PD-ABD-880
76040

Small Business II Project, Honduras

Midterm Evaluation of the ASEPADE Component

GEMINI Technical Report No. 27

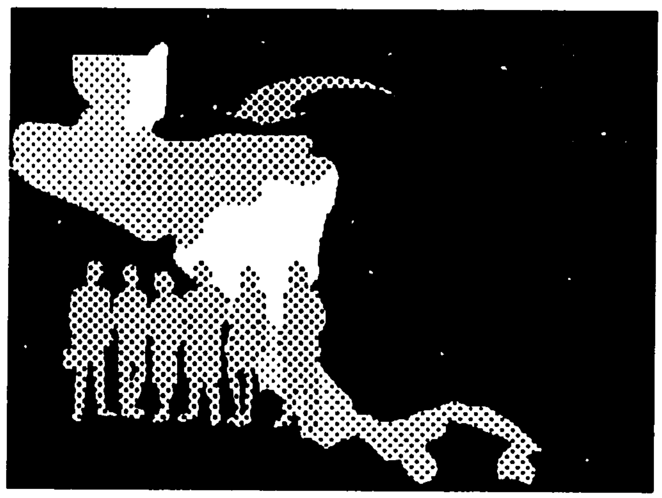
GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814

DEVELOPMENT ALTERNATIVES, INC. • Michigan State University • ACCION International • Management Systems International, Inc. • Opportunity International • Technoserve • World Education

Small Business II Project, Honduras

Midterm Evaluation of the ASEPADE Component



by

Arelis Gomez Alfonso
Wesley Boles
Donald L. Richardson

February 1992

This work was supported by the U. S. Agency for International Development Mission in Honduras through a buy-in to the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, contract number DHR-5448-Q-35-9081-00.

TABLE OF CONTENTS

ACRONYMS

AHDEJUMUR	Asociación Hondureña para el Desarrollo de la Juventud y Mujer Rural (Honduran Association for the Development of Youth and rural Woman)
ANAH	Asociación Nacional de Artesanos de Honduras (National Artisan Association of Honduras)
ANDI	Asociación Nacional de Industriales National Industrialist Association)
ANMPIH	Asociación de Medianos y Pequeñas Industrias de Honduras (Association of Small and Medium sized Industries)
APRODIB	Asociación Pro Desarrollo de las Islas de la Bahía (Pro Development Association of the Bay Islands)
ASCH	Asociación Save the Children de Honduras (Association of Save the Children of Honduras)
ASEPADE	Asesores para el Desarrollo (Advisors for Development)
CDLA	Compañeros de las Americas (Companions of the Americas)
CEPROD	Centro de Estudios y Promoción del Desarrollo (Center for Studies and Promotion of Development)
FEHCIL	Federación Hondureña de Cooperativas Industriales (Honduran Federation of Industrial Cooperatives)
FHA	Fundación Horizontes de Amistad (Horizontal Foundation of Friendship
FOPEME	Fondo de Pequeñas y Medianas Empresas (Small and Medium-scale Enterprise Fund)
FOPRIDEH	Federación de Organizaciones Privadas de Desarrollo de Honduras (Federation of Honduran Development PVOs)
FUNADEH	Fundación Nacional de Desarrollo de Honduras (Honduran National Development Foundation)
FUNHDEMU	Fundación Hondureña para el Desarrollo de la Mujer (Honduran Foundation for Development of the Woman)

HDEH	Hermandad de Honduras (Brotherhood of Honduras)
IDH	Instituto para el Desarrollo de Honduras (Institute for Development of Honduras)
NGO	Nongovernmental organizations
ODEF	Organización para el Desarrollo Empresarial Feminino (Organization for Development of Women Entrepreneurs)
OPD	Organización Privada de Desarrollo (Private Voluntary Organization)
OPG	Operational Program Grant
PTU	Project Technical Unit (Unidad técnica de proyecto)
PVO	Private Voluntary Organization (Organización Privada de Desarrollo)
PYME	Pequeña y Micro Empresa (Small and Micro Business)
SB II	Small Business II Project (Project No. 522-0241)
SSEs	Small-scale enterprises
TA	Technical Assistance
UTP	Unidad técnica de proyecto (Project Technical Unit)

EXECUTIVE SUMMARY

The purpose of the midterm evaluation of the Asesores para el Desarrollo (ASEPADE) component of the Small Business II Project was to assess the organization's progress and its capacity to meet the objectives of its $2-million grant. This was especially pertinent in that the U.S. Agency for International Development had suspended grant disbursements as of June 12, 1991.

The DAI evaluation team of three members reviewed documents and interviewed staff of interested institutions, including ASEPADE, and also did a limited series of interviews with beneficiaries in the field.

ASEPADE was a pioneer in granting credit and other assistance to micro- and small-scale enterprises in Honduras. It has, so far, provided the greatest number of loans to this class of beneficiary and was for this reason one of two private voluntary organizations to receive direct grants under SBII funding.

A basic finding of the evaluation was that ASEPADE's management deficiencies have impeded the development of the requisite organizational structure and human resources to fulfill its obligations under the USAID grant. ASEPADE has come close to meeting the quantitative targets set in the grant; it made over 10,000 loans totalling 11.0 million Lempiras within the three-year period from the onset of the grant to the suspension of disbursements. ASEPADE claims to have created about 1,500 new jobs during this period.

ASEPADE's organizational structure appears to reflect the normal makeup of a not-for-profit institution: there is a general assembly of members, a board of directors, and appointed management. Active assembly members number 10, six of whom are on the Board, and effective control remains in the hands of the original founding couple. There is no real separation of power between the Board and management, and authority is exercised in a highly personalized manner. Efforts to professionalize management through the appointment of qualified top management have failed owing to failure of the leadership to permit independent decision making.

In line with the foregoing, financial and administrative procedures, although established on paper, are not carried out in practice; as a result, ASEPADE's operations are inefficient. Portfolio performance is substandard with loan delinquency rates exceeding 60 percent in one region — Choluteca — and probably in excess of 40 percent in total. Follow-up and collection procedures have been poor.

The high loan delinquency rate in and of itself makes attainment of self-sufficiency by ASEPADE difficult. This is further compounded by administrative shortcomings, which reduce the effective rate of interest received and result in relatively high administrative costs relative to the amount of loans outstanding. Training programs have concentrated on administrative procedures rather than production and have been of limited effectiveness. A computerized management information system has been installed with considerable difficulty and its management information capabilities little used. The system does represent a great improvement over the past setup and problems in portfolio administration can now be identified — something which could not have been done even a year ago. Technical assistance provided by an outside contractor has been substantial and generally well designed. Its effectiveness has been limited owing to the unwillingness of ASEPADE directors to accept the organizational and personnel changes implicit in the modernization and professionalization of ASEPADE's management and personnel structures.

ASEPADE's personnel suffer from a high turnover rate triggered primarily by low salary levels and a lack of consistent management direction. ASEPADE management appears to place little value on educational levels or demonstrated professional competence in its selection process.

As of June 12, 1991, USAID had disbursed $891,600 in grant funds. Suspension was based on ASEPADE's failure to manage its loan funds effectively. The evaluators concur in this decision and would recommend that unless ASEPADE shows conclusive willingness within a period of time set by the Mission to modify its organizational setup and practices, funds allocated to the grant but not disbursed should be reprogrammed to one or more better-qualified Honduran PVOs.

The evaluation team also recommend that ASEPADE revise its by-laws to expand its active membership, elect a new Board of Directors, and employ a professionally qualified general manager and internal auditor. ASEPADE should separate responsibilities between the Board and management, including prohibition of conflicts of interest. And this division of responsibility should be clearly stated. It is also recommended that a full review of ASEPADE's loan portfolio be made early in 1992 and that loan balances be confirmed through a survey of beneficiaries.

BACKGROUND OF THE EVALUATION

The Project Paper and the Grant Agreement with Asesores para el Desarrollo (ASEPADE) call for an evaluation midway in the project to assess progress made and to identify any problems inhibiting the achievement of the goals assigned in the Agreement to ASEPADE. Focusing on administrative, management, financial, and project implementation issues, the evaluation team's assessment of progress and problem areas has resulted in recommendations for program modifications and structural adjustments designed to bring ASEPADE's capacity and activities to the level required to meet the assigned goals.

These recommendations are based on an assessment of ASEPADE's operational practices and organizational setup, and an evaluation of the changes needed to meet the project's requirements. The focus of the evaluation has been on ASEPADE's ability to reach the assigned Life of Project (LOP) targets and to achieve self-sustainability within the remaining two years of the Agreement.

For the U.S. Agency for International Development Mission, the evaluation provides a reassessment of project goals and design assumptions relative to ASEPADE, including a proposed revision to the Project Logical Framework (LOGFRAME) and adjustments to LOP targets to reflect the actual performance to date and the realistic assessment of further progress likely through the PACD. Further, the recommendations provide a set of conditions precedent relative to any resumption of funding to ASEPADE and explore alternative uses of allocated funding absent agreement by ASEPADE to such conditions.

BACKGROUND: ASEPADE COMPONENT

Honduras has long been regarded as one of the lesser developed countries in Latin America. Its levels of adult literacy (60 percent), per capita income ($523), and institutional development rank among the lowest in the area. On the positive side, however, Honduras has largely avoided the civil turmoil and violence that have so adversely affected the social and economic structure of neighboring countries like El Salvador, Nicaragua, and Guatemala. The democratization of Honduras evidenced by the election of a civilian President (Roberto Suazo Cordova) in 1981 has continued to deepen with the subsequent elections of Jose Azcona (1985) and Rafael Callejas (1989), and the country maintains a high degree of political stability.

The recent economic record has been mixed. Growth in the gross domestic product has been modest, and this growth has been coupled with chronic deficits in public expenditures and foreign trade. Honduras has been the beneficiary of large amounts of foreign assistance. Until the economic restructuring program undertaken by the Callejas administration, starting in 1990, Honduras had not experienced significant inflation. Diminishing the pent-up distortions in the economy through devaluation of the currency and modifications in the trade regime did translate into relatively high rates of inflation — by Honduran standards — of 30 to 40 percent per year in 1990 and 1991. This was most definitely not the hyperinflation experienced in large areas of South America or Mexico, but it was unsettling to the Hondurans.

USAID/Honduras determined that among the most serious problems affecting economic development in Honduras were the related ones of a low level of education among the bulk of the Honduran population and a serious lack of employment opportunities for this group. USAID also determined that capital invested in micro- and small-scale enterprise tended to generate more employment per unit of investment than capital invested in larger industrial units or through government-sponsored programs. The Mission's strategy for Honduran economic development then included as one of its instruments the development and strengthening of Small-Scale Enterprises (SSEs).

Implementation of this element of the country strategy confronted four major obstacles:

- Lack of basic business and technical skills among SSEs;
- Lack of access to credit at economic rates;
- Lack of delivery systems for credit, training, and technical assistance; and
- Inappropriate economic and regulatory policies.

Starting in the late 1970s, Private Voluntary Organizations (PVOs) came into existence in Honduras to address the first three obstacles. With the availability of funding in the mid-1980s, the number of PVOs involved in this field increased substantially. USAID/Honduras began its support of this effort in the mid-1980s with a series of projects and Operational Project Grants. The first Small Business Project funded the Small and Microenterprise Program of the National Industrialists Association to support PVOs involved in SSE activities. A grant was also made to the Federation of Honduran PVOs (FOPRIDEH) to assist SSE programs in both technical assistance and capital for credit programs. Loan funds were made available to the Financiera Industrial y Agropecuaria (FIA) for lending to micro- and small-scale enterprises and, finally, local currency grants were provided to the National Development Foundation (FUNADEH), a San Pedro Sula-based PVO extending credit to SSEs, and to ACCION/Aitec to provide technical assistance in another SSE credit program for microentrepreneurs operated by ASEPADE.

Although some progress was made in development of PVOs that carried out credit programs for micro- and small-scale enterprises, the basic economic and regulatory environment remained unfavorable. The national currency was overvalued, the banking system lacked liquidity, and the regulatory and economic obstacles confronted by the informal sector remained virtually untouched.

