PD-ABD-881
76041

# Small Business II Project, Honduras

# Midterm Evaluation of the ANDI/PYME Component

*GEMINI Technical Report No. 28*

GEMINI

**GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS**
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**DEVELOPMENT ALTERNATIVES, INC. • Michigan State University • ACCION International • Management Systems International, Inc. • Opportunity International • Technoserve • World Education**

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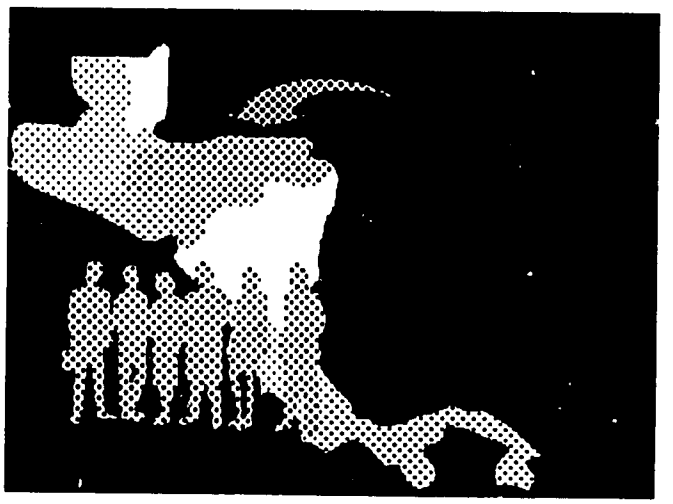

by

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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.

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

# EXECUTIVE SUMMARY

The purpose of the midterm evaluation of the National Industrialist Association Small and Micro Business (ANDI/PYME) component of the Small Business II (SB II) Project was to measure the rate of progress achieved in comparison with project targets and to develop, as necessary, recommendations for adjustments in the program to better meet its goals.

The DAI evaluation team of three members carried out a review of documents and met with an array of people involved in the project from beneficiaries to USAID staff.

A basic finding was that the institutional capacity of Honduran private voluntary organizations (PVOs) was far lower than anticipated and, as a result, the reach of the PYME project was smaller and the time and effort devoted to each PVO greater than had been planned. The number of PVOs strengthened sufficiently by the project assistance completion date (PACD) to be financially self-sufficient will be much less than the number originally set.

The PYME organization is adequate but could be strengthened with certain modest measures such as increasing representation on the PYME Committee. Personnel policies are good, but there have been problems in staffing managerial positions and a reluctance to staff up to the level called for by the work load.

Training has been of great importance both to beneficiaries and to the PVO staffs and in general has been good. More emphasis should be placed on product-related technical assistance for beneficiaries, and training for PVO staffs could be improved.

ANDI/PYME's prospects for financial self-sufficiency are nonexistent without any extraordinary new source of funding. Determination of any credible cost-benefit ratio for the program is not technically feasible owing to PYME's role as a second-tier organization providing services to institutions, which in turn provide beneficiary services, and no such analysis was done.

PYME's selection criteria applied to PVO requests for funding have been made much more rigorous in the course of SB II, which has had the salutary effect of enforcing higher standards and performance from the PVOs, albeit limiting the number of institutions qualifying for help. The development of an Integrated Assistance Plan limited to an initial group of five PVOs is an appropriate allocation of PYME's limited resources.

The concept of village banks has been introduced successfully in Honduras and provides several advantages to PVOs, including very low delinquency rates. Because the beneficiaries are usually individuals, employment generation is limited. That village banks should qualify for PYME assistance to the sponsoring PVOs is clear; that PYME should fund village banks directly is not desirable.

Technical assistance to PYME from the Project Technical Unit (PTU) has been both effective and essential. PYME did not have the capacity to carry out its program without substantial assistance from the PTU — assistance that continues to be needed.

The concept of an umbrella organization to provide an array of services to the PVOs remains valid. The economies of scale make the cost of services less than if the PVOs each had to source their needs for technical assistance, training, and materials. PYME has functioned well with regard to

technical and administrative matters, including management information systems (MIS), but less well in preparing PVO staff.

