,

by Honduran definition 1-4 employees) represents 16.2 percent of the EAP, or another 158,400 people.

A CONSUPLANE study in 1977 has calculated that there are 37,786 manufacturing units in Honduras. Defining the First Level as artisan businesses having from one to four workers, which we may want to call micro-businesses, and the Second Level being broken into four sub-groups of businesses having from 5-100 or more workers, the following breakdown is established.

	<u># Manufacturing Units</u>
First Level: 1-4 workers	36,937
Second Level:	849
Sub-groups:	
1. 5-19 workers	478
2. 20-49 workers	196
3. 50-99 workers	94
4. 100-more workers	81

Second Level sub-groups three and four having fifty or more workers number 175 units and produce 65 percent of the total manufacturing value.

On the other hand, First Level (artisan 1-4 workers) plus Second Level sub-groups one and two equal 37,611 units, produce 35 percent of total manufacturing value, and employ 70 percent of the total manufacturing workforce.

The small and medium scale manufacturing sector, then, is a very important employment and income generator for the Honduran economy. However, looking at the problem of credit access, the medium sized companies probably already have access to credit.

It is the First Level companies which are usually outside the traditional credit system. It is at this level of business that a huge pent-up credit demand exists. Assuming that each artisan or micro-business employs an average of 2.5 workers, those businesses alone represent 92,343 jobs.— This is almost ten percent of the total EAP. Yet, despite increasing recognition by government officials, development programmers and financial institutions of the importance of these businesses to economic growth and stability, the few projects that are specifically directed to assisting these businesses, at least in theory, in Honduras, operate in a very traditional way, and because of their systems and methodologies they will never be able to reach but a very small segment of businesses with regard to the need.

#### The Need for IDH:

1. Given that credit and technical/managerial assistance agencies are reaching only small numbers of people who want and need credit in the small and micro/artisan business area ...

2. Given the high unemployment (officially 10.8%) and underemployment (possibly as high as 70% according to labor groups) caused by traditional lack of opportunity, exacerbated by the current recession, and the natural growth of the labor force due to demographic pressures (rate of population growth is 3.4%) ...

3. Given the importance of small enterprise (including artisan as previously defined) to income generation, employment creation, and labor absorption in Honduras, coupled with the relative lack of assistance to it ...

... there is definitely a need and role for IDH to provide credit and other types of assistance to low income people outside the formal credit and training systems, especially if they can reach enough people to make a difference.

From the previous information, however, IIDI/IDH seems to be particularly useful in lending to "artisan" or micro-businesses rather than to agriculture. Given the scarce credit resources in general in Honduras, IIDI/IDH carries much more importance to micro-business.

Five out of six of IIDI/IDH's agricultural loans reviewed by us were for fairly large amounts and were to middle class people, only one of whom was a farmer by trade. There is little question that these people could have gotten loans from other national sources.

During the latter part of 1981 and 1982, however, the program did begin lending to very small, poor farmers in the community of Zopilotepe. These people were probably below even BANADESA's minimum level. These types of loans would give IDH agricultural lending greater meaning, should they decide to continue in the agricultural area.

It is important that IIDI and IDH realize that the employment generated by agricultural loans has been very small though. This should be carefully reviewed by IIDI and IDH in terms of their future operations.

PART II

PROGRAM IMPACT Institutional Performance IIDI IDH

IDH, being an Honduran organization officially registered as a non-profit agency, should be in a position to have an important impact on employment, one of its major objectives, if it focuses on supporting primarily urban and semi-urban micro-level manufacturing and if it is able to streamline its delivery system to reach many more businesses than it has to date while at the same time holding its personnel and administrative support costs down.

big if

Through a well designed methodology and carefully targeted beneficiary population, IDH could actively demonstrate the viability of non-traditional lending and influence policy decisions in this field of development at the national level.

IIDI/IDH did not have this influence as of December 31, 1981, when IDH became independent. With this in mind, IDH is currently reviewing its operating system with the intention of making adjustments which will improve its impact and efficiency, and reach more clients than in the past.