The Small Business II Project, which began operation in late 1988, was designed to function in spite of the relatively negative economic and business environment. It incorporated within one project the Mission portfolio for micro- and small-scale enterprise development as well as three forms of intervention: credit, training, and technical assistance. Its elements included:

- A credit line and a guarantee fund for small and medium-sized enterprises administered by the Central Bank of Honduras through the private commercial banking system;
- Direct grants for credit funds and organizational support to two PVOs: FUNADEH and ASEPADE;
- A grant to ANDI/PYME to support its operations as a second tier organization working to strengthen PVOs involved in supporting SSEs; and
- A grant to provide contracted technical assistance and support services for the project's elements.

The project had entered only its second year and, in many regards, was just beginning to gear up to capacity when a change in government took place bringing with it a structural readjustment program. The devaluation of the Lempira from an official rate of two Lempiras to $1 to an initial rate of four Lempiras to $1, together with other measures to reduce subsidies and liberalize the market contributed to an inflation rate that resulted in average nominal interest rates converting into negative rates in real terms. Credit programs for the SSEs were then confronted with the prospect of decapitalization of their portfolios and the need to make radical changes in their credit policies to achieve positive real rates of interest. All this in an atmosphere of public uncertainty and distress not envisaged at the time of project's start-up.

Liberalization of interest rates from an administered 17 percent to a market rate of 28-29 percent had an adverse effect on investment and business activity in general. At the time of this evaluation, however, at least one commercial bank has lowered its nominal rate to 23 percent and, absent further economic shocks, the hope is that the rate of inflation is coming under control and that the PVOs working with SSEs can stabilize their credit programs with interest rates that, while positive in real terms and with adequate yields, are still not so high in nominal terms that they encounter resistance from the PVOs and other entities involved in the programs.

The five-year Small Business Project II included, as outlined above, direct funding components with two Honduran PVOs: FUNADEH and ASEPADE. ASEPADE had been formed in 1977 and was one of the pioneer Honduran PVOs in promoting the capacity of the poor to expand their economic activity and better their living conditions. The Mission had assisted ASEPADE prior to Small Business II with a grant to ACCION/Aitec designed to establish a credit program within ASEPADE for "solidarity" groups of women vendors. It appeared at that time that within the universe of existing Honduran PVOs, ASEPADE was one of the few with the potential capacity to expand substantially the size of its portfolio and geographic reach. That it had organizational weaknesses was known. Accordingly, a grant of $2 million was made to ASEPADE for the expansion of its credit programs and an institutional contractor was charged with the task of providing the needed technical assistance, including a resident advisor, to bring ASEPADE to the level of competence required to support its program and to achieve financial self-sufficiency.

COMPOSITION OF EVALUATION TEAM

The Development Alternatives Inc. small business evaluation team was composed of three members:

Wesley Boles - Chief of Party. Mr. Boles has many years of international experience with the U.S. Department of State, a major multinational manufacturer and as a consultant for A.I.D. His experience in Honduras dates back to 1984 where he has been involved in export development, project implementation, portfolio rehabilitation, project design, and project evaluation. He holds a B.A. degree in international relations from UCLA, an M.A. in foreign affairs, and an M.B.A. in international business from the George Washington University.

Donald L. Richardson - Mr. Richardson has substantial experience in Latin America where he served as a senior bank officer in Colombia, Bolivia, and Argentina. His experience in Honduras dates from 1985, when he was involved in project implementation and project supervision primarily in matters involving credit. As an independent consultant he has been involved in project design in Kenya and Panama. He holds a B.A. in economics and an M.B.A. in international finance from Stanford University.

Arelis Gomez Alfonso - Ms. Gomez has been actively involved as a consultant to A.I.D. over the past six years, concentrating in the field of small-scale enterprise development. She has conducted evaluations of programs in several countries in Asia, Africa, and Latin America. She holds a degree in economics from the Universidad de Santo Domingo and a M.A. in International Development from the American University in Washington, D.C.

METHODOLOGY

The method used in this evaluation included review of documents available at the Mission, at the offices of the Project Technical Unit (PTU), and from PVOs. A bibliography is attached. In addition, the team benefitted from briefings at the Mission, the PTU, and ASEPADE. The team conducted interviews with a wide variety of people involved in the program, ranging from Mission staff to loan recipients in the field and operational staff at the InterAmerican Development Bank (BID), the PTU, ASEPADE, and PVOs such as the Instituto de Desarrollo Hondureno (IDH) and FUNADEH.

Several meetings with ASEPADE officers and staff were held, including both Lic. Juan Ramón and Lic. Nora de Martínez, the regional offices in San Pedro Sula and Tegucigalpa, and several of ASEPADE's clients in Tegucigalpa. Given the limited time and personnel, no attempt was made to develop an assessment of the project's impact through an original field survey.

FINDINGS

Chronology of Events

The Small Business II Project No. 522-0241.02 Grant Agreement No. 522-0241/.02 dated August 31, 1988 obligated $566,600 to strengthen and expand ASEPADE's microenterprise support program. Grant Amendment No. 1 dated January 31, 1990 obligated an additional $500,000 for a total of $1,066,600.

By a letter dated June 12, 1991, USAID suspended disbursement of funds to ASEPADE. Disbursements to that date totalled $891,679.12, leaving a balance of obligated, but undisbursed, funds of $179,920.88, and $934,000 in earmarked but not obligated funds. The Missions's reasoning included the finding that the proportion of past due loans in the Choluteca regional portfolio had reached 48 percent and concern over lack of internal controls and follow-up on the part of ASEPADE management.

Since then, it is apparent that ASEPADE, aided by the PTU, has emphasized the collection of past due loans and has put into practice internal controls and an accounting system. Choluteca past due loans have reportedly been reduced from 48 percent as of March 31, 1991 to 20 percent as of August 31, 1991. These figures need to be confirmed by the PTU and ASEPADE management.

ASEPADE Agreement Targets

Over the five-year life of the grant, ASEPADE was expected to extend 25,000 loans for a total of 30 million Lempiras. Targets were not segregated by gender.

In accordance with a recent socioeconomic study prepared by the PTU, ASEPADE had extended 8,489 loans totalling Lps. 8.7 million to 3,291 beneficiaries from September 1988 through December 1990. The study reported 1,489 new jobs created, of which 80 percent were permanent. Women occupied 60 percent of the jobs created. According to information provided directly by ASEPADE, an additional 1,729 loans were made during the first six months of 1991 in the amount of Lps. 3.2 million. During this same period, 644 new beneficiaries were added. Currently, 58 percent of the total program beneficiaries are women.

Using the information from the PTU socioeconomic impact study through December 1990 plus information from ASEPADE for the first six months of 1991, the following summary was prepared:

	Target	Actual	Percentage Actual/Target	Percentage LOP elapsed
No. of Loans	25,000	10,218	41 percent	57 percent
Vol. of Loans	L.30 million	L.11.9 million	40 percent	57 percent
Permanent Jobs created	Not established	1,510*	N/A	N/A

* This figure through August 1991.

The summary numbers were calculated based on methodology established in the socioeconomic study. An estimated 217 new permanent jobs were created in 1991 plus 1,293 permanent new jobs from September 1988 through 1990. There was no indication nor were the reviewers made aware that this project component has had any significant impact in areas that were not originally contemplated in the design.

Organization

ASEPADE was created on November 10, 1978 by Military Government Resolution No. 140, and amended by Presidential Resolution No. 5 on November 24, 1982. The charter in these Resolutions is broad and accurately represents the work in which the organization engages.

Chapter Four, Article 3 states that new members may be admitted upon approval of the Board of Directors. Article 4 states that there will be active members, contributing members, and honorary members. Active members assume control of the organization. The contributing members participate in the organization by means of personal, material, and economic contributions. The honorary members are selected by the Board in accordance with merit, such as social awareness and services performed.

Article 5 states that the Board will be selected annually by the General Assembly of active members. Article 7 states that the Board will be formed by a President, Vice-President, Secretary, Treasurer, and one other voting member. In case the General Assembly of active members is not able to meet, the Board will function for two consecutive years and may continue to function until the next election. Article 9 states that the Assembly is the highest authority of the organization and will normally meet once a year, or in a special session when circumstances require if previously approved by a Board majority with 8 days notice. Article 11 states that a quorum of the Assembly is constituted by half of the active members plus one for the first call. For the second call, there must be a minimum of five active members. Resolutions made by the Assembly must be approved by the majority of those attending. Modification of the statutes or dissolution of the organization, however, require the unanimous vote of all active members. Article 13 states that the representation of ASEPADE will be by the President of the Board who can delegate his or her powers to ensure the financing and development of the organization. Article 14 states that the Board will meet at least monthly; in reality however, it meets only when deemed as needed. The Board must prepare and approve the internal rules and credit policies.

As of September 14, 1991, the Board of Directors is composed as follows:

Francisco Galdamez	President
Margarita Pineda de Sánchez	Vice-President
Daniel Casulá Romero	Treasurer
Guillermo López	Secretary
Felipe Ponce	Auditor
Ramón Velásquez	Board Member

Active Members (Not on Board)
José Veranger Moncada
Elias Lizardo
Nora Midence de Martínez
Juan Ramón Martínez

The Assembly has only 10 active members of which 6 sit on the Board. There are no donor members nor honorary members as permitted by the ASEPADE by-laws.

There was a discrepancy between what the Executive Director told us verbally on September 18 and what we received in writing from her on September 27. According to the verbal information, Lic. Juan Martinez resigned from the Board Presidency but would remain on the Board. This, it was explained, would allow him to pursue other interests such as his writings. According to information given later in writing, Mr. Martínez resigned from the Presidency of the Board and the Board itself as of September 14th. The letter also indicated that Mrs. Nora de Martínez was no longer on the Board, a fact not previously mentioned to us. In neither case was the PTU's resident advisor made aware of the event.

The ASEPADE organizational structure is not suitable for accomplishing project goals of efficient management; it is not guided by the principles of modern management. First, Board composition remained unchanged until September this year, except for a few substitutions in the cases of death or resignation of a member. There has not been an inflow of new members with new ideas, despite the fact that, according to the by-laws, the Board was supposed to change every two years. Secondly, the problem worsened due to the lack of financial background among most Board members, who thus were unable to direct the organization toward modern, efficient management. Most ASEPADE Board members are not businessmen with strong financial experience, but lawyers.

A third problem with the Board is that there are severe problems of conflicting interests in the organizational structure and management. Reportedly, three of the Board members have worked as employees of the government entity, INA, which Lic. Martínez led. The incoming President of the Board and founding member of ASEPADE, Franciso Galdamez, was one of the three. The Executive Director reported to the Board on which both she and her husband sat, at least until recently. Yet another member of the Board is acting on a salaried basis as internal auditor of ASEPADE. Another Board member is married to the Operations Manager of ASEPADE. Earlier this year the Martinez' son worked as an employee of the organization. Although he was only the manager for the regional office of Tegucigalpa, he was considered the second in charge after the Executive Director, and even above the Deputy Director. It is not known whether the departure from the Board of Nora and Martin Martinez is a temporary measure.

Financial and Administrative Policies and Procedures

Policies. ASEPADE operates three credit programs: CREME I, CREME II, and CREVEN. CREME I provides loans from Lps. 300 to Lps. 3,000 with up to nine months amortization period for working capital purposes. Under CREME II, loans of Lps. 3,000 to Lps. 12,000 are provided with up to a 12-month amortization period; these loans are approved by the Central Office. CREME I and II are aimed at those microentrepreneurs involved in production and services and, to a lesser extent, those in commerce with large businesses. CREVEN provides loans up to Lps. 3,000 to market vendors. Loan amounts are determined on a scaling-up basis — first loan amounts are kept to a minimum and subsequent loans increase gradually as the beneficiary builds a credit history. The program has a mandatory savings component equivalent to 20 percent of the total value of the loan. A staff of 26 promoters, who operate through five regional offices, are in charge of assisting the clients in the preparation of the credit applications. They also prepare the credit analysis and present recommendations for loan approval. First loans are approved by a credit committee that includes members of the local communities. Loans under CREME II (over Lps. 3,000) are approved by the Central Office.

A credit manual was prepared by the PTU and approved for use by the ASEPADE Board. The manual is a good technical document with comprehensive coverage of loan analysis procedures, approval, follow-up and collection methods, and related policies. In its application, however, two main problems have developed. First, the staff received a two-day training in the use of the manual that was not sufficient to make up for the lack of knowledge on credit procedures of the promoters. As shown in the personnel section below, 92 percent (24/26) of ASEPADE's promoters have only a high school degree or equivalent. None of them had previous experience in credit delivery. The skills and analytical capabilities for credit analysis cannot be obtained in a two-day training session, but require continuous training, which has not been provided.