Financial, administrative and credit policies were rudimentary in most PVOs at the onset of SB II. PYME has worked intensively with selected PVOs to develop suitable and effective policies and has made considerable progress. However, only a handful of Honduran PVOs can be said to be close to acceptable policy standards at this time.

Management Information Systems at PYME itself are in place and effective. MIS for the selected PVOs is largely in place and being brought into full operation.

Establishing effective credit policies within Honduran PVOs has encountered resistance from their boards of directors, often because there has been little understanding of the benefits of market interest rates and effective collection practices to the survival of the PVOs and to the development of economic independence by the beneficiaries. ANDI/PYME's efforts to influence PVO policies and to encourage financial self-sufficiency have been hindered by failure of SB II to provide any linkage between the PYME program and sources of credit funding. This has left the PVOs with the need to search for funding from a variety of sources, none assured. The possibilities also exist that the PVOs will be subject to policy influence from donors that may conflict with PYME policies, or that individual PVOs will be unable to expand their portfolios to a size needed to sustain them financially.

Through August 1991, USAID funds expended by ANDI/PYME totaled $1,435,600, or 30 percent of the total amount budgeted for the project. Should the current pace be maintained, total expenditures by the PACD will not likely exceed $2.6 million of the $4.6 million earmarked for this project component.

The evaluation team recommends that:

- Membership in the PYME Committee by expanded to include the executive director of ANDI and a representative of the PVOs;
- PYME hire as many as five new staff members;
- Additional funding to UCPYME, the special marketing division of ANDI/PYME, be sharply limited;
- The approval process for PVO subprojects be streamlined and shortened.
- PYME should concentrate more efforts on promotion and public education in place of marketing;
- Training programs for both the beneficiaries and the PVOs be strengthened; and
- USAID consider establishing a second-tier credit facility within PYME to channel credit funds to eligible PVOs.

Lessons learned include that the institutional capacity of Honduran PVOs was much lower than anticipated, resulting in PYME's efforts being directed at fewer institutions and taking longer. The absence of linkage in PYME's case between institutional strengthening and providing of funds for credit programs is viewed as a project design flaw. And we believe much more effort should have been

expended to overcome a general lack of understanding in Honduras of the benefits of effective financial policies and realistic credit programs.

## PURPOSE OF EVALUATION

The Project Paper and the Grant Agreement with the National Industrialist Association (ANDI) 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 the Small and Micro Enterprise Program (PYME). 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 improve PYME's capacity and activities and thus to strengthen and expand the institutional framework in Honduras in support of Small Scale Enterprises (SSE).

These recommendations support efforts by ANDI/PYME to improve its organizational setup, strengthen its operational practices, and assess its ability to reach the assigned LOP targets. Of special importance is the assessment by the evaluation team of ANDI/PYME's capacity for self-sustainability as well as progress in achieving self-sustainability for assisted private voluntary organizations (PVOs).

For the Mission, the recommendations support possible reassessment of project goals, of design assumptions, and of efforts to strengthen the Mission's oversight function with respect to project activities. The team recommend a proposed revision to the Project Logical Framework (LOGFRAME) and adjustments to life of project (LOP) targets to reflect performance to date and a realistic assessment of further progress likely through the PACD.

## BACKGROUND TO ANDI/PYME 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 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, 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 Small Business Project II provided a five-year, $4.6 million grant to ANDI for its PYME program, of which $850,000 was for administrative support of PYME itself, and $3.75 million for support to PVOs. ANDI/PYME's assigned role was in training and technical assistance; funds to support credit programs were to come from other sources.

The PYME support funds were intended to provide funding for operating and personnel expenses of PYME. The project also provided technical assistance from the Project Technical Unit (PTU) to strengthen PYME's capacity to serve as a channel for funds to PVOs working in microenterprise and small business development. The larger portion of the grant comprised funds to be made available by PYME to selected PVOs. Most of the technical support to these PVOs was covered under the general rubric of Business Assistance Services. Modest funding was set aside for training of PVO personnel, an information network, and a program of evaluation and monitoring. It was expected that these activities would be divided into approximately 119 subprojects involving as many as 30 PVOs. The objectives were to diversify assistance to the PVOs and to strengthen their capacity to expand service to SSEs.