IIDI was the principal force which has permitted IDH to get off the ground and establish itself as a self-sufficient indigenous

development organization. It played a major role by providing a credit source to Honduran entrepreneurs for the purpose of starting small businesses or expanding existing ones in both manufacturing and agriculture through the loan fund set up with IDH and recently turned over to them.

Furthermore, within the context of other Honduran SSE assistance agencies, IIDI/IDH local staff did credible work. They did what they could with very limited resources at their disposal. The principal Honduran official small/micro-business development agency has a large budget, staff, and comparatively adequate support, yet only reaches slightly over 100 clients per year.

During the period of Matching Grant, 1979-81, IIDI/IDH made 59 loans; 38 in manufacturing and retail and 21 in agriculture, at a cost to IIDI for its Honduras operations, exclusive of any U.S. support costs, of \$105,479, which breaks down to a cost of \$1,787.78 average per loan.

This is not a large number of loans to have been made over three years. However, viewed in terms of the specific impact on individual clients, 59 people were provided the opportunity to, and, in the great majority of cases, did increase their personal incomes, improve their assets bases, often very substantially, and generate employment and income for workers who were often from the community and were unemployed. In about two-thirds of the cases, according to our sample, these individuals otherwise would not have had this chance.

*data*

Given that our sample of entrepreneurs interviewed showed an average of 3.04 jobs per loan, this would mean that about 180 jobs had been created by these 59 loans. If we figure that there is an average of 5.92 people per employee family (taken from the sample of owners interviewed), then we can roughly estimate that directly and indirectly some 1,067 people were affected by the employment created by IIDI/IDH's loans, which is commendable for a three-person organization which had just begun Honduras in-country operations in 1979. Including the families of the owners, the total number of people affected by the loans was 1,220.

In view of the fact that IIDI/IDH staff was very small and given the credit delivery mechanism and follow-up system used, which is on a one-to-one basis, with visits to each business before making the loan, the on-site monitoring of each individual project each month to forty-five days, the low total number of loans is understandable.

During 1979 IIDI/IDH staff was limited to the Director who was sent to Honduras by IIDI, and a bilingual secretary. In January of 1980 a third person was hired to prepare for taking over IDH when IIDI pulled out. During the end of 1981 and 1982 two supervisors were also hired, whose primary function is to assist the project director in project monitoring. IIDI's plan, developed in 1978, was to phase out its direct involvement in IDH by 1981, leaving it as a free-standing, self-sufficient organization.

Since IDH would be totally dependent on interest income derived from its US\$250,000 loan fund (turned over to them by IIDI) which was very optimistically projected at \$36,000 for 1982, and whatever outside funding it could muster, they could not afford a large staff.

*Department  
note*

Given the smallness of the staff and their credit system they could only attend a certain number of loans. Therefore, there was not much emphasis put on promotion of the program. Only about one out of every four loan applications was approved, and knowledge about the program was spread principally by word-of-mouth through the church network. There was plenty of work without making any concerted promotion efforts.

A further possible reason for the relatively small number of loans made by IIDI/IDH is related to the philosophy under which the program operated. The program wanted to support businesses, either new or existing (mostly new), that showed good growth and income potential. IIDI/IDH seems to have operated on the basis of a business development definition which was to create jobs through relatively capital intensive investments in fixed assets coupled with a small amount of working capital, thereby creating a substantially improved assets base for the business owners and jobs for machine operators and other types of workers as business got underway. The idea seems to have been to concentrate more on building the owners assets and the productivity of labor rather than specifically on the numbers of jobs created or on the costs

*Costs  
approach  
to be  
more  
employment*

Given this philosophy, it is logical to expect to find that larger loans for fixed assets had been made, even though the employment impact could have been better per dollar outlay. Indeed, about 40 percent of the loans made were relatively large, of L10,000-L50,000, or US\$5,000-25,000. Given a limited amount of money at IIDI for Honduras projects, this would have meant less money for other potential clients and fewer loans made.

*How other?  
what approach?*

Under this approach a small staff working with a few clients providing intensive monitoring and technical and managerial assistance makes sense. During 1979 there seems to have been more managerial assistance provided in this way. However, most managerial assistance was, and is currently, provided through seminars held in different parts of the country four times a year. These sessions concentrated on giving low level introductions to bookkeeping and general business management. Supervisory visits were to monitor the progress of the loans and to collect in late payment cases and not to provide much on-going technical or managerial assistance. Since neither TA nor managerial assistance is being given through this intensive individual monitoring and follow-up system, it will be necessary to make adjustments since it is hard to justify the time and expense involved in individual monthly monitoring visits with no other simultaneous objectives.