A second basic problem has been the lack of adequate follow-up by management to ensure that the offices used the procedures and criteria established in the manual. As reported by ASEPADE staff, in most cases neither promoters nor the regional managers have used the manual as a standard. Promoters claim not to fully understand the credit analysis procedures in the manual. Thus, credit decision making is based mostly on personal criteria. The problem was exacerbated by the lack of an effective credit committee. Committee members are selected for their leadership in the community rather than for their skills in credit analysis.

Loan collection and related follow-up policies are overlooked as well. Follow-up visits mainly concentrate on loans in arrears or in default, thus assuming a "management by crisis" approach. Although past due loans are supposed to be subject of legal action, there was no evidence that this policy was put into effect until May of this year. The same applies to the policy that beneficiary's savings could be applied to canceling past due loans. The only collection policy regularly in effect is a 3 percent interest penalty for arrears.

Portfolio Performance. After USAID suspended disbursements to ASEPADE in June, as a result principally of preliminary loan portfolio information from Choluteca, the PTU completed a report in July on the loan portfolio of ASEPADE. The team reviewed the report and agreed with the methodology used and the conclusions reached. The report concluded that Lps. 1.559 million (40.5 percent) of the total portfolio was in arrears, and that the balances outstanding of all loans past due represented Lps. 2.4 million, equivalent to 62.8 percent of the ASEPADE portfolio. The proportion of the loan portfolio past due by more than 100 days was 27 percent of the total. The report estimated the probable loss of 19.2 percent of the total portfolio or Lps. 740,000, and that ASEPADE would have to increase the reserve for loan losses by an additional Lps. 416,000. The June 30 statements showed a large discrepancy between the interest income for the year to date of Lps. 606,448 and the interest actually collected of Lps. 415,390. Although alarming, this was the first time that the problem had been identified. The new accounting system has been successful in this regard.

During a visit to the San Pedro Office of ASEPADE, team members looked at two individual liquidations to ascertain the accuracy of field calculations of loan amortizations. The samples showed differences between the computerized calculations and those done manually. The calculations were to determine the allocation of a payment among penalty interest, normal interest, principal payment, and payment into a savings account. Checking into the matter later with the PTU, it was determined that the manual calculations were in error. Contrary to written instructions, the manual calculations were made on balances rather than on the individual payments received and, in one case, a cash payment had been received and deposited but not posted to the account.

This example and, probably, the large difference in the calculation of interest collected reflect management problems in training, follow-up, and supervision, and raise questions about long-term self-sufficiency and the lack of internal controls. On the positive side, the findings reflect the value of a formal accounting system because, without it, the problem would not have been identified.

As of August 1991, ASEPADE had an outstanding portfolio of Lps. 2,894,000. Female participation represented 50 percent of the total; 38 percent of the portfolio was in arrears for over 31 days, and of those in arrears, 21 percent were female beneficiaries and 17 percent male (see table below). ASEPADE does not include in the calculation loans in arrears by 1-30 days, which would increase the delinquency rate by an estimated 3 percent. A major problem is that loans in arrears of over 180 days represented 23 percent of the outstanding portfolio and 61 percent of the total amount in arrears.

PORTFOLIO DELINQUENCY BY GENDER
(August 30/1991)

Arrears	Men Lps	%	Women Lps	%	Total Lps	%
31 - 60	37,475	1%	31,690	1%	69,165	2%
61 - 90	43,934	2%	60,575	2%	104,509	4%
91 -120	41,653	1%	59,679	2%	101,332	3%
121-150	25,464	1%	59,636	2%	85,100	3%
151-180	19,732	1%	43,594	1%	63,326	2%
181 +	314,746	11%	355,665	12%	670,411	23%
Total arrears (1)	483,004	17%	610,839	1%	1,093,843	38%
Outs/Port (2)	1,444,000	50%	1,450,000	0%	2,894,000	100%
(1)/(2)		33%		2%		38%

The portfolio delinquency by region indicates that Tegucigalpa and San Pedro Sula have the highest participation with 13 percent and 11 percent, respectively, in the 38 percent overall program delinquency. Choluteca has the lowest participation (2 percent) as a result of intensive efforts devoted by ASEPADE to reduce the delinquency rate in the region.

PORTFOLIO DELINQUENCY BY REGION
(August 30/1991)

Arrears	Men Lps	%	Women Lps	%	Total Lps	%
Tegucigalpa	194,191	7%	184,644	6%	378,835	13%
San Pedro S.	113,639	4%	207,678	7%	321,317	11%
Choluteca	49,503	2%	88,701	3%	138,204	5%
La Ceiba	121,671	4%	129,816	4%	251,487	9%
Total arrears	479,004	16%	610,839	21%	1,089,843	38%
Outs/Portfolio	1,444,000		1,450,000	50%	2,894,000	

Self-Sufficiency. "Self-sufficiency" for a nonprofit organization is what "profitability" is for a private business. It measures whether the PVO can continue to operate over the long run after income, operating expenses, loan losses, and loss of capital through inflation are taken into account. The evaluation team undertook a review of the status of ASEPADE through the first six months of 1991 using interest actually collected as income rather than interest accrued.

The analysis in Annex 3 used several assumptions. The inflation rate of 12 percent was based on expectations for the next six months. The self-sufficiency ratio (income divided by expenses), including the inflation factor for ASEPADE based on the first six months of 1991, is 56.5 percent. The ratio not including the inflation factor is 79.3 percent.

Assuming the same level of expenses (US$148,000) as for the first six months of 1991, the same loan level as the average (US$731,000) for this same period, and an inflation rate of 12 percent, ASEPADE needs an average interest rate on loans of 50.5 percent to break even. This compares with an average interest rate actually collected (rather than accrued) of 30.2 percent.

If the interest rate of 30.2 percent remained constant, the inflation rate stayed at 12 percent, and the expense structure remained constant, the level of loans would have to increase by $169,000 to break even.

ASEPADE is charging an effective interest rate of about 50 percent at the present time for new loans. The actual accrued rate, however, is about 40 percent because the method of calculation is based on the periodic payments. The actual collected interest for the first six months of 1991 averaged 30.2 percent.

A factor affecting ASEPADE's self-sufficiency has been a costly strategy of expansion based on openings of new branches instead of consolidating the operations of existing ones. Because this was not accompanied by cost recovery mechanisms, the high fixed costs involved in the operation of the new offices has put a burden on ASEPADE's operational costs and thus on its financial self-sufficiency. The result has been unproductive regional offices as evidenced by the portfolio performance by region.

Microenterprise Credit. The strength of ASEPADE lies in the impact of its credit program: (1) it has reached a large number of microentrepreneurs; (2) it targets poor entrepreneurs, among whom the majority are women; and (3) the program impact on the target population has been positive.

According to the loan statistics, as of December 1991 the program had reached 3,291 microentrepreneurs. This figure places ASEPADE as one of the programs with the largest outreach in Honduras. The program has been particularly successful in reaching the female microentrepreneur; at present, 58 percent of the program beneficiaries are women.

ASEPADE is reaching the small and poor entrepreneurs as evidenced by the high participation of market and street vendors in the program (45 percent), the high participation of woman entrepreneurs (58 percent), the small size of their businesses, and their low educational levels. The findings of the socioeconomic impact study reveal that 53 percent of the businesses have no employees, and 86 percent have three or less. About 81 percent of them have less than US$2,300 in fixed assets while 45 percent have less than US$700. The average loan is US$350. Of the entrepreneurs, 80 percent do not keep any accounting records; 56 percent of them have less than six years of education (primary). The study does not provide information by gender for these indicators.

PROGRAM BENEFICIARIES BY GENDER

Gender	Total Beneficiaries		Industry	Commerce	Service
Male	1,386	42%	59%	28%	42%
Female	1,905	58%	41%	72%	58%
Total	3,291	100%	39%	45%	16%

Source: La Generacion de Empleo en las Empresas Beneficiarias de ASEPADE.

The study reports that ASEPADE contributed to the generation of 1,489 new jobs and to the stabilization of 6,005 more. The average employment generation per entrepreneur has been 0.61. Those in industry generated an average of 0.77 jobs, those in services generated 0.81, and those in commerce 0.40 jobs on average. Women occupied 60 percent of the new jobs. The study estimates that 80 percent of these jobs are permanent. The cost per job created is estimated to be US$850.

Interviewed beneficiaries (11), selected at random, were highly satisfied with the program. Easy access was singled out as the most attractive feature of ASEPADE's credit, followed by short transaction periods. The majority of the interviewed beneficiaries (8/11) and all the female beneficiaries affirm that they have no access to credit from financial institutions. An owner of a cafeteria reports that the loans from ASEPADE have enabled his business to grow (now he has eight employees versus only one in the past) and to open a second cafeteria. He has received seven loans, the first for Lps. 400 and the latest one for Lps. 10,000 (US$2,300). A woman market vendor affirms that she now has more merchandise on the shelves and a larger variety. Another market woman (fish-vendor) informed the team that she is no longer using the moneylender from whom she used to borrow Lps. 1,000 at an interest rate of 20 percent a month.

A shoemaker said that in the past he and his two part-time employees would work three to four days a week; now they work six days a week full time. A tailor reports that his business has grown from having two sewing machines and one employee to nine machines and seven employees. All beneficiaries interviewed talked about how ASEPADE has helped them, and all wanted to continue with the program. The six men interviewed reported a significant growth in their business. This is not the case for the women, most of them market vendors, who nevertheless reported as very positive their experience with ASEPADE.

In regard to the adequacy of the credit program terms and conditions, the most positive comments were given on (short) disbursement/loan processing periods, (easy) transaction procedures, and (low) interest rates. Negative comments were given on the loan amounts (deemed as too small by six beneficiaries out of 11 interviewed), and loan terms (deemed as too short by five, or 45 percent). Interestingly enough, only two out of five women (40 percent) considered loan amounts and terms inadequate as opposed to five out of the six men interviewed (83 percent).

In the socioeconomic study, loan amounts are deemed inadequate by only 33 percent of those involved in production (mostly men), 27 percent of those involved in commerce (mostly women), and 2 percent of those in service. In contrast, loan terms are considered inadequate by 64 percent of the producers, 46 percent of the traders, and 42 percent of those beneficiaries involved in services. Interest rates are deemed as low or adequate by 61 percent of the beneficiaries.

Training Programs

According to ASEPADE's statistics, the training program has reached 2,607 beneficiaries during the period September 1988-June 1991. By the end of this year, 2,701 microentrepreneurs will be trained. There are no statistics on training segregated by gender; however, interviewed promoters estimate that over 50 percent of the participants have been women.

ASEPADE: TRAINING COURSES AND PARTICIPANTS
1988-1991

Year	Courses #	%	Part. #	AVG # Part
1988	20		330	17
1989	70	250	1073	15
1990	95	36	1091	11
1991	17	-82	247	14
TOTAL	202		2741	57

The ASEPADE training program provides three management-related courses: accounting, costs, and marketing. In addition, technical courses are coordinated through a cooperation agreement with the National Institute for Professional and Worker Formation (INFOP). Training, however, has not taken placed regularly or formally in ASEPADE, and, as shown in the above table, the activity slowed down considerably in 1991. As reported by the staff, the courses have been held sporadically rather than on a regular basis because mainly of time limitations. Training is in the hands of the promoters, one or two per regional office. Because their main role is to provide credit, and given management pressure to reach loan target goals, the promoters have tended to leave the training courses aside.

The staff also reports that until recently there have been no structured training methodology and material to guide the program, so each promoter has had to use his or her own criteria for each course. This becomes a major problem for promoters who do not have the skills to provide training to the beneficiaries in subjects other than basic accounting. The promoters recognized this limitation when questioned about the weaknesses of the training program.

As a result, the impact of the training has been limited as reflected in reports of beneficiaries that the training is not relevant. Figures in the evaluation report "La Generacion de Empleo en las Empresas

Beneficiarias de ASEPADE" prepared by PTU indicate that only 56 percent of ASEPADE's potential students have attended training courses, the majority being producers. Of those who participated in training sessions, 33 percent affirm that they have applied what they learned, while 67 percent have applied little or nothing. An important indicator of the low levels of applicability of the training, as shown in the study, is that 81 percent of the program beneficiaries do not keep any basic accounting (income and expenses) records.