## 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.

## FINDINGS

### ANDI/PYME Project Targets and Achievement

Within the category of Business Assistance Services, quantitative targets were assigned to five subcategories. The first and perhaps most important subcategory was that of direct budgetary support to selected PVOs to sustain their activity level while assisting them to develop management capacity and operational practices adequate to ensure administrative and financial self-sustainability. The project anticipated that there would be 42 of these subprojects over the five-year LOP. For the period ending June 30, 1991, ANDI/PYME had approved 28 projects involving direct budgetary support to 12 different PVOs. Nine of these subprojects combined some training for PVO beneficiaries along with institutional support. This has been particularly true with the development of the Programa de Asistencia Integral (PAI) in which both elements are included.

In the course of the project it became clear to the PTU that the goal of self-sustainability for the number of PVOs originally contemplated was not feasible because of:

- The very low level of institutional capacity and system development in most PVOs, which greatly increased the level of effort required to reach this goal; and
- The limited human resource base available at PYME.

| Category | Targets Sep 1993 | Current Figures | Estimates Sep/91 | Targets met % |
|---|---|---|---|---|
| Business Assistance | | | | |
| Direct Budgetary Support | 42 | 28 June 91 | 31 | 74% |
| Training | 52 | 24 June 91 | 26 | 50% |
| Cooperative purchasing | 14 | 4 June 91 | 4 | 29% |
| Small Business Promotion | 11 | 6 June 91 | 7 | 64% |
| Industrial profiles | 5 | 2 June 91 | 2 | 40% |
| PVO staff training courses | 60 | 28 Aug 91 | 28 | 47% |
| Scholarships | 15 | 6 Aug 91 | 6 | 40% |
| Information Network | | | | |
| Meetings PVOs | 25 | 11 Aug 91 | 11 | 44% |
| Meetings w/large businesses | 10 | 8 Aug 91 | 8 | 80% |
| Data Bank | | | | |
| Advisory services | 33 | 59 Aug 91 | 59 | 179% |
| Monitoring and Evaluation | | Aug 91 | | |
| Monitoring Visits | 150 | 83 Aug 91 | 83 | 55% |
| Project evaluations | 81 | 49 Aug 91 | 49 | 60% |
| Program Impact | | | | |
| Number of beneficiaries | 9,000 | 3,339 March 91 | 4.006 | 45% |
| Jobs generated | 9,000 | 2,786 March 91 | 3,235 | 36% |
| Beneficiaries w/credit | | 1,928 March 91 | 2,238 | |
| Added production (mill) | Lps.55.0 | $5.0 March 91 | 6.0 | 11% |

As a result it was decided to concentrate PYME's resources on those few PVOs that offered the best prospects for effective use of the assistance proffered. Thus, the PAI program has been directed at five PVOs with a planned expansion over the remaining LOP to a possible maximum of 13. The five currently enrolled in the PAI program are:

| PVO | Location | Clients | Total Loans (Lps.000s) |
|---|---|---|---|
| APRODIB | Roatan | 240 | 1,729 |
| AHDEJUMUR | Yoro, Atlántida Tegucigalpa | 242 | 587 |
| FUNHDEMU | Fco. Morazán, Tegucigalpa | 341 | 1,336 |
| IDH | Fco. Morazán, Paraíso, Valle, Choluteca, Comayagua | 963 | 4,484 |
| ODEF | Cortés | 543 | 926 |

These five PVOs represent 18 (65 percent) of the 28 subprojects for direct budgetary support approved by PYME to date. A second group of five PVOs has been identified as likely candidates for the PAI program. This group includes ANMPIH, FHA, ASCH, HDEH, and FINCA.[1] A total of 5 subprojects for direct budgetary support had been approved for this latter group before the onset of the PAI program. Two subprojects for direct budgetary support were approved for one PVO (FEHCIL), which was dropped from the PYME program reportedly for failure to comply with program standards. The remaining three subprojects approved in this category were for PVOs not involved in credit programs but which work to develop microenterprise: the Asociacion Nacional de Artesania de Honduras (ANAH), el Centro de la Productividad (CEPROD), and the Grupo Dion.