*have these been effective?*

Given the current client load, the existing system allows the basic disbursement and collection functions to take place. However, with new loan money from both AID and the Interamerican

Development Bank, the pressures to disburse many more loans rapidly will increase dramatically. The program will have to be able to determine how to make more "good" loans efficiently at a lower cost. This is where the old system or methodology will break down due to the increased numbers of clients this implies.

Staff is already hard-pressed to do its multi-variate tasks. Thus, while the potential for much greater impact in terms of numbers of people reached by the program will be greatly increased by the additional loan funds available, the individual based methodology currently used by IDH will have to be adjusted to deal with these new pressures. This is not to say that IDH should be less aware of individuals and their needs, rather that there are more efficient ways of maintaining that contact through a system of regional meetings among beneficiaries themselves and the seminars currently being used. Simply adding more staff will not be a sufficient solution.

*Is IDH capable of doing this? Have they thought about it?*

National Level Impact:

IDH, as an organization, was somewhat known to other Honduran government and private development agencies. Some people were slightly more informed about IDH's activities and knew of their credit function. But it was really AID that knew most about them. All in all, IDH seems to have maintained a low profile and except for one time when it tried to establish a working relationship with

why?

BANAFOM (the predecessor to BANADESA) which did not work out, there has not been much of an attempt to work closely with other development agencies.

IDH, for all intents and purposes, is only three years old and, as would be expected, is still developing its delivery system and methodology(ies). As such, it has not had any influence on national SSE policy. As the program develops and with its new grant from AID/Honduras, and the possibility of a loan from the IDB, there will be an excellent opportunity to increase its numbers of beneficiaries and, if the Board and Director act on this opportunity, to demonstrate how to operate a loan program at low cost while reaching large numbers of clients. In order to do this, though, IDH, as mentioned previously, must streamline its loan methodology.

Institutional Impact:

There is no question that IIDI has played a key role in IDH's existence. IIDI has turned over a \$250,000 loan fund to IDH and through its previous staffing support helped IDH through its start-up phases. Without this organizational and financial assistance, possibly there would not exist today an ongoing PVO credit institution for small scale entrepreneurs in Honduras.

very limited

This in itself was a major accomplishment and, according to the current IDH director, this type of an organization had heretofore

been practically unheard of in Honduras. No other PVO had attempted to provide credit to small enterprises and become self-sufficient in the process.

However, the projected cost of operating the program, as it is currently set up, will be substantially higher than even the optimistic projected interest income to the program, meaning that IDH is beginning in precarious financial condition. In order to survive, IDH will have to work very hard to cover the projected deficits from other income sources, since there is very little, if any, possibility of reducing program costs.

For pragmatic reasons as well as reasons of demonstrating national support for the program, it is important to be able to raise national funds in Honduras, but this is not an easy task. IDH had no particular knowledge or expertise in this area either on the part of staff or the board. They knew this would be important to IDH's future, but no fundraising system was established and no one on local staff was trained in this function.

Small Enterprise Impact:

In all but a very few cases people had unquestionably benefited from their loans. They frequently made the difference between whether an entrepreneur could begin or continue in the business or not. Small low income entrepreneurs started with almost no capital and, in most cases, were not bankable. The

*Insert data here*

opportunity to get a loan from IDH came along in some cases soon after start-up and made a struggling, undercapitalized business viable. On another level, where the impact was important in terms of assets accumulation, but perhaps less critical to family or social welfare, a few of the more middle class types of clients decided to start sideline businesses because the resources were available.

One problem that was observed was that in several cases where larger loans had been made for fixed assets, primarily, working capital was short-changed and this led to production problems. The smaller loans to lower class clients were distinctly more balanced in terms of fixed assets versus working capital. In these cases the entrepreneurs were not in a position to subsidize their working capital needs from other sources and lived from the business income. In these small loans, the balance between fixed assets and working capital made the difference between sufficient capitalization and disaster.