The low participation of vendors in training is explained by the fact that, according to ASEPADE's staff, the training program is not oriented to microentrepreneurs involved in commerce, but to those in production. Vendors might attend short and simple sessions on basic accounting and other topics. However, in direct interviews with 11 program beneficiaries, only three of the six market vendors interviewed remember having participated in such sessions, and none could recall even what the subject was about. Three out of five producers interviewed affirm that they participated in training courses, but mostly those courses given in coordination with INFOP. They found INFOP's training, particularly in technical areas, very useful, and were able to provide concrete examples of how they had applied it. The failure of ASEPADE trainees to remember or to apply their training raises questions about the cost-effectiveness of the ASEPADE training program.

Technical assistance to program beneficiaries takes place regularly. All the beneficiaries interviewed received at least two visits in the last month before questioning. The subject of the visits, however, was in all cases related to credit follow-up; 7 out of 11 had loans in arrears.

At present, the training program is taking a new direction within the institution. Under a recently appointed Training Officer, ASEPADE has prepared a new training plan, and with the assistance of the PTU has designed and reproduced training material and a guide for the trainers. It is also developing a methodology and curricula for new courses. In addition, ASEPADE has extended the Cooperation Agreement with INFOP for three more years. The new training officer seems capable and meets all the qualifications required by the position. With the assistance of the PTU, she has done an excellent job in giving the training program direction, and in designing the methodology and curricula for the new courses. The new material is gender sensitive in portraying female microentrepreneurs, and in language use. It also has been stratified into two levels (A and B), with the first more adapted to beneficiaries with low education levels, the majority of whom are women. The training content seems to be somewhat sophisticated for the educational levels of ASEPADE's beneficiaries. Again, the major limitation remains in the capacity of the promoters to provide the training. The cost-effectiveness of the training program requires that a fair amount of time and resources be invested in training the promoters, if they are to continue performing as trainers.

Management Information System

A review of the integrated accounting and management information system (MIS) indicates that only the operational processes, about 70 percent of the total package, is being used. The operational processes include accounting, calculation of loan interest, preparation of loan documentation and loan repayment schedule, and so forth. The portion relating to the management information systems, about 30 percent of the package, is not being used effectively by the management according to observations and discussions with several sources at ASEPADE and the PTU.

In addition, there are still major problems on the operational side. Payment liquidations that should be prepared within 3 or 4 days after the closing date at the end of each month are in fact being received about 15 days after the closing date. Human errors continue to plague the implementation of the accounting system. There were comments and correspondence from ASEPADE to the effect that the system could be more user friendly, and that the implementation stage required overtime and sacrifice by ASEPADE employees. ASEPADE did not heed the advice of USAID and the PTU that the implementation stage would require additional person-hours and that it would be advisable to employ extra help during this phase. The recommendations in the FARS reports (see list in Annex 2) were acted upon but with little follow-up and a failure to maintain the revised practices.

The ASEPADE staff is still not completely familiar with the computer system and the PTU was preparing additional instruction to take place in October 1991. Also, an accountant was assigned by the PTU to work full time for several months within ASEPADE. Although the information provided by the MIS is disaggregated by user level and decision-making needs, the planned instruction will cover the whole system to ensure that ASEPADE staff understand the system in its entirety and not just in pieces.

The implementation of the integrated package, with great effort and in spite of difficulties, has had some positive results. Before the existence of the computerized system, ASEPADE's accounting system was nonexistent. The reports generated by the new MIS have shown areas that need correction such as the large difference between the accrued interest and the interest actually collected. Productivity has increased also — for example, the preparation of the legal documentation, *letras de cambios*, and the calculation of the repayment schedule and interest calculations are now done in a matter of minutes with automation.

There are written procedures for all sections of the accounting and management information system and errors that occur are the result of human error and the lack of adequate preparation for ASEPADE's employees. Even though there have been complaints from several sources that the software developed by the PTU is unduly complex, several PVOs, for example, Funadeh, have successfully implemented the system. Granted that ASEPADE has a larger number of operations than most of the other PVOs, its difficulties in bringing the computer system on stream reflect management failure to anticipate and compensate for the unusual effort required in such a process. It should have been obvious that running the old and new systems together in parallel until the new system was in position to take over would require more employee time and the need for management attention.

Continued deficiencies in operational matters and failure to correct faults strongly suggest that ASEPADE's Executive Director and staff do not use the reporting capabilities of the MIS effectively. Useful information is available, but there appears to be little interest or capacity to utilize it. Neither USAID nor the PTU anticipated just how difficult it would be to install and bring up to speed the integrated computerized system within ASEPADE.

Technical Assistance

The technical assistance (TA) provided by the PTU in this complex project has generally been good. An immense effort has been made to improve credit policies and procedures, develop a new accounting system, a management information system, a personnel manual, and training for personnel. The TA has been instrumental in improving the training program through the design of modules and support material. Most materials and documentation prepared by the unit (manuals, guides, evaluations, and so on) to support ASEPADE's administration and programs are of high quality. A drawback has been that more time than expected has been spent on follow-up activities such as the review of all liquidations of the loan payments received because of the major problems encountered in setting up the computerized system.

Another drawback is that the technical assistance has been overly concentrated on developing the MIS, while crucial program areas such as loan delivery and collection were neglected until the delinquency reached alarming proportions. Although the quality of the assistance provided by the PTU has been high, timing and opportunity has not performed accordingly, thus adversely affecting the impact of this assistance. For instance, the PTU did a very good job in the design of the credit manual; however, this came into operation when delinquency had already reaching 50 percent. This happened almost two years after program start-up, despite the fact that high delinquency rates had severely affected ASEPADE's portfolio even before the Small Business II Project began in 1988.

An initial analysis of the management problems of ASEPADE was correct, and with pressure from both USAID and the PTU, a professionally qualified General Manager and an internal auditor were employed. Neither stayed long in their respective positions and the status of the organization returned to its previous condition.

The General Manager (known as the Executive Director) dismissed the San Pedro Sula Regional Manager in an effort to correct the substandard performance of that office. The Assistant Director, who was a member of the Board, reversed the General Manager's decision and the Board, of which she was a member, ratified her action. This was the culmination of a generalized situation in which the Assistant Director refused to concede adequate authority to the Executive Director and a continuation of the failure of ASEPADE management to follow appropriate management practices. The internal auditor also left voluntarily since he did not have the support of the Board and felt frustrated in his attempts to comply with his responsibilities.

The long-term advisor has been a valuable resource for ASEPADE, but an advisor is not a manager. Our understanding is that, particularly since the decision by USAID to suspend disbursements, the effectiveness of the advisor has been lessened as he has, in effect, been cut out of the loop in internal management decisions.

Personnel

ASEPADE staff totals 63 people including 17 working in the Central Office. The administrative staff comprises 37 while the field staff has 26 promoters and coordinators. The ratio of 1.5 administrative staff per promoter indicates inefficiency in the administration of ASEPADE and low productivity. An analysis of the staff composition, permanency, and qualifications reveals two main problems: low levels of professionalization particularly at the field level, and high staff turnover.

Although job descriptions reflect responsibilities and functions required, in many cases the staff do not meet the qualifications for the position. This is particularly true at field level. The educational qualifications of the promoters are low and the on-the-job training does not make up for the analytical and financial capabilities required to perform as loan officers. Ninety-two percent of the field staff (24 of 26) are *perito mercantil*, a degree equivalent to a high school diploma. Similar percentages and qualifications apply to the support staff, namely, assistants and secretaries. At higher administrative levels, the staff has gone through a process of professionalization. Currently, most midlevel managers and two of the four regional directors have university degrees in business administration or economics. Those interviewed seem very competent. However, a strong financial background is absent among ASEPADE's professionals at all levels.

In addition, high staff turnover severely affects ASEPADE's efficiency and productivity. As shown in the following table, 74 percent of the total staff has been in the organization for a year or less. The percentage is highest for the Tegucigalpa Regional (82 percent) and the lowest for Choluteca (50 percent).

EMPLOYEES WITH OVER A YEAR OF SERVICE PER REGION

	ASEPADE Staff #	%	Central %	TGC %	North %	Choluteca %	Ceiba %
1984 - 1989	18	26	24	18	39	50	20
1990 - 1991	47	74	76	82	61	50	80
TOTAL	65	100%	100%	100%	100%	100%	100%

NUMBER OF EMPLOYEES WITH OVER ONE YEAR OF SERVICE

	Central #	TGC #	North #	Cholut #	Ceiba #	TOTAL #
A year or less	4	3	5	4	2	18
1984-1989	13	14	8	4	8	47
TOTAL	17	17	13	8	10	65

The staff turnover during the period 1990-1991 by position indicates that the highest attrition has taken place among promoters (50 percent), and support administrative staff (36 percent). The regional manager position in San Pedro Sula has changed twice this year. The principal cause of attrition (82 percent of the cases) is voluntary resignation of staff members, reportedly as a result of very low salaries and low management morale. Low salaries have been a major drawback in ASEPADE's performance, as the resultant staff turnover translates into increased training costs and low productivity.

Attrition by position			Causes of Attrition		
Position	Percentage # of total		Reasons	Central	TGC
Promoters	8	50%	Resignation	14	82
Cashier	3	18%	Contract ended	1	6
Accounting assistant	3	18%	Dismissals	2	12
Regional Manager SPS	2	14%			
TOTAL				17	100

Status of USAID Funding

Comparison of Illustrative Budget for ASEPADE per Project Amendment No. 1 dated January 31, 1990 with Actual as of September 30, 1991 (In 000s of U.S. Dollars):

USE/ SOURCE	USAID BUDGET	USAID DSBRSMNT	CNTRPRT BUDGET	CNTRPRT ACTUAL*	TOTAL BUDGET
Credit	985.0	497.6	330.0		1315.0
Instit. Develop.	647.0	350.8	366.0		1013.0
TA/Trn.	323.0	12.5	330.0		653.0
Commod.	45.0	30.7	14.0		59.0
Total	2000.0	891.6	1040.0		3040.0

* At the time of the evaluation, no counterpart funding data was available.

CONCLUSIONS

Fulfillment of Grant Targets

At the time of the evaluation, ASEPADE was 57 percent along in its five-year grant. Loans, both in number and monetary volume, had reached just over 40 percent of the LOP targets, a ratio of some 70 percent of actual achievement to target proportional to the time expended. With the suspension of grant disbursements by USAID in June 1991, the LOP has also in effect been suspended and a substantial decline in future loans and loan volumes should be expected. Even in the event that USAID resumes disbursements, it is unlikely that ASEPADE would be able to meet the LOP targets. The expansion of the portfolio would require time-consuming adjustments for improving loan delivering and collection.

Organizational Structure

The by-laws are written so that the founding members control both the Assembly of active members and the Board of Directors. Although the Assembly is the maximum authority of the organization, because the Assembly elects the Board of Directors, Board approval is required to allow the entry of new active members to the Assembly. By this means, the Board controls the composition of the Assembly, which in theory is supposed to control the Board. Although the by-laws give the appearance of following the usual form for a not-for-profit organization, in fact ASEPADE is a closed circle, dominated by its founders. The necessary checks and balances between the membership, the Board of Directors, and the executive management do not exist. The result is an organization that is not well managed and one in which change of management has been virtually impossible.

This situation is common among family-held enterprises. The difference in the case of ASEPADE is that instead of family funds, the organization has lived principally from donations from international development agencies. Grants and loans at far below market rates of interest have permitted ASEPADE to generate substantial interest income, but this income is insufficient to cover the organizations increased expenses or to preserve its capital base.

ASEPADE has made a substantial contribution to the well-being of many Honduran micro- and small-scale entrepreneurs. It has been a pioneer in the field of credit to this target group. Its ability, however, to continue this worthy activity is threatened by its unwillingness to adjust its organizational structure to match its expanded portfolio and geographic reach. Not only does ASEPADE face a likely decapitalization owing to high default rates on existing loans and inability to cover its expenses, but it risks losing access to international support owing to its inability to demonstrate effective stewardship of the funds supplied up to now.

The impression given the evaluators is not one of malicious intent or willful error, but one of disorganization, poor management practices, and low professional standards among staff.

