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PROJECT ASSISTANCE COMPLETION REPORT

TO: The Files

FROM: Bernal Velarde, PSP *BMV*

DATE: August 16, 1990

SUBJECT: Close Out Report for the National Development Foundation of Honduras (FUNADEH) - OPG No. 522-ESF-0263

A. BACKGROUND

In 1982 a committee was formed in the Rotary Club of San Pedro Sula with the objective of preserving peace in Honduras by strengthening the democratic system of government and its socioeconomic development programs. This committee travelled to the United States to promote Honduras. The committee visited the Pan American Development Foundation (PADF), a U.S. Private Voluntary Organization. As a result of their trip, and with PADF and AID assistance in mind, the committee decided to create The National Development Foundation of Honduras (FUNADEH), similar to those foundations which PADF has helped organize in other Latin American countries.

Having secured its legal status on December 7, 1983, on June 8, 1984, FUNADEH submitted an OPG Proposal to AID to establish a program of assistance to the Small-Scale Subsector in San Pedro Sula. PADF would provide technical assistance and advice to FUNADEH in setting up and running the project through a contractual arrangement. The program would provide credit, business guidance, advice and training to the small-scale and micro entrepreneurs of San Pedro Sula who do not have access to credit through other institutions.

This OPG coincided with both USAID's and Government of Honduras' (GOH) development approach in that it too would address the goal of increasing levels of employment, production and income.

In February 1985 A.I.D. granted FUNADEH \$250,000 in local currency equivalent to provide support for a program entitled The Small-Scale Enterprise Assistance Program. In a separate agreement, AID granted PADF US\$132,000.

B. PROJECT GOAL AND PURPOSE:

The goal of the project was to increase production, income and employment within those elements of the San Pedro Sula Small-Scale Enterprise subsector which had been denied credit through established commercial institutions.

The project purpose was to establish within FUNADEH a program of technical assistance and credit in support of small-scale and micro enterprises (SSEs).

C. PROJECT DESCRIPTION:

The project initiation date was February 4, 1985 and the PACD was May 31, 1988.

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be accomplished through the institutional strengthening of FUNADEH with technical assistance provided by the PADF.

There were five components of the project which were:

- 1) Baseline data collection and updating on the San Pedro Sula SSE Subsector with emphasis on the target group.
- 2) Credit, business guidance and training to the SSEs. A special step-by-step loan process and a credit policy would be prepared for the provision of credit to the SSEs. Loans would be provided for fixed assets, working capital and small loans for micro entrepreneurs. A revolving loan fund would be established for this purpose.
- 3) Technical assistance and training which PADF would provide to FUNADEH during the life of the project, including training of the Extension and Promotion officers and other staff.
- 4) Institutionalization of the program within the organizational structure of FUNADEH.
- 5) Staffing. The staff would include a management team, operations staff and support staff.

#### D. OUTPUTS

##### 1. Institutional

FUNADEH would have institutionalized the project as an integral program operating under the guidance of the Board of its Executive and Credit Committee and under the direct supervision of FUNADEH management. In doing so, it would have the following characteristics:

- A management team of at least an Executive Director and a Financial Officer who would have received guidance and training from PADF;
- An operations team of thoroughly trained Extension and Promotion Officers and an auxiliary staff of initial screeners and loan processing staff;
- An adequate secretarial and clerical support staff;
- A functioning Credit Committee consisting of at least three members of the Board with the Executive Director and the Financial Officer serving in an ex officio capacity;
- An ongoing, in-house training program for staff and new staff recruits;
- A computer program designed to store and up-date baseline data and record current activities and trends in the loan portfolio;
- A total loan portfolio of \$2,200,000

first three years, decreasing afterwards.

FUNADEH would have achieved self-sufficiency.

## 2. External - The Client Community

The following outputs were to be accomplished at the end of the project:

Number of loans made (averaging \$15,870 each)	139
Direct beneficiaries of project (individuals)	866
Indirect beneficiaries	1,860
Women directly benefitted	74
Clients who have "graduated" - i. e., eligible for credit from other financial institutions	37
Average income increase per beneficiary	10%
Average new employment generated	186

## 3. External - The Larger Private Sector

Channels of communication would have been opened between the larger Private Sector and the SSE Subsector served by the project.

