

PROJECT ASSISTANCE COMPLETION REPORT

TO: The Files

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SUBJECT: Close Out Report for Microenterprise Development Program (Accion International-AITEC OPG No.522-ESF-0319.

A. BACKGROUND

Since September 1984, with Accion International/AITEC's technical assistance and funding from Private Agencies Collaborating Together (PACT), private contributions, and its own resources, ASEPADE had initiated a Pilot Project for serving the credit needs of the urban informal sector. By January 1985, over 1,000 loans totalling in excess of L360,000 had been disbursed to 730 participants (79% of whom were women), in Tegucigalpa, Comayaguela and Choluteca. The past due rate on these loans was 7% of the portfolio.

With this Pilot Program already in place, Accion International/AITEC requested that USAID/Honduras fund a two-year Operational Program Grant totalling \$418,515. Of this amount, \$270,409 would be utilized by ASEPADE for operational and administrative expenses of a Microbusiness Program and a rotating loan fund. The remainder would cover AITEC Technical Assistance and would include a Resident Advisor. Though AITEC was the Grantee, ASEPADE was to be the implementing organization for most of the activities under the Grant. Since the Mission was under a moratorium on signing up new dollar funded OPGs, a local currency grant was approved for AITEC in the amount of L650,000.

B. PROJECT GOAL AND PURPOSE:

The project goal was to improve the socio-economic conditions of the lowest stratum of the economically active urban population, to create new jobs and increase family income.

The project purpose was to enhance the productivity, employment and income generation potential of entrepreneurs in the informal sector. The project purpose was to be accomplished through increased access to credit and technical assistance so that enterprises can develop and expand their markets.

A secondary purpose was to increase and strengthen ASEPADE's capabilities to carry out a credit and managerial assistance program through the provision of technical assistance and training.

### C. PROJECT DESCRIPTION

The Grant Agreement states that Accion/AITEC would assist ASEPADE in expanding its microenterprise program through the implementation of the following two components:

#### 1. CREME - Microenterprise Program (Component 1)

Under this component, any service or manufacturing enterprise would be considered eligible for a loan so long as its fixed assets (not including land and buildings) were not in excess of L20,000 and if the enterprise did not have any access to commercial sources of credit. Initial loans would be in small amounts, for short terms, and mainly for working capital at a 2% monthly interest rate. The possibilities of increasing the loan amount would depend upon the repayment record and growth of the enterprise. Loan amounts would range from L200 to L3,000 and the payment period generally from two to sixteen weeks and before obtaining a second loan, the entrepreneur would have to have opened a savings account.

#### 2. CREDISOL - Solidarity Groups Program (Component 2)

Under this component, solidarity groups would be formed integrating five to eight entrepreneurs who own production equipment or provide services. They support each other by serving as guarantors for obtaining loans. Loan amounts range from L50 per member to L400 per member. Conditions and rates are similar to those of the microenterprise program.

This Grant was effective beginning July 31, 1986 with an original PACD date of July 30, 1988 and with AID funding of L650,000. In April 1987, AID increased the amount by L285,450 and in March 1988 by L174,550, for a final new life of project total of L1,110,000. The PACD date was extended to September 30, 1988, due to the anticipated continued success of the program and the continuing demand for credit in the secondary cities of San Pedro Sula and Choluteca which was exceeding the amounts allocated for this activity under the OPG.

### D. OUTPUTS

Accion/AITEC should provide technical assistance and credit funds to ASEPADE for the expansion of its microenterprise program in the following areas:

1. Establishment of monitoring, financial and loan processing systems for the credit component of the program.
2. Expansion of the ASEPADE Program in up to eight cities in Honduras.
3. Coordination of training and technical assistance provision to microentrepreneurs participating in the program.
4. Provide training to ASEPADE staff.

5. Development of methodologies for impact evaluation for ASEPADE.
6. Assist ASEPADE in achieving outputs outlined in Annex I of Grant Agreement, as follows:

Under Component (1), by the end of the project, 800 microenterprises should have benefited in the first year and 900 in the second year; 2,400 loans should be disbursed in the first year and 2,800 in the second year. Loans should total the equivalent of \$650,000 in the first year and the equivalent of \$1,500,000 in the second year. Operational and administrative costs per dollar lent should be \$0.08 in the first year and \$0.04 in the second year. Jobs should be created at L1,000 investment per job in the first year and L3,000 in the second year. An equivalent number of jobs should be maintained. Rudimentary level training should also be provided to microentrepreneurs receiving loans.

Under Component (2), 400 solidarity groups should be formed in the first year and 500 in the second year, with a total of 2,400 participants in the first year and 3,048 in the second year. Loans should total L800,000 in the first year and L960,000 in the second year (this figure includes funding from other sources).