Financial/Administrative

The evaluators agree that the inability of ASEPADE's executives to demonstrate their concern and ability to rectify the deficiencies in portfolio management justified the Mission's decision to suspend further grant disbursements. It appears that ASEPADE management is aware of the problem: the PTU is carefully tracking the situation and continuing to provide assistance. The question remains as to whether ASEPADE's awareness of its problems is sufficient to result in the organizational and procedural changes required.

Systems, no matter how well designed, are only as effective as the skills with which they are implemented. The evidence strongly suggests that ASEPADE's executive direction has failed to emphasize within the staff the need to follow professional standards or even established procedures. For example, a credit manual is only a tool: failure to use it makes it worthless. ASEPADE's record suggests that failure of ASEPADE's top management to enforce effective accounting and management standards reflects its lack of understanding of these same standards and its preference for a more comfortable system emphasizing personal loyalty and continued incumbency of key players.

Executing the grant with ASEPADE was a calculated gamble and one, given the circumstances at the time, with which the evaluators do not argue. Unfortunately, what seems to have been underestimated was both the administrative deficiencies that had to be overcome and the resistance to change inherent in the existing management structure.

Self-sufficiency

Simply stated, financial self-sufficiency is matching income to outgo. In the case of credit agencies like ASEPADE, self-sufficiency also means compensating for the capital loss implicit in the decline in the real value of money through inflation. In nominal terms, discounting inflation, ASEPADE is not far from financial self-sufficiency, 79.3 percent. A projected annual inflation rate of only 12 percent, however, reduces this ratio sharply, to 56.5 percent. Generally, expenses for institutions like ASEPADE do not rise proportionately with the size of the loan portfolio. The most important step for ASEPADE to achieve self-sufficiency, then, is to increase the size of its **performing** portfolio and the most important step towards this is to reduce its existing past due accounts and instill procedures to control future arrearages.

Excessive loan loss experience such as the projected 19.2 percent loss calculated for ASEPADE by the PTU makes self-sufficiency virtually impossible. If 20 percent of the funds lent are lost, the remaining 80 percent must generate a 25 percent annual return just to maintain the nominal value of the portfolio. Factoring in expense coverage and inflation and the 80 percent of the portfolio that is repaid with interest must generate nominal rates in excess of 80 percent annually in order for ASEPADE to approach self-sufficiency. Nominal annual rates in the 30 percent range in the face of the high past-due experience will not cover ASEPADE's current expenses and certainly not prevent the decapitalization in real terms of its total loan portfolio.

Training

The effectiveness of ASEPADE's training efforts to date is a mixed picture. Its training program in conjunction with INFOP and directed to small producers has been useful to the beneficiaries, but most of the training offered has been generalized or directed at commercial matters and does not appear to have had much of a lasting impact. At the time of the evaluation, however, ASEPADE was in the process of revising and strengthening its training program. The material (modules, manuals) already prepared at the time of the evaluation was very good. The evaluators concern is that, as in the case of the credit manual, its inappropriate use could make it worthless. A problem in the training program that remains unsolved is that currently the promoters do not have the qualifications to provide effective training. They seem to be more in need of training themselves than the beneficiaries.

Management Information Systems

ASEPADE has had far greater difficulties in implementing the integrated MIS package than other PVOs. FUNADEH, for example, has adopted the same basic package without major difficulties and is using the management information reports effectively. These difficulties reflect on ASEPADE management rather than on the PTU. High personnel turnover, low salaries, and the low professional level of ASEPADE employees have made adaptation to the computerized system difficult, a difficulty compounded by ASEPADE's failure to gear up for the transition. It was not clear at the time of the evaluation whether an adequate understanding and willingness to uses the MIS had yet been reached.

Technical Assistance

The level of technical assistance supplied to ASEPADE by the PTU appears to have been substantial and, given greater receptivity by that organization's management, should have been adequate to bring ASEPADE along to adequate management and procedural levels. Failure to implement PTU recommendations adequately, however, limited the effectiveness of the technical assistance.

Personnel

In the past two years, ASEPADE has devoted efforts to upgrading the quality of the midlevel management staff. Particularly the newly hired meet the qualifications contemplated in the job descriptions. Problems of poor qualification remain at the field level (promoters) and among support staff (secretaries); lack of financial background affects upper management (Executive Director, Deputy Director, and regional managers). In addition, a low salary base affects ASEPADE's capacity to attract qualified personnel, and constitutes the main cause of the high staff turnover.

Status of USAID Disbursements

The total disbursements under the Grant had reached US$891,600 as of June 12, 1991 when further disbursements were suspended. This sum represented 44.6 percent of the contemplated $2 million grant.

Lessons Learned

The first lesson learned is that the administrative and managerial capacity of ASEPADE was weaker even than had been anticipated. This meant that even with substantial technical assistance the time required to bring ASEPADE up to the level of a reasonably sophisticated, computerized financial and management information system took probably a year longer than anticipated.

The second lesson is that the effectiveness of technical assistance is strongly conditioned by the capacity of the beneficiary organization to absorb it. In the case of ASEPADE, this capacity was limited by weaknesses in the professional level of its staff and by resistance to change from its leadership.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION NO. 1: A set period of time, for example, 90 days, should be established by USAID for ASEPADE to implement the following recommendations. If within this period of time the ASEPADE Board and General Assembly have not shown an adequate response, the funds remaining in the grant should be reprogrammed to on one or more other PVOs that demonstrate the capacity to meet project objectives. If, however, within this period of time significant progress has been made by ASEPADE to meet the recommendations, disbursement of grant funds should be resumed as long as ASEPADE remains in substantial compliance with them.

RECOMMENDATION NO. 2: ASEPADE SHOULD MODIFY ITS BY-LAWS TO INCREASE ITS MEMBERSHIP AND TO PERMIT AN OUTSIDE MAJORITY TO BE FORMED ON THE BOARD OF DIRECTORS.

Technical assistance should be provided by the PTU to design the new by-laws and to determine in what manner new members should be incorporated. The new by-laws should specifically state that the function of the Board and the management of the organization are separate. The by-laws should also include a more specific statement separating the function of the Board and the management. For example, the Board should empower the Executive Director to manage the organization, hire and fire personnel, and make financial and other decisions. The Board establishes policy for credit and financial management; appoints, sets the salary, and reviews the performance of the Executive Director; but otherwise does not interfere in the day-to-day operations of the organization.

RECOMMENDATION NO. 3: NEW BOARD ELECTIONS SHOULD BE HELD.

RECOMMENDATION NO. 4: THE NEW BOARD SHOULD SELECT A GENERAL MANAGER AND AN INTERNAL AUDITOR.

A search committee including the long-term advisor should be appointed by the newly installed Board to select a professional general manager with financial and management experience and knowledge of computerized systems. An internal auditor, also reporting to the Board, should also be selected using professional criteria.

RECOMMENDATION NO. 5: THE NEW BOARD SHOULD APPROVE A CONFLICT OF INTEREST POLICY.

The newly installed Board should approve a Conflict of Interest Policy that prohibits there being more than one member of a family as Director or employee. Additionally, loans should be prohibited to family members of active members, to directors, or to employees of ASEPADE.

RECOMMENDATION NO. 6: A REVIEW OF THE LOAN PORTFOLIO AS OF DECEMBER 31, 1991 SHOULD BE CONDUCTED BY THE PTU IN THE LATTER PART OF JANUARY.

Because the life of project is past midterm, we recommend a review of the loan portfolio as of December 31, 1991 to be conducted in the latter part of January, jointly with a review of the progress made on the overall recommendations, to determine whether a further disbursement to ASEPADE is justified.

RECOMMENDATION NO. 7: EXTERNAL AUDITORS SHOULD CONDUCT A CONFIRMATION OF THE LOAN BALANCES AT A DATE SELECTED BY THE AUDITORS.

Confirmation of balances of principal and interest should be made through the delivery of confirmations to a substantial sampling of all of the beneficiaries. This may require a system of personal delivery and retrieval given the postal system deficiencies as well as a system for survey follow-up since few of the beneficiaries are familiar with this type of procedure.

RECOMMENDATION NO. 8: CONTINUE WITH THE TECHNICAL ASSISTANCE FOR THE IMPLEMENTATION OF THE ACCOUNTING SYSTEM DURING THE NEXT 60-DAY PERIOD OR UNTIL ASEPADE HAS MADE A DECISION ON WHETHER TO ACCEPT THE OVERALL RECOMMENDATIONS OF THIS REFORT.

RECOMMENDATION NO. 9: BEFORE RESUMING DISBURSEMENTS TO ASEPADE MEASURES TO ENSURE COMPLIANCE WITH THE REGULATIONS AND POLICIES CONTEMPLATED IN THE CREDIT MANUAL MUST BE IN PLACE.

Efforts to turn ASEPADE into a financially and administratively sound organization will be ineffective if there is not a strong commitment toward improving loan analysis, follow-up, and collection systems.

RECOMMENDATION NO. 10: FINANCIAL RESOURCES SHOULD BE DEVOTED TO TRAINING THE PROMOTERS IN CREDIT ANALYSIS AND FOLLOW-UP, MARKETING, AND ACCOUNTING.

The soundness of the credit program directly depends on the strengths of the promoters. The training of the promoters must take precedence over any other training program in the organization.

RECOMMENDATION NO. 11: INCREASE THE STAFF'S SALARIES TO IMPROVE ASEPADE'S CAPACITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL.

ASEPADE should define a salary scale that accurately reflects market conditions. Otherwise efforts to improve staff qualifications and reduce turnover will be worthless. A consideration for increasing the salaries of the promoters could be the establishment of salary incentives based on productivity (including indicators such as loan portfolio, number of active microenterprises, number of new microenterprises, or delinquency rate).

RECOMMENDATION NO. 12: ASEPADE SHOULD CONCENTRATE ITS EFFORTS IN CONSOLIDATING PROGRAM OPERATIONS AND IT SHOULD CLOSE DOWN UNPRODUCTIVE BRANCH OFFICES.

An expansion strategy such as the opening of new branches could only be effective if based on the replication of efficient administrative systems and effective programs. Because at the present it cannot offer this possibility, ASEPADE should not only stop opening new branches but also close down those already proved to be unproductive. The implementation of these recommendations would have significant impact on ASEPADE's efforts towards self-sufficiency and efficiency.

ANNEX 1

LIST OF DONORS OF ASEPADE
(Provided by ASEPADE)

ANNEX 1

LIST OF DONORS OF ASEPADE
(Provided by ASEPADE)

A.I.D., directly and through intermediary organizations, has been the largest donor. The only other significant donor has been IDB. There are no national donors. The patrimony was created completely from international donors.

1. Inter-American Development Bank. Loan of $500,000 repayable in Lempiras at rate Lps. 2 to U.S.$ $1.00 payable in 60 semi-annual payments beginning 11/24/96. Loan disbursed from 1987 to 1990. Purpose was for credit program. Additionally $60,000 was provided as grant for training of beneficiaries.

2. A.I.D. $2,000,000 grant earmarked to provide $985,000 for credit program, $647,000 for institutional development, $323,000 for training, and $45,000 for commodities. Until date of suspension in the middle of June, 1991, about $892,000 had been disbursed. Began in September, 1988 and LOP is 5 years.

3. FOPRIDEH. Donation of Lps. 200,000 for rural community project Guajiquiro en La Paz. 1988-1990.

4. FIA. Donation of $105,097 for credit line, training and TA 1985-1987.

5. COSUDE (Cooperación Suiza al Desarrollo). Donation of SF 370,000 for development of garífuna communities on North Coast. (1984-1986) (COSUDE reportedly withdrew from program because objectives were not being met and inappropriate use of vehicle.

6. Catholic Relief Services. About $15,000 in TA for market vendors of Tegucigalpa. (Date not given).

7. Acción International (AITEC). Unknown amount of TA for market vendors of Tegucigalpa. (Date not given).

8. CEBEMO (Netherlands). Donation of Lps. 167,744 for credit, training, and TA for women of Markets in S.P.S., El Progreso, Puerto Cortés and La Ceiba. 1985-86.