The second important subcategory of Business Assistance Services is training. It was intended that PYME would provide technical assistance in training methodology to qualified PVOs and fund training programs for their beneficiaries. The project target was 52 over the LOP. To date, PYME has approved 24 subprojects for training programs; this number does not include training program components in nine of the subprojects approved for direct budgetary support. In other words, support has been given to 33 training programs involving 13 PVOs and one government agency, the National Institute for Professional and Worker Formation (INFOP). Eleven of these training subprojects were to institutions not heavily involved in credit programs, for example, ANAH, CEPROD, and Juan Bosco, but involved in improving the skills of or in developing new microentrepreneurs.

The project called for PYME to approve 14 subprojects to promote cooperative purchasing, sales, and other elements furthering the ability of small business and microenterprises to expand their activities.

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[1] The English names of the PVOs that have received PAI support or are likely candidates for future assistance are APRODIB, Pro Development Association of the Bay Islands; AHDEJUMUR, Honduran Association for the Development of Youth and rural Woman; FUNHDEMU, Honduran Foundation for Development of the Woman; IDH, Institute for Development of Honduras; ODEF, Organization for Development of Women Entrepreneurs; ANMPIH, Association of Small and Medium sized Industries; FHA, Horizontal Foundation of Friendship; ASCH, Association of Save the Children of Honduras; HDEH, Brotherhood of Honduras; FEHCIL, Honduran Federation of Industrial Cooperatives.

Four subprojects have been approved: three to ANAH to promote handicraft sales and one to CEPROD to develop a joint materials purchasing program.

The project further called for 11 subprojects in promotion of micro- and small-scale enterprise sales. All of the six subprojects approved in this category have been for ANDI/PYME's own Unidad Comercializadora (UCPYME), including Lps.159,000 for operational costs, Lps.235,000 for EXPOPYME, Lps.45,000 for participation in a flea market, and Lps.20,000 in support of the Tegucigalpa handicraft fair. A proposal to spend Lps.55,000 for a directory was disallowed by USAID.

Of the target of five industrial profiles, only two have been completed: an apparel profile and an analysis of priority zones.

Given the normal delays in project start-up, ANDI/PYME has been reasonably on pace in reaching the quantitative targets set in the two areas of importance for Business Assistance Services, institutional support and training programs for PVOs concerned with strengthening SSEs.

Apart from the Business Assistance Services, ANDI/PYME agreed to carry out a training program for the PVOs themselves, to consist of staff training and advisory services on training and scholarships. Some 150 staff members were to be trained at 60 events. Assistance was to be offered to develop training programs within the PVOs and 15 scholarships were to be offered for seminars or special training courses. Through March 1991, ANDI/PYME reported giving 28 courses involving 73 participants. Six scholarships had also been granted for specialized seminars or courses outside Honduras.

There is a project requirement for an information network program consisting of media publications, informational meetings, and the creation of a data bank. Media programs include publication of "PYME en Accion," a newspaper supplement describing and promoting the PYME program. PYME accepted a goal of 25 interinstitutional meetings involving concerned PVOs as well as two annual meetings bringing large and small businesses together to discuss the problems of SSEs.

ANDI/PYME reported conducting 11 interinstitutional meetings involving PVOs and 8 meetings of micro- and small-scale entrepreneurs. Also, Pyme produced 17 issues of "PYME en Accion," five reports on 1991 activities, and 12 promotional announcements on radio. Anecdotal evidence from PVO staff interviewed did not rate the effectiveness of the radio announcements highly, either in terms of content or of timing and selection of stations. "PYME en Accion" was not rated any better.

The Project Paper envisaged at least two large conferences involving ANDI and COHEP in which microentrepreneurs and larger industries could discuss the problems of the former and the appropriate role of micro- and small-scale enterprises in the Honduran society. None has been held to date nor were we made aware of planning for any.