*What about employment generation?  
Is there a difference?*

#### Income Impact:

"Middle class" or "nearly middle class" clients with the larger loans of on the order of US\$5,000 to US\$25,000 with two or five years to pay back got their loans for new business start-ups or new additions to an existing income base and ran into trouble sometimes because of the payback design. These loans often didn't include

a long enough grace period, especially in agriculture and cattle, to begin generating income from the business before having to begin to pay IDH. Thus, the payments to IDH were frequently either delinquent or the business was forced to decapitalize its working capital. (This was the case in four of the six large agricultural loans which were reviewed.)

What allowed these businesses to "survive" the loan was that clients had other incomes to pay family living expenses or, occasionally, assets to sell enabling the clients to subsidize the initial meager income of the business to pay back IDH. Thus, in some cases families were perhaps no better off as a result of the loan on the short term. However, when the payment crunch was over they would have accumulated substantially more assets and projected income would be markedly increased.

On the other hand, most of the lower income clients did not have the luxury of being able to help pay their loans from other income or assets sources. Business income paid all family and business expenses.

Smaller loans of in the range of US\$1,000-\$5,000 with one to two years paybacks were normally made to lower income people to support an on-going business or a new business not requiring any new technology or specialized training. The entrepreneur could apply the same skills to run a successful business with minimum need for technical or managerial assistance which IID/IDH

could not provide on a continuous basis. These smaller loans have as good payback records and create more jobs per loan dollar than do the larger loans. *Yes? Admin. burden?*

Many loans were for new business start-ups. As employees, beneficiaries typically earned US\$80-90 per month. And in the skilled trades (carpentry, for example) incomes may not have been very stable. With loans, in some cases income stabilization occurred and income increases of 50-100%, or sometimes more in particularly successful businesses, were not unusual, having substantial effects on housing, health, education and other areas of socio-economic interest. And even in cases where business was not so good and payment to IDH was very difficult, entrepreneurs were convinced that when they finished paying the debt and when the economic recession loosened its grip, they would be much better off in terms of their family incomes and personal and business assets.

#### Relationship of Experience to Impact

No matter what the loan size, socio-economic level of the entrepreneurs, or whether the loan was for agriculture or manufacturing production, experience in their trade has been very important to the success of new enterprises begun with IIDI/IDH assistance. *Is this true? IDH opportunities?* Many owners had years of worker or supervisory experience before starting their businesses. The majority of these are doing well. One recalls immediately a printing business in San Pedro Sula

which was bought with the loan, saved six jobs, and while the owner's income remains about the same, he now has business assets which he didn't have before. In cases where the owner had no previous experience in producing the product line he chose for the business, there were fairly serious problems requiring technical assistance which IIDI/IDH was not able to provide. Furthermore, most of these situations occurred with those "middle class" clients, with both small and large loans, who had other means of supporting themselves if they encountered serious business problems. Six large loans of this type, accounting for L129,000 or US\$64,500, were made. In these cases, income and employment impacts were small and implied high costs per job created.

Employment Impact:

One of IIDI/IDH's principal objectives is employment generation. On the average, 3.04 new jobs have been created per loan no matter what the loan size.

The larger loans made by the program, particularly during 1979-80, have not created more permanent employment, especially in agriculture, than the smaller loans; wage levels are comparable, and the amount of loan resources needed to create the jobs are greater. Supervisory or administrative costs are constant regardless of loan size since there is no shift in operational methods related to the size or nature of the loans.

A strategic decision must be made by both IIDI and IDH as to the number, size, and types of loans to maximize employment impact if this is a principal objective. This would imply making many more smaller loans which would in turn require adjustments in the lending system in order to keep the transaction costs of each loan as low as possible. Building a large staff to cope with additional volume will probably not be the solution due to concomitant increases in operating costs.

*Would this generate more employment than productivity assets? what about admin. burdens?*

Socio-economic Impact:

While clients were very aware of the importance of not decapitalizing their businesses and reinvesting sufficiently, increases in income for family use have had positive impacts on housing, health, education, and social services.