### E. INPUTS

AID would provide an initial sum of L 500,000 in Grant Funds. On January 9, 1986, AID and the GOH authorized Amendment No. 1 to the original Letter of Agreement to increase the Grant by L 1,236,000. On August 31, 1987, AID and the GOH authorized Amendment No. 2 to the original Letter of Agreement to increase the Grant by L 1,014,000. The new and last grant total was L2,750,000. A grant of US\$132,000 was made to PADF in a separate agreement for technical assistance (TA) and training. PADF would provide funds for the project in the amount of \$45,000.

The InterAmerican Development Bank would also provide funds to the project.

### F. OUTPUTS PLANNED BUT NOT ACCOMPLISHED:

The two outputs that did not reach their planned targets are the following:

#### Institutional

1. FUNADEH did not reach a total loan portfolio of US\$2,200,000 because it lacked the necessary funding. The funds on hand and to be provided by other donors, local contributors and portfolio collections did not cover FUNADEH's operations and unanticipated rapid growth.
2. Due to the above, FUNADEH did not reach self-sufficiency. However, self-sufficiency is now programmed for 1990.

### G. FINANCIAL STATUS:

The total ESF Lempira amount authorized, obligated and disbursed was L2,750,000. L500,000 were from Project No. 522-ESF-0230 and L2,250,000 were from Project No. 522-ESF-0283. The total dollar amount authorized and obligated was US\$132,000 under project 522-0263. The total dollar amount disbursed was US\$113,278.

#### H. ADJUSTMENT IN PROJECT DESIGN:

During the life of the project no adjustments were made.

#### I. RESULTS OF EVALUATIONS:

In a Mid-Project Evaluation (October 1986) prepared for the PADP by Mr. James D. Heinzen, FUNADEH was found to be a cost-effective, well-managed organization as the administration was strong and the staff members were highly qualified and trained.

AID Financial Analysis and Review (FARS) report No. 86-20 dated April 28, 1986, No. 87-54 dated August 7, 1987 and No. 88-45 dated May 9, 1988, respectively, and the Price Waterhouse reports concluded that FUNADEH has adequate accounting and internal control systems and that it has properly managed the grant funds.

#### J. SUMMARY OF LESSONS LEARNED:

The evaluation prepared by Mr. James D. Heinzen, the FARS reports, and the Price Waterhouse reports performed on FUNADEH, obviously reflect that FUNADEH is a good, sound organization.

1. The importance of private sector leadership in the organization and support of FUNADEH cannot be overestimated. Leadership from the private sector should be a key factor in analyzing the feasibility of establishing programs similar to FUNADEH. FUNADEH was not created by AID, rather it grew out of the commitment of a group of concerned business people.
2. Well-organized management information and computerized data base systems were essential to track clients' enterprise development, to monitor and measure impact, and to manage the loan portfolio and finances effectively. In planning technical assistance for similar programs, the importance of such systems and the need for personnel trained in the use of computers should not be neglected.
3. The credit component of FUNADEH's program can become self-sufficient at a minimum portfolio level of L 4 million, however, FUNADEH does not believe the training component will ever be self-sufficient. In requiring similar organizations to develop strategies for self-sufficiency, the issue should be treated separately for credit and training components.
4. There appears to be a strong link between beneficiary training and close loan supervision by promoters, and the low loan delinquency rates. On the other hand, client coverage is limited when such intensive staff resources are required for individual clients. Future projects should analyze the trade-off in terms of coverage and delinquency rates before adopting the FUNADEH model in its entirety.

5. Extension officers with strong academic background were hired and paid competitively rather than employing extension personnel from the target group of small and micro business people. This contributed to the success of the program as the extension officers had the technical background necessary to provide useful advise to loan recipients. In order to assure success, extension officers with strong academic background should be hired in similar programs.

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