The databank envisaged is essentially a credit bureau of program loan recipients to assist PVOs to avoid duplicate loans or loans to bad credit risks. It was expected that this databank would be partially self-supporting through collection of user fees. Although system capability for such a databank is in place, nothing has been done to compile the necessary data, owing to a lack of available staff time.

The monitoring and evaluation component of the project set a goal of 150 visits to beneficiaries over the LOP as well as 81 final project evaluations. For the project impact evaluation, ANDI/Pyme estimated a global target over the five years of 13,000 beneficiaries, 9,000 new jobs, and Lps.55 million in added production.

ANDI/PYME reports that it has conducted 83 project monitoring visits and 49 final project evaluations. A report on the national impact of the ANDI/PYME program was completed while the evaluation was in process. In terms of program outreach, the report indicates that, as of March 1991, the program has resulted in 1,928 new credit beneficiaries, 3,339 people trained (including those with credit), and 4,306 loans. The total value of the loans disbursed is Lps.8.5 million. The total number of program beneficiaries is 3,339. Fifty-five percent of them are reported to be women; however, their participation in the total loan portfolio is only 45 percent. The evaluation also indicates that the program has generated 2,786 new jobs (96 percent of them full-time) and sustained a total of 5,215 existing jobs. This last category represents those beneficiaries who have been able to sustain or expand their activity as a result of the program but who have not added employees. About 49.7 percent of the jobs generated and 49.5 percent of those sustained are occupied by women. The approximate value that the program beneficiaries contributed to the national product was estimated to be Lps.5.5 million.

Based on ANDI/PYME's numbers, the rate of monitoring visits and evaluations has kept pace with the targets — as revised — of the Grant Agreement. Nevertheless, while monitoring visits are scheduled to take place every three months, four of five PAI PVOs reported only one visit to date. The major reason behind this has been shortage of PYME staff and time. Evaluations are made in two days when they should take three or four days to complete. Reportedly, there has also been a tendency to concentrate on quantitative goals without sufficient in-depth understanding of the nature of the project being evaluated.

Finally, ANDI/PYME was expected to provide advisory services to PVOs in law, administrative practices, and budgetary/organizational questions. A LOP target of 33 advisory services was set: ANDI/PYME reports that it has responded to 59 requests for advisory services to date.

**ANDI/PYME's Organization**

The Grant Agreement covering this program is between the Asociacion Nacional de Industriales and the U.S. Agency for International Development. Accordingly, the Board of Directors of ANDI has the fiduciary responsibility to assure that ANDI complies with the terms of the agreement. PYME is treated as one of several working committees of ANDI and, while it has considerable autonomy, in many cases the PYME Committee seeks approval of actions from the ANDI Board of Directors.

The PYME Committee includes a large number of ANDI members as members. In practice, there are five working committee members; a quorum consists of three. The committee generally meets weekly; this schedule is a burden in terms of time and makes participation unattractive or unfeasible to many ANDI members. The weekly meeting also puts a burden on the assistant manager of the Technical Unit, who, acting as committee secretary, has to prepare the minutes for every meeting.

Although the committee under its new President has been quite active, there were complaints from the PVOs that current PYME Committee members have little background in the program and make no effort to become better acquainted through visits to PVOs or their projects. The PVOs complain that this problem is worsened because of lack of PVO representation on the committee.

There is no strong evidence of broad institutional commitment by ANDI to project objectives, aside from the occasional participation of some of the members of the board on the PYME Committee. ANDI's efforts to approach other sources of funding as a way to ensure PYME's survival after the USAID funds end have not been successful to date.

The assisted PVOs (PYME's clients) have a good understanding if not total acceptance of PYME's purposes and priorities. Owing to its second-tier nature, PYME's role is not apparent to the beneficiaries of the PVO credit programs.