*Debt base? Decapitalization?*

These kinds of impacts were much more clearly discernible in the households of clients who had relied on the loans as a major stimulus to their businesses which are their only source of income. These were normally lower income clients with smaller loans who had very little to begin with. People who had several sources of income, normally "middle class" or "nearly middle class", already had very adequate housing, either owned or rented, and could usually provide education, school supplies, and health care to their families.

One of the lower income clients built an entirely new home with income from his business over the last several years, and others moved to better housing which doubled as the business location. Clients often said also that it is now easier for them to cover educational and health care costs. Another client said that the family does not now have to budget so closely on food. They could afford a better diet.

Other clients were able to have relatives come live in their homes now, often to continue their studies, or they could help out relatives who needed small personal loans. And one client used increased income to visit other family members several hours away by bus to "maintain family unity."

Entrepreneurs felt strongly that being "their own boss" was a distinct improvement over their employee status previously. They could set schedules, had more personal freedom to get more out of life (often stated in terms of devoting more time to church work) and earned more, or at least stabilized income, and increased personal assets. They could improve themselves personally and said that they felt pride in their new roles.

Community Relationship and Impact:

*Net impact - precondition to effectiveness not result of program*

All IIDI/IDH staff, most board members and all but a very few clients are members of one or another of the churches in the religious network used by IIDI/IDH to identify potential beneficiaries.

Most primary benefits and impact from the program currently accrue to members of this network and the people it serves.

Networks are very important to any program in absorbing operational costs and in identifying reliable clients. The theory of utilizing groups to cut loan transaction costs and, through peer pressures, to increase payback probability is what this program is following in the use of the church network.

As the program grows, however, it will have to expand beyond this network to get good clients (as the supply decreases within the network) and to spread the benefits among a wider target population.

There are a number of ideas to be drawn from having worked through the church groups which may be applicable to an expanded model. These spill-over effects could possibly be increased through both the existing network and other community vehicles at the local level.

1. Peer group assistance in the promotional process: clients discussed their experience in the program with other members of the church and often presented them to IIDI/IDH staff and, in some cases, helped them with loan applications.

2. Demonstration effect on peer group: apparently program clients have served as role models and stimuli to peers.

3. Participation in social services: members of the network are expected to pay a percentage of their income into a

church social service fund. One client said he was very proud to be able to contribute more to this fund to help others. It seemed as if he felt obligated to share his good fortune. This is one aspect of a very positive social attitude which clients displayed.

Psychological and Motivational Impact:

The very fact that the IIDI/IDH program exists has a significant psychological and motivational impact on clients. Most clients, particularly in the manufacturing sector, perceived themselves as having no alternative sources of credit, technical, or managerial support from institutions in Honduras. IIDI/IDH gave many of their clients through credit and periodic seminars a sense that for the first time an organization was interested in them and their activities. Most clients attached a substantial value to the program because of its interest, attention, and assistance.

The seminars for the first time brought many of these people into a forum specifically designed to discuss business issues and the social responsibilities attendant to being business owners. During the three or four days that they were together people shared business experiences, and in the words of one client, he was motivated to keep going since he recognized that his problems were not unique. Another very successful client pointed to the seminar as the first time he really felt like a small businessman. There was

a sense of group feeling on the part of those who had attended the seminars which, if it were further developed, could grow into a small business class mentality. A great deal of motivation was derived from being a small business owner, being your own boss, and the pride of owning your own business.

These motivational factors, developed by the program, appear to have had positive residual effects in a number of important areas such as (a) fulfilling payback obligations (b) treating employees fairly and (c) participating with the fruits of the business in the community through the church.

## FINDINGS AND RECOMMENDATIONS

The following findings have been drawn from our general review of the IIDI/IDH program and interviews with 40 percent of the clients over the period 1979-81. After each set of findings, recommendations are made which it is hoped will be of practical use to IIDI in reviewing future actions in other countries with other programs it intends to institutionalize.

I. IIDI/IDH has worked with the lower class as well as middle class clients, has given small and large loans, and has lent to manufacturing and commerce as well as agriculture. Some clients live from the proceeds of their businesses, others have them as sidelines and additions to other sources of income.