9. FASTENOPFER (Switzerland). Donation of SF 66,000 for training in garífuna communities. 1981-82.

10. TROCAIRE (Ireland). Donation of about Lps. 77,390 for training in garífuna communities. 1980-81.

11. Withuis (Belgium). Donation for Texiguat Project in El Paraíso for about Lps. 42,300.

12. MISEREOR (Germany) Undetermined amount for Agricultural projects in September, 1991.

ANNEX 2

LIST OF DOCUMENTS REVIEWED

25

ANNEX 2

LIST OF DOCUMENTS REVIEWED

Statement of Work - Attachment A. p. 4-15 dated 7/15/91

Financial Report 90-21 on ASEPADE by AID Controllers dated 5/2/90

Financial Report 90-20 on ANDI by AID Controllers dated 4/19/90

Grant Amendment No. 1 and No. 3 - Small Business II Project

A Financial Systems Approach to Microenterprises, GEMINI Working Paper No. 18. April 1991.

Financial Management of Micro-Credit Programs - A Guidebook for NGO's by Robert Peck Christen of ACCION Intl. dated 6/90.

Estados Financieros para ASEPADE de 1 de Enero al 30 de Junio de 1991.

Informe sobre Situación de Cartera de ASEPADE, G. Gómez of RRNA dated July, 1991.

Informe de análisis de antiguedad de saldos (cuotas acumuladas) para ASEPADE as of July 31 1991.

Fifth Semi-annual Progress Report on Honduran Small Business II Project by Robert R. Nathan Associates, Inc. - Five reports from October 1988 through March 1991.

Manual de Crédito para ASEPADE dated January, 1991 by Roy Hileman of Nathan Associates, Inc.

Guía de Consulta para el análisis de crédito de micro y pequeñas empresas dated February, 1991 by Roy Hileman of Nathan Associates, Inc.

Manual de Organización y Funciones para ASEPADE dated April, 1990 by Nathan Associates, Inc.

Estudio de autosuficiencia para ASEPADE dated April, 1990 by Javier Orlando Gordillo of Nathan Associates, Inc.

Ecuador Micro-enterprise sector Assessment Institutional Analysis - GEMINI Technical Report No. 11 dated March, 1991.

By-laws of ASEPADE - Resolución #140 de la Junta Militar dated November 10, 1978 and Presidential Resolution #5 dated January 12, 1983.

Plan Financiero y el presupuesto for ASEPADE for 1991 (Undated).

ANNEX 3

ANALYSIS OF SELF-SUFFICIENCY FOR ASEPADE

21

ANNEX 3

ANALYSIS OF SELF-SUFFICIENCY FOR ASEPADE

Self-Sufficiency of ASEPADE

1. Income Statement from 1/1/91 - 6/30/91 converted to US$ at rate of L5.3 to US$1.00

Income	
Interest actually collected on current loan portfolio	78,302
Interest actually collected on past due loan portfolio	32,264
Other income	6,981
Total Income	$117,547
Expenses	
Administrative expenses	122,642
Depreciation	5,660
Reserve for Bad Debts	16,226
Other expenses	3,774
Total Expenses	$148,302
Gain (Loss) during first six months of 1991	($30,755)

Scenario A - level of loan needed to break even assuming same expense structure and interest rate structure.

Assumption: Interest rate of 30.2 percent. (Total of interest collected for first six months x 2 /average loan level first six months of 1991).

Assumption: Inflation of 12 percent is used as current rate rather than historical rate.

With inflation of 12 percent, ASEPADE needs an increase of $168,984 for a total of $900,160.

Without inflation, ASEPADE needs an increase of $101,838 for a total of $832,970.

Scenario B - level of interest rate needed to break even assuming same expense structure, same level of loans as the average for the first six months of 1991, with and without inflation.

Assumption: Average loan level is same as average of first six months of 1991, $731,132.

Assumption: Inflation of 12 percent is used as current rate rather than historical rate.

With inflation of 12 percent, ASEPADE needs an average interest rate of 50.5 percent to break even.

Without inflation, ASEPADE needs an average interest rate of 38.5 percent to break even.

Including Inflation, Self-Sufficiency Formula is Annual Operating Income divided by total of operating income and the Patrimony times the current annual inflation rate.

117647/((148302)+(498988*0.12))
Self-Suff. Ratio is 56.5 percent

Not including Inflation, Self-Sufficiency Formula is Annual Operating Income divided by total of operating expenses. 117647/148302

ANNEX 4

LIST OF PERSONS INTERVIEWED

ANNEX 4

LIST OF PERSONS INTERVIEWED

Gonzalo Afcha	RRNA Economist
Jaime Arguello	RRNA Advisor for ANDE
Benigno Cabrera	ASEPADE Regional Manager San Pedro Sula
Daisy de Diaz	ASEPADE Regional Manager Tegucigalpa
Hector Duarte	Asst. Mgr. ANDI/PYME
Bruce L. Eckersley	USAID Mission Deputy Director
Juan Carlos Funes	FUNADEH
Dorcas de González	Executive Director ANDI
Javier Gordillo	RRNA Advisor to ASEPADE
Hilario Hooker	RRNA Project Director
Margaret Kromhout	USAID
Thomas Kugler	COSUDE
Petrona de Lara	ASEPADE
Carmen de López	ASEPADE
Daniel Martínez	USAID
Nora Isabel de Martínez	Executive Director ASEPADE
Juan Ramón Martínez	Founder of ASEPADE
José Ramón Morales	Asst. Exec. Dir. ASEPADE
Reese Moyers	USAID Private Sector Office Director
Carlton Padgett	RRNA
Martin Pallman	Director, COSUDE
Charles Richter	USAID Economist
Gloria Sarmiento	ODEF
Jesús Torres	RRNA Systems Specialist
Jorge Torres	IADB
Bernai Velarde	USAID Private Sector Project Officer
Carmen Zambrana	USAID

ANNEX 5

SCOPE OF WORK

32

ATTACHMENT A

STATEMENT OF WORK

1. PROJECT TO BE EVALUATED

Two distinct components of the Small Business II Project (No.522-0241) will be evaluated. These components are Advisors for Development's (ASEPADE's) micro and small enterprise program, No. 522-0241.02, with a total A.I.D. grant funding of $2.0 million and the National Association of Industrialist's (ANDI's) small and micro enterprise program (PYME), No. 522-0241.01, with a total A.I.D. grant funding of $4.6 million. The Project Assistance Completion Date (PACD) of each of these five year efforts is July 31, 1993 and July 28, 1993, respectively.

2. PURPOSE

A.I.D., ASEPADE and ANDI have agreed to carry out an external evaluation midway through the project. The midterm evaluation will focus on administrative, management, financial and project implementation issues as well as assessing the data on these Projects impact and future technical assistance needs. The contract evaluator shall review progress on project activities and identify problems that are inhibiting achievement of objectives, and recommend solutions to these problems. Particular attention shall be paid to those project activities designed to strengthen and expand the institutional system to assist the Small Scale Enterprise (SSE) sector. The report shall also make specific recommendations on how to improve ASEPADE's and ANDI's self-sufficiency and marketing strategy.

The implementing agencies will utilize the results of the evaluation to make the necessary adjustments to their organizational structure, operational procedures, program policies and practices, administrative controls and improve efficiency and cost of project activities. A.I.D. and its counterparts will utilize the evaluation to reassess the relevance of project objectives, to review the assumptions made during project design, to facilitate policy dialogue, review progress to date and find solutions to problems and improve the project benefit/cost ratio. A.I.D. will also utilize the evaluation results to make appropriate adjustment in the Projects' Logical Frameworks (LOGFRAMES) and Life Of Project (LOP) targets reflected in a variety of Mission reporting documents.

3. BACKGROUND

3.1 Small Business II Project

The Small Business II Project goal is to increase employment and expand production. The project purpose is to: 1) strengthen and expand an institutional system that will increase and improve the supply of credit, training, technical assistance and services to SSEs; and 2) improve the policy and regulatory environment in which SSEs operate.

33

The Project is composed of two interrelated components: 1) a SSE Support System to strengthen and expand the programs of Honduran institutions, both Private Voluntary Organizations (PVOs) and Private Financial Institutions (PFIs), which provide financial, technical and training resources to SSEs; and 2) a Research and Policy Analysis component to focus primarily on studies, data collection and analysis efforts to assist policy making institutions in the formulation of recommendations for policy changes which will lead to an improved policy environment for SSE development.

The first component has been implemented through three separate Operational Program Grants (OPGs). The OPGs were signed with the National Industrialist Association (ANDI), Advisors for Development (ASEPADE) and the Honduran National Development Foundation (FUNADEH). The purpose of these Grants is to improve the small and microbusiness programs that the PVOs implement, and expand the credit and technical assistance programs of ASEPADE and FUNADEH to ensure that these PVOs will become self-sustaining prior to the PACD.

In addition, the project has established a Small and Medium Business Credit and Guarantee Fund (FOPEME) to channel financial resources to SSEs, through Honduran PFIs. FOPEME is administered and managed by the Central Bank of Honduras under a Project Agreement signed between the Government of Honduras (GOH) and A.I.D.

A Project Technical Unit (PTU) established under the Project is staffed by a U.S. institutional contractor to: 1) provide technical assistance to the PVOs and the PFIs, 2) work with the implementing agencies in the broader arena of policy and research and 3) advise the Mission on strategy and implementation aspects.

Implementation of the five year Small Business II Project began in September 1988 and will end on September 30, 1993.

<u>Note:</u> For the purposes of the project, the term SSEs (small scale enterprises) includes micro and small scale enterprises. Micro enterprises are defined as firms which employ up to 10 workers and have fixed assets of less than $10,000 (excluding land and buildings). Small enterprises are defined as firms which have between 11 and 25 workers and have fixed assets of less than $50,000 (excluding land and buildings).

3.2 ASEPADE Project Component

ASEPADE's program goals are to increase incomes, generate new jobs, increase the productive capacity of microenterprises and improve the general standard of living of the target group. The purpose of the program is to strengthen and expand ASEPADE's microenterprise support program which provides credit, technical assistance and training to microenterprises. The program will expand ASEPADE's institutional outreach, ensure the continuity of its ongoing programs and develop new programs to meet the future needs of targeted microenterprises.

The specific objectives of the program are to: 1) expand services to 15 cities and towns; 2) provide 25,000 loans to microenterprises and increase lending by L30.0 million; 3) achieve self-sufficiency of the credit program by 1993; 4) continue training programs for microenterprises; and 5) continue to upgrade its management systems and train its own personnel to ensure the efficiency of its programs.

3.3 ANDI/PYME Project Component

The specific objectives of the program are to improve the ability of ANDI/PYME to offer training and technical assistance to client organizations who in turn provide credit, training and technical assistance directly to entrepreneurs; and to enable ANDI/PYME to broaden its coordination and information network functions among the organizations serving SSEs.

The Grant Agreement provides institutional support in four major areas: 1) Business Assistance Services, 2) Training, 3) Information Network and 4) Monitoring and Evaluation. Under the Business Assistance services, ANDI will strengthen the capacity of the PVOs to expand their coverage of the target group and to diversify business assistance services offered to SSEs. The training activity has been designed to improve the administrative capacity of the PVOs to deliver the services. The information network serves as a medium to exchange information on micro and small business development activities and to educate the public on small business. The monitoring and evaluation component, intends to provide permanent follow-up and evaluation of the business development activities implemented by the PVOs.

4. SCOPE OF WORK

The contractor shall measure the extent to which Project objectives and targets have been met. He/she will identify the organizational and operational issues that affect project implementation, and make specific recommendations on actions to be taken to enhance the operational structure and systems, financial and institutional viability and sustainability.

The evaluation team will undertake the necessary work to answer the questions regarding the projects status, implementation, issues and recommendations in the areas listed below. The analysis will take into account such things as the organizational and personnel structure, operating policies and procedures, administrative and financial controls, financial policies and practices, portfolio performance and self-sufficiency. The Contractor will assess and make specific recommendations on the key issues that affect ASEPADE's administrative performance and financial self-sufficiency as well as the impact that the programs have on small scale enterprises and make specific recommendations on how to improve ANDI's self-sufficiency and new marketing strategy and program.

A. ASEPADE:

4.1 Project Targets: To what extent have project targets been met? Should any of the project assumptions and targets be revised to reflect what the Project can actually expect to accomplish? Are there issues or problems that are affecting the possibility of meeting the project targets as proposed? What alternative or options do you recommended to solve these problems? Has the project had any significant impact in areas that were not originally contemplated in the design?