The PYME Committee is supported by a professional staff that carries out the program under committee direction. The professional staff is made up of a program manager, an assistant manager for the Technical Department, and an assistant manager for the Marketing Department. At the time of the evaluation, the position of program manager had been vacant for over five months. An assistant manager for the Marketing Department has just been appointed, filling a position vacant for eight months.

The Technical Department of four professionals carries out the bulk of the Business Assistance Services as well as the monitoring and evaluation. There is no secretary appointed for the PYME Committee; this function is carried out as time permits by the program's manager or assistant manager. In practice, the Executive Director for ANDI, who reports to the ANDI Board of Directors, serves also as a liaison between the PYME staff and the PYME Committee. However, there is no clear definition of authority between the Executive Director of ANDI and the PYME Committee.

The chain of authority of ANDI goes from the program manager to the Executive Director to the PYME Committee and to the ANDI Board of Directors. In practice, before a final decision is made, there is a consultation process that goes from the program manager to the Executive Director to the Project Technical Unit to the PYME Committee to the ANDI Board of Directors and then to USAID. Both the PTU and USAID consider their role as consultative rather than as part of the ANDI/PYME organization, but in practice PYME sees "consultation" as an essential element and the approval process follows the chain described.

**ANDI/PYME Personnel Practices**

The Project Paper described PYME's personnel as few, stretched thin, and overworked. This description still applies.

The mechanics of job descriptions, written procedures, and personnel policies are adequate. Accounting and financial procedures are in order and there has been no indication of improper handling of funds.

The personnel in place are well qualified as well as conscientious. PVOs single out the qualifications of the staff as one of PYME's strongest aspects. Deficiencies in the number of people employed, especially the failure to fill management position vacancies for lengthy periods of time, have compounded the problem of work load. The evaluators believe PYME staff are hired with every expectation that they will remain with the program indefinitely.

There is an urgent need to fill the position of program manager and to increase the size of the professional staff. Salary schedules need to be reviewed to ensure that they are adequate in today's market conditions to attract and hold individuals with the talent and experience needed.

There is also need for staff specialized in portfolio management, loan collection, SSE methodology, and management information systems (MIS). If the PVOs are to achieve self-sufficiency, PYME will have to devote additional resources to strengthening loan administration.

**ANDI/PYME'S Marketing Program**

The program agreement postulated that two related problems obstructing the development of SSEs were the lack of access to quality raw materials and restricted access to markets for finished goods. The marketing program was to address these problems through 14 subprojects. Related to this effort, ANDI/PYME was expected to engage in general promotional activities and prepare five industrial profiles. To carry out this program component, ANDI/PYME created a special marketing division, the Unidad Comercializadora or UCPYME.

ANDI also viewed those activities under UCPYME as a mechanism to generate income. Although it was not anticipated in the Project Paper that PYME would become self-sufficient during the LOP, the budget presented by ANDI presumed a counterpart contribution of 24 percent. ANDI expected to generate a significant proportion of this contribution from its marketing activities.

An initial effort to develop a "materials bank" for seamstresses in Tegucigalpa, supported by a very small grant (Lps.4,800) to CEPROD, was not approved owing to an unfavorable recommendation from the PTU. The PTU noted that a few "materials banks" were already in existence and that program objectives would be better served through support to these bodies rather than creation of a new, PYME-financed institution. No further effort has been made in the area of overcoming the lack of raw materials.

Most of the funds used for the marketing program, Lps.514,000, have gone to market development and have gone to and been administered by UCPYME. There has also been support to the National Artisan Association to promote its ability to expand sales of Honduran handicrafts. These subprojects have been counted under training and institutional support.

Activities undertaken by UCPYME have included the development of a directory of micro- and small-scale enterprises, and the promotion of trade fairs, especially a fairly large exposition held in San Pedro Sula in May 1991. One effort was made to participate in a flea market in the Florida area. The directory was contracted out to a firm that turned out to be unqualified. USAID disallowed funding for this activity and considers the directory to fall outside the USAID-funded PYME program. Only some 30 percent of the directory's advertising space has been sold and the current UCPYME manager has been charged with completing the directory as soon as possible. The idea was that this directory would enable Honduran consumers to locate and purchase goods and services from small businesses and microenterprises that cannot or do not advertise.