The program provided loans to clients without focusing on any particular line of activity or class of beneficiary. As any program grows, however, there will be a need to define its beneficiary population more precisely and it will have to determine in what type of lending (for example, manufacturing versus agriculture) the organization (a) is most needed and (b) has a comparative advantage in terms of the services it can offer.

IIDI/IDH did not make these definitions in the past, and the small staff was put into a position of having to be able to make good loans in all sectors and provide adequate monitoring.

Part of the process of defining the most appropriate program niche should take into account the following observations drawn

from IIDI/IDH agricultural loan recipients. Agricultural loans are typically riskier than manufacturing, have not had nearly the employment impact that loans for manufacturing have had, and they require technical assistance and follow-up which IIDI/IDH was not able to provide. Furthermore, the disperse location of the farms present practical logistical problems in terms of making and servicing loans. With program growth and increased pressures to disburse more loans with improved efficiency, these loans will be increasingly more difficult to service under the system used in the past.

As mentioned before, IDH recently began to provide tiny amounts (L150-200; US\$75-100) of working capital to very poor farmers. The farms are tiny and all the loan recipients live very close to each other. This could evolve into a system (Dominican Development Foundation style) which would alleviate some of the logistical problems involved in agricultural lending.

But, given current staff expertise and resource limitations, IDH seems best equipped to handle SSE lending in the manufacturing area. Furthermore, given the relatively good coverage of the agricultural sector by Honduran institutions, perhaps the program's comparative advantage, and, therefore, contribution to Honduran development would be in the SSE/micro-business area.

Focusing the program needs to be done eventually to increase its impact. It is part of a streamlining effort which should allow

the program to reach many more people than currently, at a lower cost per client, and with clearer demonstrable effects on family income and, by extension, housing, education, health care, et cetera.

Recommendation: Since local organizations will inevitably need to expand efficiently in order to cover costs, comply with disbursement schedules of international lenders, and to increase program coverage, in order to prepare the local affiliate more adequately for this IIDI should assist them in defining more specific target areas in the SSE field rather than attempting to work with all sizes and types of loans.

*Shouldn't IIDI have done these things already?*

II. In the process of assisting a local organization to define the SSE niche to work in in any given country, IIDI should be aware that for each different broad loan type, size, and business level, different lending, technical and managerial assistance methodologies will probably be required precisely due to the differing levels and needs of the clients.

In many ways in-country IIDI/IDH staff was left to its own resources in developing the program design without much input from IIDI Vienna in terms of identifying more efficient operational systems.

Recommendation:

1. IIDI should be careful in helping to define these niche(s) to understand the restraints in terms of how many different

approaches and methodologies it feels can be handled organizationally. If it is not careful to do this, the local organization could become overextended. This could easily happen with IDH at this stage.

2. In view of its institution building goals, IIDI should provide increased assistance in operational systems design and in identifying efficient lending methodologies. This could become IIDI's principal role in the future.

III. If an organization is slated to be self-sustaining when separated from IIDI, there will probably be a natural tendency of the program staff in the year or two prior to going on their own to act more like traditional bankers in looking for ways to lend with less risk (often perceived more than real) and to reduce the transaction costs of lending in order to be able to meet future program financial obligations. This, coupled with the "growth potential" philosophy of IIDI, plus the workload factor, naturally could lead to staff making larger loans to "safer", but fewer clients.

IIDI/IDH may have tended to do this in making some of its larger loans over the years. However, very successful smaller, shorter term loans of under L10,000 (US\$5,000) to lower income, less educated clients were also made by the program. The impact of this lending has been very good and is a positive step, in our opinion, since IDH could put itself in a position of being able to

demonstrate that this kind of low-level lending can be done well, with positive results, as much employment of the same quality has been generated by these loans compared to the larger ones, and there are more clearly discernible business and family impacts.

This experience in Honduras could eventually influence national small business credit policy by showing a successful program in this area.

Recommendation:

1. IIDI should study the results of IDH's smaller loans vis-a-vis the larger loans to determine whether more emphasis should be placed on small lending in other countries.

2. IIDI should determine whether it wishes to concentrate on increasing the number of jobs it can create at less investment per job or whether to improve labor productivity through more heavily capital intensive projects.