#### E. INPUTS

AID would provide L650,000 in Grant Funds. By the PACD, this amount was increased to L1,110,000. Other institutions which provided funds for this project were the Inter-American Foundation which provided L101,470, the Private Agencies Collaborating Together providing L137,348, the Inter-American Development Bank providing L749,000 and Accion/AITEC providing L150,000 and \$31,000 for a grand total life of project funding of L2,247,818 and \$31,000.

#### F. OUTPUTS PLANNED BUT NOT ACCOMPLISHED

Overall, 90% of the project outputs were accomplished according to Accion/AITEC's Final Report on November 1988.

The following are some of the most important outputs that did not reach their planned targets:

1. The CREME Program planned to disburse L2,900,000, but only L1,953,144 were disbursed. This was mainly due to the average size of loans for working capital being smaller than expected due to the limited credit capacity of the borrowers. This in turn, limited larger loans for fixed assets which were not disbursed at all during the first year.
2. The CREDISOL Program planned to form 750 solidarity groups, but was only able to form 258, representing only 34.4% of the target. This low figure is mainly attributed to the actions of the local municipality authorities which constantly displaced street vendors affecting this program seriously. This in turn, affected CREDISOL's program targets of 4,350 jobs maintained and/or created. In fact, only 775 jobs were created/maintained representing only 17.8% of the target goal and thus the cost per Lempira lent were 0.12 instead of 0.10 as planned, representing 20% above target.

3. Sufficient training and technical assistance to the ASEPADE staff in order to establish a well developed and reliable monitoring, financial and loan processing system for the credit component of the program was only partially provided, leaving ASEPADE institutionally weak in this area. This was established by a Financial Accounting and Review report which determined that these systems were not in place by PACD.

According to AITEC's final report, during the two years of the Grant, 90% of the project overall targets were accomplished. The following were the key outputs:

1. A total of 1,806 new microenterprises benefitted from the loan program.
2. A total of 5,053 loans were made to microenterprises.
3. A total of L3,659,344 was disbursed under the credit programs.
4. A total of L289,322 was mobilized for savings.
5. The interest generated from loan activity covered half of the operational cost of the program.
6. A total of 5,105 jobs were either created or maintained and 1,222 microentrepreneurs received training.

G. FINANCIAL STATUS:

The total amount authorized, obligated and expended was L1,110,000. FARS will perform a final financial review during FY 1990 to determine if any amount needs to be deobligated or reimbursed.

H. ADJUSTMENT IN PROJECT DESIGN:

No adjustments were made during LOP

I. RESULTS OF EVALUATIONS:

The Financial Analysis and Review Office (FARS) prepared Financial Reports No. 87-42 and 88-47 dated June 16, 1987 and May 20, 1988, respectively. These reports concluded that AITEC had properly managed the grant funds, but made recommendations to improve the controls over their use.

On April 20, 1988, Mendieta y Asociados presented to AITEC a special report on the performance of ASEPADE's CREME and CREDISOL credit programs for the period ending December 31, 1987. Funds used for operational expenses were well handled and documented, but many monitoring, financial and credit portfolio management deficiencies were found, such as:

- No judicial actions were ever taken against loans recipients who were in arrears.

- Interest rates charged varied between 1.5% to 2% monthly instead of being fixed at 2%/month.
- Loan guarantors were never contacted when the loans fell in arrears.
- First, second and third loans that were made to sub-borrowers were usually repaid. However, loans that were made to a sub-borrower a fourth time were falling in arrears.
- Arrears interests/penalties were never calculated or charged.
- Loan control cards had incomplete beneficiary information and files were also incomplete.
- Loan repayments were not posted on loan credit cards the same day that a payment was made.
- Regional managers did not provide ASEPADE with security bonds in amounts of the assets they manage.
- Loan repayment periods are extended beyond contracted time tables.
- Minimum savings requirements for new loans were not followed.
- Solidarity groups and individual members did not understand their responsibilities towards loans falling in arrears.

#### J. SUMMARY OF LESSONS LEARNED

From the evaluations and special reports made on AITEC and hence ASEPADE, it is clear that much work needed to be done to institutionally strengthen ASEPADE. Emphasis was placed mainly on getting the credit program running, growing and expanding, while little was done or accomplished in instituting good sound credit policies and controls. The project needed a full-time financial/credit/accounting specialist in its design phase and implementation.

The project purpose of institutionally strengthening ASEPADE during the LOP also seems to have been very optimistic, as indigeneous PVO's usually have many unforeseen problems which require additional resources and time. Even though most of the quantifiable outputs were reached by the project end, most of the improvements expected to be realized in the credit, monitoring and financial systems were not. With this in mind, the Small Business II project included appropriate resources to further strengthen ASEPADE in these specific areas in order to assure that organization's self-sufficiency. With one year into SB II project, this process is well underway.