Primarily because of lack of either sufficient or qualified personnel, the PYME Exposition in San Pedro Sula fell far behind schedule. To avoid the ignominy of a failed enterprise, PYME directed all its resources for a period of about three months to get the fair up and running. EXPOPYME was fairly successful for the participants and its net cost in financial terms to ANDI was a modest Lps.40,000, leaving a balance of Lps.195,000 of the original subproject funding to finance subsequent fairs. The fair represented, however, a serious, although unquantified, cost to PYME because it meant the suspension of its program of assistance to PVOs while the staff was diverted to the fair.

The manager of UCPYME is interested in developing a small-scale trading company to work towards commercialization of products from Program beneficiaries. Her plan envisages no staff or facilities in the United States.

**ANDI/PYME Training Programs**

ANDI/PYME training programs break down into two broad categories: training to the beneficiaries of the assisted-PVOs and training of the PVOs' staff.

Discussions with PVOs with respect to the training programs have generally been favorable. There is strong consensus in support of the need for training of beneficiaries who in many instances have only the most rudimentary education. In this sense, however, there is a broad division between those PVOs that are working with the very poor who need training in everything, and those that work with established small businesses or microentrepreneurs who seek to improve and expand on a base that they have already achieved. Training needs therefore have not been the same for all.

A concern among PVOs is that training to beneficiaries has been heavily concentrated on management and financial matters — important if a microentrepreneur is to learn to manage his/her business profitably and meet his/her financial obligations. The PVOs perceive a felt need among the program beneficiaries for training that addresses problems of productivity, marketing, design, and quality control.

It should be borne in mind that beneficiary training programs are carried out by the PVOs themselves, with advice and funding from ANDI/PYME. With regard to staff training for the PVOs conducted by ANDI/PYME, the record is generally favorable, but some elements were not particularly well done. Instruction on information systems and marketing received high marks. A seminar on credit analysis did not, with the problem attributed to the methodology used. Part of the problem, however, may be that most participants did not have a strong background in finances, which made understanding of credit issues difficult.

A general problem of PYME's training assistance relates to personnel shortages at PYME, which have contributed to PYME's inability to comply with an annual training plan developed in conjunction with the assisted PVOs. The result has been that training classes are scheduled when PYME staff or consultants are available, and not in accordance with the operational plans of the PVOs. Some PVOs have also indicated that the quality of the training is reduced because PYME tends to confine its program to its own staff and to the PTU's staff. This results in two problems: training is limited to those areas of expertise held by the staff and not all specialists are able to teach effectively.

On the other hand, PYME's training program is meeting its goals in number of beneficiaries. By March 1991, the implementing agencies had given 676 courses with 10,769 participants out of which 56 percent were women. The actual number of microentrepreneurs benefited from the training courses is 3,339; they attended an average of three courses. The average number of participants per course is 16.

Most PVOs interviewed (4 out of 6) affirmed that the training modules prepared by PYME and designed for the microentrepreneur were adequate to the needs of the beneficiaries targeted by the assisted PVOs. The fact that several PVOs participated in the design was deemed to have contributed to the positive results. Other PVOs have adapted the modules to their own program needs. This is particularly true of those PVOs targeting female beneficiaries, such as FUNHDEMU, ODEF, AHDEJUMUR, and FINCA. The module language has been simplified and more graphic/visual explanations added to adapt them to a population with low educational levels. The modules are gender sensitive; they portray female entrepreneurs in most of the case studies presented.

Training content concentrates on business administration (including basic accounting), cost estimation, and marketing. Several PVOs have also included human relations, motivation, group dynamics, and other topics. Technical training is also offered, in most cases in coordination with INFOP.

According to the results of the PYME Impact Evaluation Report for the period September 1988/March 1991, the cost per course averaged Lps.1,075, with a minimum of Lps.625 (FECHCIL) and a maximum of Lps.1,490 (FUNHDEMU). The average cost per participant is Lps.71.49 and the average cost per person trained is Lps.231. The average number of participants (16) per course is low, which increases the cost per participant.