3. IIDI should also decide in terms of their goals and objectives whether to continue to lend to middle-class "safer" clients with several income sources or to concentrate on lending to those entrepreneurs who derive a living exclusively from their businesses. *but how self support*

IV. No in-house local fundraising capability was designed or implemented by IIDI/IDH. This is proving to be and will become more important to IDH in the future in developing a national base

of program support in addition to their international financing in the future.

Recommendation: IIDI should be sure that local organizations develop boards which will be of help in influencing policy, promoting the organization, and/or doing fundraising. They should train local organizations' staffs and boards in fundraising techniques.

V. Over the last several years the fact that IDH would become independent was planned, yet no specific phase-out schedule was designed.

Recommendation: IIDI should set up a specific phase-out schedule with local organizations on the basis of a clear recognition of the transition time needed to allow the local organization to get firmly on its feet and have important operational systems in place and functional.

VI. Optimistic income projections to be derived from interest generated from the loan fund were calculated for the IDH budget. However, it is now clear that the projected US\$36,000 income will not be produced, and since costs will exceed projections, IDH will be left with a large 1982 deficit. ( IDH will have to be very resourceful to be able to raise enough money to cover its deficit. Without a fundraising system in place yet, it may be very difficult for IDH to cover the difference.

Recommendation: IIDI should be sure that loan fund operation is smooth, that the loan fund size is adequate, and that budget projections are realistic. There is really no point in spinning off the organization if it is already in precarious financial condition. If there is any question about these issues by either IIDI or a local organization, cutting the organization loose should be postponed until they can be resolved.

VII. The seminars run by IIDI/IDH were of substantial importance to most of the clients from both a motivational and psychological standpoint. They are good stimulators and provide the kind of low level "notions" about business which are important links in the business education process, especially for the smaller mostly lower income clients. These seminars could become the cornerstone of an expanded IDH program in Honduras in terms of their possible use for more concerted promotion, selection and follow-up on a group rather than the one-to-one basis currently used. The seminars also fostered a sense of small business organization and importance.

Recommendation: IIDI should review the possibilities of more concerted grouping efforts in both the credit delivery system as well as in low level training and general orientation. Depending on IIDI's final decisions on the socio-economic level of the clients, the trade-offs between creating greater numbers of jobs

or possibly increasing labor productivity through more capital intensive investments, and types of loans to be concentrated on (e.g., agricultural vs. manufacturing), the seminar format may be quite adequate to fill the needs of the clients and the institution to increase efficiencies.

## ANNEX #1

TALLY SHEET  
(Clients Interviewed)

	# New Permanent Jobs Created *	Type of Business **	Loan Amount (Ls) (US\$1-12)	Year	# People in Family Unit	Bankable-B Nonbankable-NB	Class ***	
1.	4	Carpentry	SS	L8,000	1979	6	NB	LC
2.	3	Repair Shop	SS	7,000	1981	4	NB	LC
3.	2	Seamstress	OI	5,000	1980	3	NB	MC
4.	4	Shoemaker	SS	3,000	1978	7	NB	LC
5.	2	Seamstress	OI	6,000	1982	2	NB	MC
6.	3	Leather Tannery	SS	15,000	1980	5	NB	LC
7.	3	Packaging	SS	4,000	1981	9	NB	LC
8.	3	Upholstery/ Carpentry	SS	6,000	1981	11 (2 fam.)	NB	LC
9.	5	Bicycles	SS	5,500	1980	7	NB	LC
0.	0	Brooms	OI	24,000	1979/80	5	NB	LC
					(refinanced)			
1.	6	Printing	SS	35,000	1979	5	NB	MC
2.	3	Carpenter	SS	6,000	1981	8	NB	LC
3.	2	Shoemaker	SS	6,000	1980	5	NB	LC
4.	5	Bakery	SS	5,000	1980	11	NB	LC
5.	2	Soft Ice Cream	OI	15,000	1979	4	NB	MC
6.	2	Sweaters	OI	5,000	1981	5	NB	MC
7.	4	Brickmaker	SS	5,000	1980	13	NB	LC
8.	6	Printing	OI	10,000	1982	4	B	MC
9.	2	Handcrafts	OI	15,000	1981	7	B	MC
0.	8	Clothing	OI	20,000	1979		B	MC
1.	5	Agri/Cattle	OI	50,000	1979	5	B	MC
2.	0	Bees	OI	5,000	1981	8	B	MC
3.	0	Cattle	OI	10,000	1980	5	B	MC
4.	2	Coffee	OI	38,200	1980	4	B	MC
5.	1	Pigs	OI	20,000	1981	5	B	MC
6.	2	Watermellon	OI	2,000	1981	5	NB	LC
7.	N.A.	Zopilotepe (9-10 small loans L150-200)			1982		NB	LC
8.	3	SEDALCO (feed mill (not family business))		100,000	1978/79			
	82	OI-14			154	NB-18		LC-13
	3.04 jobs/loan	SS-12			5.92 persons/family	B-9		MC-14