4.2 Organizational Structure: Is the ASEPADE organizational structure and the composition of the Board of Directors suitable to accomplish project objectives? Does ASEPADE have a broad representational base on its Board of Directors? How many active members does ASEPADE have? Does the organization charter accurately represent the work that the organization is engaged in? Does this statement provide adequate authority to management, particularly over budgets and personnel, to carry out its work effective and efficiently? What changes, if any, are recommended to its bylaws, representational Board of Directors base and current internal structure, to expand the program in an efficient and cost effective manner and improve overall management?

4.3 Personnel: What personnel adjustments are necessary to improve the cost-efficiency of program management and implementation? Are trained personnel expected to remain in the organization? How many staff members have left since the project began? How many employees does the organization have? Do job descriptions accurately reflect responsibilities and functions required? Does the staff meet the requirements and qualifications of the positions for which they were hired?

4.4 Financial/Administrative Policies: Does ASEPADE have effective modern financial and administrative policies and procedures in place? What changes, if any, are recommended to improve ASEPADE's internal controls, portfolio performance, self-sufficiency and profitability (surplus)?

What is the financial condition of ASEPADE at the time of the evaluation? What is the quality of ASEPADE's loan portfolio? What are the amount and number of total outstanding loans according to the latest data available (in total and by region)? What percentage of the loans are in arrears (by economic activity, by gender, and by region)? What percentage of the loans have defaulted (by economic activity, by gender, and by region)? Is the provision for doubtful accounts (bad debts) sufficient, or does it need adjustment? Are ASEPADE's collection procedures effective, or should they be modified? What is ASEPADE's policy toward delinquent clients, follow up of clients and reporting from borrowers? Does the organization have well-defined policy criteria that explain under what circumstances loan officers must perform follow up visits? Are visits conducted only when the loan is delinquent? How does the agency implement this policy? How many repeat loan does ASEPADE have? Have clients received loans from other financial sources? If so, what sources?

How does ASEPADE determine what interest rate to charge? What is the total cost of the credit program? What activities does the credit program subsidize? What is the total value of the subsidy?

What are the institutional guidelines and standard operating procedures for screening, approving and monitoring budget requests? How does the institution control operating expenses? How does ASEPADE manage its cash position on an overall basis? What level of cash is considered appropriate? To what extent do expected and actual sources and uses of funds match?

4.5 Microenterprise Credit: Does ASEPADE follow the policies and procedures established in the Credit Manual? Are loan officers fully informed on loan criteria and the overall objectives of the micro and small business program? What changes if any should be made to improve the impact and efficiency of the credit program? Are the current credit policies consistent with the desired goal and purpose and appropriate for reaching the target group? Are the procedures for identifying credit needs and authorizing, approving and supervising loans carried out systematically and in a professional manner? Does the credit committee meet regularly? Are the meetings recorded? Do the members of the committee have adequate training and experience to effectively analyze the technical merit of the application? Are approvals granted on the merit of the project? Are the conditions precedent to loan disbursement enforced before loan disbursement to the microenterprise? Are the terms and conditions of the loans adequate to both the financial intermediary and the microenterprise? Does ASEPADE have effective safeguards for staff and borrowers?

Has ASEPADE been able to forge links with for-profit financial institutions to facilitate the graduation process of the relatively larger and more developed microenterprises to regular commercial credit? How can ASEPADE improve its savings mobilization program? What efforts are being made to diversify funding resources? What is the impact of the credit program on women? Are the credit policies gender sensitive? How many jobs by gender have been generated by the project? What is the social economic and financial profile of the clients?

4.6 Management Information Systems (MIS): Is the MIS used as part of the routine process to monitor and evaluate ASEPADE's planning and implementation of activities? How does the organization utilize the information? Is the information disaggregated by user level and decision making needs? Is the information received on a timely basis as part of the decision process? Are files complete and in order? Is the accounting and portfolio information required for the MIS up-to-date? Has productivity increased and/or the decision making process improved? Are there written procedures describing the MIS? Is the staff familiar with them? Who supervises and is responsible for the MIS in ASEPADE?

4.7 Training Program: Is ASEPADE's training program meeting its objectives? Is the training program gender sensitive? What has been the impact of this program on the SSEs? How many SSEs have received training and technical assistance? What are the actual operating cost of the training and technical assistance program? What is the value of subsidies to the technical assistance and training program? Is the training program cost-effective? Should the program be modified? If yes, how?

4.8 External Technical Assistance: What impact has the long-term technical assistance had on ASEPADE's small and microbusiness program? What additional technical assistance, if any, is required to successfully implement this project by the PACD?

4.9 A.I.D. Funding: How can the remaining A.I.D. funds best be utilized to enhance project impact? Should there be a deobligation or reallocation of funds? To which activities or project components?

B. ANDI:

4.10 Project Targets: To what extent have project targets been met? Should any of the project assumptions and targets be revised to reflect what the Project can actually expect to accomplish? Are there issues or problems that are affecting the possibility of meeting the project targets as proposed? What alternatives or options do you recommend to solve these problems? Has the project had any significant impact in areas that were not originally contemplated in the design?

4.11 Organizational Structure and Institutional Commitment: Does the organizational statement provide adequate authority to management, particularly over budgets and personnel, to effectively carry out its work? Is ANDI's organizational structure and composition of the Small Business Committee adequate to manage the Project Grant Agreement? What changes, if any, are recommended to the current internal organizational structure to implement this program in an efficient and cost effective manner? Who has the final authority to set policies for the PYME program? To what extent does the general membership of ANDI support the PYME program? What evidence exists of broad institutional commitment to the project objectives? Do client groups know the purposes and priorities of the organization? What means does the organization use to convey and reinforce an understanding of its purposes and priorities to the client group?

4.12 Personnel: What personnel adjustment are necessary to improve the cost-efficiency of the program management and implementation? Are trained personnel expected to remain in the organization? Do job descriptions accurately reflect ANDI's new strategy, responsibilities and functions?

4.13 Marketing Program: Does ANDI have an effective marketing plan and strategy? Are proposed plans financially viable? What is the potential of these programs and how can their impact be increased? Is ANDI the appropriate institution to carry out the marketing plan and strategy that has been proposed? If not, what changes or alternatives are recommended to achieve maximum impact and profitability?

4.14 Training Program: Is ANDI's training program meeting its objectives? Is the training program gender sensitive? Should the program be modified and how? What has been the impact of this program on the PVOs and

38

SSEs? How many SSEs have received training and technical assistance? What are the actual operating cost of the training and technical assistance programs? Is the training program cost-effective?

4.15 Efficiency and Self-sufficiency: What is the cost/benefit ratio of the program? How can it be improved? What are the programs possibility of covering its cost? What additional fundraising activities should ANDI implement? What efforts are being made to diversify funding resources? The contractor will include financial projections up to the PACD.

4.16 Project Selection Criteria: How does ANDI set priorities? Are the project selection criteria sufficient and appropriate for project success or should they be modified? Are the selection criteria gender sensitive? What modifications, if any, are recommended to have a greater project impact? Are the criteria, tasks, or conditions set by ANDI fulfilled by the PVO before project funds are provided?

4.17 Cooperatives and Village Banks: Should ANDI support small business cooperatives, savings and loan cooperatives and Village Banks? If yes, why? What are the advantages of supporting these institutions and what type of support would be given? if not, what would be the alternatives?

4.18 Technical Assistance Program: What impact has the long-term technical assistance had on ANDI's small and microbusiness (PYME) program? What additional technical assistance, if any, is required to successfully implement this project to the PACD? What additional technical assistance needs do the PVOs have?

4.19 Business Assistance Network: is the small business assistance network an effective and efficient system to provide services to PVOs and SSEs? Should it be modified, how? What impact has this program had on the PVOs' administrative performance and financial self-sufficiency? What has been the impact of the Project on women microentrepreneurs? What is the social, economic and financial profile of clients?

4.20 Management Information System (MIS): Is the MIS used as part of its routine process to monitor and evaluate ANDI's and the PVOs' planning and implementation activities? How does the organization utilize the information? Is the information disaggregated by user level and decision making needs? Does the MIS contain gender information? Is the information received on a timely basis as part of the decision process? Are files complete and in order? Is the accounting and portfolio information required for the MIS up-to-date? Has productivity increased and/or the decision making process improved? Are there written procedures describing the MIS? Is the staff familiar with them? Who supervises and is responsible for the MIS in ANDI and the PVOs?

4.21 Financial/Administrative Policies: Do the PVOs have effective modern financial and administrative policies and procedures in place? What changes, if any, are recommended to improve the PVOs' internal controls, portfolio performance, self-sufficiency and profitability (surplus)? What is the financial condition of the PVOs at the time of the evaluation? What is the quality of the PVOs' loan portfolios? What percentage of the loans are in arrears? What percentage of the loans have defaulted? Is the provision for doubtful accounts (bad debts) sufficient or do they need adjustment? Are the PVOs' collection procedures effective, or should they be modified? What are the PVOs' policies toward delinquent clients, follow-up of clients and reporting from borrowers? Do these organizations have well-defined policy criteria when the loans are in arrears? How do the PVOs determine what interest rate to change? What is the total cost of the credit program? What was the value of subsidies to the SSE programs?

4.22 Microenterprise Credit: Are the internal credit procedures of the PVOs clearly described in a credit manual? Are loan officers fully informed of loan criteria and the overall objectives of the micro and small business program? What changes, if any, should be made to improve the impact and efficiency of the credit program? Are the current credit policies consistent with the desired goal and purpose and appropriate for reaching the target group? Are the procedures for identifying credit needs and authorizing, approving and supervising loans carried out systematically? Are the credit committee decisions documented, and are the loans disbursed according to the terms and conditions approved by the credit committee? Do the members of the committee have adequate training and experience to effectively analyze the technical merit of the application? Are approvals granted on the merit of the project? Are the conditions precedent to loan disbursement, enforced before loan disbursement to the microenterprise? Do the PVOs have effective safeguards for staff and borrowers? What are the amount and number of total outstanding loans according to the latest data available (in total and by PVO)? How many repeat loans do the PVOs have? Have the clients received loans from other financial sources? If so, what sources?

Have the PVOs been able to forge links with for-profit financial institutions to facilitate the graduation process of the relatively larger and more developed microenterprises to regular commercial credit? How can the PVOs improve their savings mobilization programs? What efforts are being made to diversify funding resources ? What is the impact on the credit program on women? Are the credit policies gender sensitive? How many jobs by gender have been generated by the project? What is the social, economic and financial profile of the clients?

4.23 A.I.D. Funding: How can the remaining A.I.D. funds best be utilized to enhance project impact? Should there be a deobligation or reallocation of funds? To which activities or project components?

ANNEX 6

PROJECT LOGICAL FRAMEWORK

ul

ANNEX 6

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: $40 million
From FY 88 to FY 93
Total U.S. Funding: $15 million
Project Title & Number: Small Business II (522-0241)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs: 1. A self sustaining loanfund maged by Fiduciary Agent capable of financing 450 new loans per year through existing PFIs and PVOs.	Magnitude of Outputs: 1. No. of loans year 5 in Portfolio 968 Outstanding Portfolio $21.7 million	1. Management Information Systems of the participating institu-tions. -Annual Report of the Inter-mediaries. -No. of Participation Agreements signed.	1. Level of demand sufficient to generate enough revenues for self-sufficiency. 2. Guarantee will eliminate principal obstacle to credit for SSEs.
2. A self sustaining credit guarantee mechanism permitting access to commercial credit.	No. of PFIs Participating 8 2. Amount of Portfolio Guaranteed $15.2 million	2. Guarantee premium received by Fiduciary Agent. -Amount of Guarantee certificates issued.	-Default can be held to projected levels. 3. Training and TA is capable of improving SSEs operation; TA is available and at low cost.
3. PVOs strengthened and providing training and technical assistance to SSEs.	3. No. of SSEs increasing TA/Training 3,000 No. of bank training seminars given 10	3. PVOs Management Information System: -No. of firms that receive TA. -No. of attendants to seminars.	4. Policy recommendations will receive priority within the GOH.
4. Macro and sectoral level policy and regulator, analysis and dialogue under-taken.	4. Research and studies conducted 10	4. Policy reforms undertaken.	