\* s not include owners.

\*\* SS-Business is sole source of family income.

OI-Client has other source of family income.

\*\* LC-Lower Class

MD-Middle Class

Judgment based on description of housing, assets, and income before the loan was made.

## ANNEX #2

INTERVIEW QUESTIONS: Individual Entrepreneurs

To be used as a guide for interviewer: major points:

1. How long have you lived in this neighborhood?
2. Why did you move here?
3. What was your occupation before beginning this business?
4. How long have you been in this type of work?
5. How long have you been operating this business?
6. Why did you start the business?
7. Where or from whom did you learn this business?
8. Where did you get the capital needed to begin the business?
9. Have you ever had credit before the IDH project? From whom? How much interest did you pay - e.g., total loan vs. how much paid back divided by time for repayment.
10. What was the economic condition of your business before receiving assistance? Machinery? Power source?
11. How much did you earn on a weekly/monthly basis? Other source of income to the family?
12. How many people worked in the business?
  - (a) Family
  - (b) Friends
  - (c) No previous relationship.
13. Did you have any assistance for your business before IDH? Did you need credit? Managerial? Technical?
14. What was your most urgent problem or barrier to the improvement/growth/survival of your business?
15. Did you actively seek assistance?
16. How did you find out about IDH? Have you told others about your experience?

17. What did you do to contact IDH?
18. Describe the process/steps you had to go through to receive IDH assistance. How long a process.
19. What kind of assistance has IDH given you?
20. What was the most important part of this assistance? Describe how you utilizee the assistance.
21. If credit, what did you use the loan for? How much?
22. Was there any change in your way of doing business after receiving assistance?
  - (a) Could you produce more? Why?
  - (b) Did you change your production methods?
  - (c) Do you continue to buy from the same suppliers? Where do they live?
  - (d) Do you have some customers for your products? Where do they live?
23. Since receiving assistance how much do you earn now on a weekly or monthly basis?
24. Has the assistance made any difference?
  - Do you have more leisure time? Is life easier?
  - Do you have more time to devote to your production rather than less productive activities such as excessive and duplicative trips to buy materials?
25. Have you been able to make any changes in your home, children's education, (books, etc.), or diet since receiving assistance? Health care?
26. Do you spend more or less time on your business now?
27. Where is your major competition located?
28. Do you sell all you can produce? Price change?
  - What are your terms? Do you give time to clients?
29. Do your suppliers give you time to pay them? Does the price increase?
30. How many employees do you have now? How many before assitance? Where are they from? Where did they work before? Are they family, friends, no relationship?

31. Why did you need to hire new employees?
32. Do you ever get help from other businessmen on business problems?
33. Are there any groups of businessmen/women or clubs in which you can get together to discuss problems? Church groups? Kiwanis? Lions? Rotary? When did these start? Do you know of any national association?
34. Besides the IDH seminar, have you ever met in a group of entrepreneurs to discuss issues?
35. What was the major emphasis of the seminars? What issues were discussed? Was credit, accounting, marketing, production treated?
36. What do you feel was the most important benefit of your having attended the seminar?
37. Do you currently have any accounting records?
38. Are you keeping your records daily/weekly/each time an IDH supervisor comes to visit? Who set up your recordkeeping system? Do you make your own entries or does someone else?
39. What were your company's (businesses') total assets before/after assistance?
40. With improved business, do you have additional obligations to follow government regulations such as business registration, taxes? Have these additional burdens been more than offset by assistance?