GEMINI PUBLICATION SERIES

GEMINI Working Papers:

1. "Growth and Equity through Microenterprise Investments and Institutions Project (GEMINI): Overview of the Project and Implementation Plan, October 1, 1989-September 30, 1990." GEMINI Working Paper No. 1. December 1989. [not for general circulation]

*2. "The Dynamics of Small-Scale Industry in Africa and the Role of Policy." Carl Liedholm. GEMINI Working Paper No. 2. January 1990. $5.50

3. "Prospects for Enhancing the Performance of Micro- and Small-Scale Nonfarm Enterprises in Niger." Donald C. Mead, Thomas Dichter, Yacob Fisseha, and Steven Haggblade. GEMINI Working Paper No. 3. February 1990. $6.00

4. "Agenda Paper: Seminar on the Private Sector in the Sahel, Abidjan, July 1990." William Grant. GEMINI Working Paper No. 4. August 1990. $3.00

*5. "Gender and the Growth and Dynamics of Microenterprises." Jeanne Downing. GEMINI Working Paper No. 5. October 1990. $10.50

6. "Banking on the Rural Poor in Malaysia: Project Ikhtiar." David Lucock. GEMINI Working Paper No. 6. October 1990. $3.30

7. "Options for Updating AskARIES." Larry Reed. GEMINI Working Paper No. 7. October 1990. $3.50

*8. "Technology — The Key to Increasing the Productivity of Microenterprises." Andy Jeans, Eric Hyman, and Mike O'Donnell. GEMINI Working Paper No. 8. November 1990. $3.60

9. "Lesotho Small and Microenterprise Strategy — Phase II: Subsector Analysis." Bill Grant. GEMINI Working Paper No. 9. November 1990. $15.50.

*10. "A Subsector Approach to Small Enterprise Promotion and Research." James J. Boomgard, Stephen P. Davies, Steven J. Haggblade, and Donald C. Mead. GEMINI Working Paper No. 10. January 1991. $3.10

11. "Data Collection Strategies for Small-Scale Industry Surveys." Carl Liedholm. GEMINI Working Paper No. 11. January 1991. $1.30.

12. "Dynamics of Microenterprises: Research Issues and Approaches." Carl Liedholm and Donald C. Mead. GEMINI Working Paper No. 12. January 1991. $6.50.

---

*Publications of general interest

13. "Dynamics of Microenterprises: Research Priorities and Research Plan." Carl Liedholm and Donald C. Mead. GEMINI Working Paper No. 13. August 1990. [not for general circulation]

14. "Review of Year One Activities (October 1, 1989 to September 30, 1990) and Year Two Work Plan (October 1 to November 30, 1990)." GEMINI Working Paper No. 14. January 1991. [not for general circulation]

*15. "The Process of Institutional Development: Assisting Small Enterprise Institutions to Become More Effective." Elaine Edgcomb and James Cawley. GEMINI Working Paper No. 15. February 1991. $9.70.

16. "Baseline Surveys of Micro and Small Enterprises: An Overview." Donald C. Mead, Yacob Fisseha, and Michael McPherson. GEMINI Working Paper No. 16. March 1991. $2.60.

17. "Kenya: Kibera's Small Enterprise Sector — Baseline Survey Report." Joan Parker and C. Aleke Dondo. GEMINI Working Paper No. 17. April 1991. $6.40.

*18. "A Financial Systems Approach to Microenterprises." Elisabeth Rhyne and Maria Otero. GEMINI Working Paper No. 18. April 1991. $3.00.

*19. "Agriculture, Rural Labor Markets, and the Evolution of the Rural Nonfarm Economy." Steve Haggblade and Carl Liedholm. GEMINI Working Paper No. 19. May 1991. $2.50.

*20. "The Microenterprise Finance Institutions of Indonesia and Their Implications for Donors." Elisabeth Rhyne. GEMINI Working Paper No. 20. June 1991. $3.40.

21. "Microenterprise Growth Dynamics in the Dominican Republic: The ADEMI Case." Frank F. Rubio. GEMINI Working Paper No. 21. June 1991. $3.10.

*22. "Credit Unions: A Formal Sector Alternative for Financing Microenterprise Development." John H. Magill. GEMINI Working Paper No. 22. September 1991. $3.80.

23. "A Proposed Subsector-Based Monitoring and Evaluation System for CARE/Thailand's Silk Promotion Efforts." Steven Haggblade. GEMINI Working paper No. 23. September 1991. $3.60.

24. "Steps to the Creation of a Viable Financial Institution for Microenterprise Development in the Philippines: Notes on a Process for the Staff and Board of Tulay sa Pag-Unlad, Inc." Doug Salloum and Nan Borton. GEMINI Working Paper No. 24. November 1991. $2.00.

*25. "Village Banking: A Cross-Country Study of a Community-Based Lending Methodology." Sharon L. Holt. GEMINI Working Paper No. 25. December 1991. $12.60.

26. "Dynamics of Small- and Micro-scale Enterprises and the Evolving Role of Finance." Carl Liedholm. GEMINI Working Paper No. 26. December 1991. $3.00.

*27. "Opportunities for Intervention in Thailand's Silk Subsector." Steven Haggblade and Nick Ritchie. GEMINI Working Paper No. 27. January 1992. $3.20.

GEMINI Technical Reports:

1. "Jamaica Microenterprise Development Project: Technical, Administrative, Economic, and Financial Analyses." Paul Guenette, Surendra K. Gupta, Katherine Stearns, and James Boomgard. GEMINI Technical Report No. 1. June 1990. [not for general circulation]

2. "Bangladesh Women's Enterprise Development Project: PID Excerpts and Background Papers." Shari Berenbach, Katherine Stearns, and Syed M. Hashemi. GEMINI Technical Report No. 2. October 1990. $13.00

3. "Maroc: Conception d'une Enquête pour une Etude du Secteur Informel." Eric R. Nelson and Housni El Ghazi. GEMINI Technical Report No. 3. November 1990. $12.50

4. "Small Enterprise Assistance Project II in the Eastern Caribbean: Project Paper." James Cotter, Bruce Tippet, and Danielle Heinen. GEMINI Technical Report No. 4. October 1990. [not for general circulation]

5. "Technical Assessment: Rural Small-Scale Enterprise Pilot Credit Activity in Egypt." John W. Gardner and Jack E. Proctor. GEMINI Technical Report No. 5. October 1990. $4.00

*6. "Developing Financial Services for Microenterprises: An Evaluation of USAID Assistance to the BRI Unit Desa System in Indonesia." James J. Boomgard and Kenneth J. Angell. GEMINI Technical Report No. 6. October 1990. $9.00

7. "A Review of the Indigenous Small Scale Enterprises Sector in Swaziland." David A. Schrier. GEMINI Technical Report No. 7. October 1990. [not for general circulation]

8. "Ecuador Micro-Enterprise Sector Assessment: Summary Report." John H. Magill and Donald A. Swanson. GEMINI Technical Report No. 8. April 1991. $10.20.

9. "Ecuador Micro-Enterprise Sector Assessment: Financial Markets and the Micro- and Small-scale Enterprise Sector." Richard Meyer, John Porges, Martha Rose, and Jean Gilson. GEMINI Technical Report No. 9. March 1991. $16.00

10. "Ecuador Micro-Enterprise Sector Assessment: Policy Framework." Bruce H. Herrick, Gustavo A. Marquez, and Joseph F. Burke. GEMINI Technical Report No. 10. March 1991. $11.30

11. "Ecuador Micro-Enterprise Sector Assessment: Institutional Analysis." Peter H. Fraser, Arelis Gomez Alfonso, Miguel A. Rivarola, Donald A. Swanson, and Fernando Cruz-Villalba. GEMINI Technical Report No. 11. March 1991. $25.00

12. "Ecuador Micro-Enterprise Sector Assessment: Key Characteristics of the Micro-Enterprise Sector." John H. Magill, Robert Blaney, Joseph F. Burke, Rae Blumberg, and Jennifer Santer. GEMINI Technical Report No. 12. March 1991. $19.60

13. "A Monitoring and Evaluation System for Peace Corps' Small Business Development Program." David M. Callihan. GEMINI Technical Report No. 13. [not available for general circulation]

14. "Small-Scale Enterprises in Lesotho: Summary of a Country-Wide Survey." Yacob Fisseha. GEMINI Technical Report No. 14. February 1991. $6.40

*15. "An Evaluation of the Institutional Aspects of Financial Institutions Development Project, Phase I in Indonesia." John F. Gadway, Tantri M. H. Gadway, and Jacob Sardi. GEMINI Technical Report No. 15. March 1991. $8.80

*16. "Small-Scale Enterprises in Mamelodi and Kwazakhele Townships, South Africa: Survey Findings." Carl Liedholm and Michael A. McPherson. GEMINI Technical Report No. 16. March 1991. $4.60.

17. "Growth and Change in Malawi's Small and Medium Enterprise Sector." Michael A. McPherson. GEMINI Technical Report No. 17. June 1991. $2.20.

18. "Burkina Faso Microenterprise Sector Assessment and Strategy." William Grant, Matthew Gamser, Jim Herne, Karen McKay, Abdoulaye Sow, and Sibry Jean-Marie Tapsoba. GEMINI Technical Report No. 18. August 1991. Volume One, Main Report, $7.60; Volume Two, Annexes, $14.20.

*19. "Women in the BPD and Unit Desa Financial Services Programs: Lessons from Two Impact Studies in Indonesia." Sharon L. Holt. GEMINI Technical Report No. 19. September 1991. $3.80.

20. "Mali Microenterprise Sector Assessment and Strategy." William Grant, Kim Aldridge, James Bell, Ann Duval, Maria Keita, and Steve Haggblade. GEMINI Technical Report No. 20. Volume One, Main Report, $6.70; Volume Two, Annexes, $13.00.

21. "A Microenterprise Sector Assessment and Development Strategy for A.I.D. in Zambia." Eric L. Hyman, Robert Strauss, and Richard Crayne. GEMINI Technical Report No. 21. November 1991. $10.00.

22. "Bangladesh: Women's Enterprise Development Project Paper." GEMINI Technical Report No. 22. August 1991. [not for general circulation]

23. "Peru: Small Business and Employment Expansion Project Paper." GEMINI Technical Report No. 23. November 1991. [not for general circulation]

24. "A Country-wide Study of Small-Scale Enterprises in Swaziland." Yacob Fisseha and Michael A. McPherson. GEMINI Technical Report No. 24. December 1991. $5.40.

*25. "Micro and Small-Scale Enterprises in Zimbabwe: Results of a Country-wide Survey." Michael A. McPherson. GEMINI Technical Report No. 25. December 1991. $5.00.

26. "The Development Impact of Financing the Smallest Enterprises in Indonesia." GEMINI Technical Report No. 26. January 1992. [not for general circulation]

27. "Midterm Evaluation of the ASEPADE Component of the Small Business II Project, Honduras." Arelis Gomez Alfonso, Wesley Boles, and Donald L. Richardson. GEMINI Technical Report No. 27. February 1992. $5.80.

Technical Notes:

Financial Assistance to Microenterprise Section:

*1. Series Notebook: Tools for Microenterprise Programs (a three-ring binder, 1 1/2 inches in diameter, for organizing technical notes and training materials) and "Methods for Managing Delinquency" by Katherine Stearns. $7.50. Available in English and Spanish.

*2. "Interest Rates and Self-Sufficiency." Katherine Stearns. $6.50. Available in English and Spanish.

Nonfinancial Assistance to Microenterprise Section:

*1. "A Field Manual for Subsector Practitioners." Steven S. Haggblade and Matthew Gamser. $4.65. Available in English and French.

Special Publications:

*1. "Training Resources for Small Enterprise Development." Small Enterprise Education and Promotion Network. Special Publication No. 1. 1990. $9.00

*2. *Financial Management of Micro-Credit Programs: A Guidebook for NGOs*. Robert Peck Christen. ACCION International. Special Publication No. 2. 1990. $19.00

*3. *The ADEMI Approach to Microenterprise Credit*. A. Christopher Lewin. Special Publication No. 3. 1991. $15.00

Copies of publications available for circulation can be obtained by sending a check or a draft drawn on a U.S. bank to the DAI/GEMINI Publications Series, Development Alternatives, Inc., 7250 Woodmont Avenue, Bethesda, MD 20814, U.S.A.

1/92