The impact of the training program is still uncertain. There is no strong evidence of significant changes in the status of the microenterprises as a result of training. The evaluation report reveal that 57 percent of the beneficiaries affirm having put into practice what they learn in the courses. Yet a significant 43 percent said they put little or nothing into practice. Moreover, 75 percent of the beneficiaries reported that their businesses had not improved. The results of direct interviews with program beneficiaries (10) did not alter these results. Although all beneficiaries expressed their satisfaction with the courses, very few were able to provide concrete examples of how they have applied the training other than in keeping basic accounting. The evaluation report indicates that 53.4 percent of the program beneficiaries keep basic accounting.

Several problems affect the training program. First, most PVOs use the promoters as trainers. The vast majority of promoters are not well-enough qualified to serve as promoters (credit officers), much less to be trainers. Even assuming they have sound knowledge of the subjects to be covered, their teaching ability may be questionable. Training people with low educational levels requires specialized skills and techniques. Second, most training courses cover administrative issues that have proved to be more useful for larger businesses. For the very small entrepreneur, training is not a felt need and he/she sees it mainly as an opportunity to obtain credit. Third, most training courses are provided free of charge; thus program beneficiaries tend not to give them enough importance. Although many register for the courses, attendance is low.

**Prospects for Self-Sufficiency**

The Project Paper clearly stated that PYME was not expected to become financially self-sufficient in the course of the project. The proposed budget for PYME projected counterpart contributions equivalent to 24 percent of the program's funding. A significant portion of the counterpart funding is coming from the assisted PVOs. ANDI has so far not been able to develop additional sources of income from within the program through its marketing operation or from establishing a credit bureau. Such efforts were encouraged in the PP as was also a suggestion that ANDI seek alternative sources of funding for the program from other donors.

The marketing division has represented a net cost to PYME and the evaluation team sees no realistic prospect for this division to generate income in excess of its expenses. In addition, efforts to seek alternative sources of funding have been unsuccessful.

Although ANDI and the PVOs are current in their counterpart contributions, these were expected to equal only a quarter of total program cost. Some income may be possible through fees for training and access to the credit databank, but in relation to PYME's total program costs — not to speak of the technical assistance supplied PYME by the PTU — the amounts generated fall far short of those required.

In short, the PYME program has no prospect in sight of attaining financial self-sufficiency, leading to the presumption that program activities will end by the PACD. An effort by the ANDI Board of Directors to develop a proposal for presentation to the Small Projects Fund of the Interamerican Development Bank (IADB) for a grant of US$500,000 is not directed towards funding PYME, but to provide a revolving fund for the Fundacion Jose Maria Covelo with which to supply credits directly to microentrepreneurs. There is no evidence of ANDI's board seeking alternative international donor funding for PYME nor that it has thought clearly what it wants for PYME after September 1993.

Because at the time of the evaluation no source of income had been developed for PYME other than the in-kind contributions, which come principally from the cooperating PVOs, there is no trend line to project to the PACD. Based on the expenditure pattern to date, the self-sufficiency ratio will continue at an administered 25 percent, that is, the required counterpart contribution to USAID's grant funds.

Owing to the effective devaluation of the Lempira during the Project period, total USAID grant expenditures in Lempira terms by the PACD will likely approach Lps.13 million as compared to the approximately Lps.9 million programmed. In dollar terms, however, total grant disbursements, absent significant program changes, will not likely exceed $2.6 million as compared to the $4.6 million earmarked for this project component.

As to cost-benefit analysis, PYME is a second-tier organization involved in the delivery of services. To measure benefits requires an attribution to PYME of a proportion of the results obtained by the PVOs assisted by PYME. In other words, to measure the benefits requires a determination of the present and future values flowing from the loan portfolios of those PVOs PYME has assisted, as well as the nonquantifiable benefits derived from training and technical assistance to beneficiaries as compared to the same flow of benefits if PYME had not intervened.

A simple example would be to presume that an institution with a portfolio of Lps.500,000 would, if left to its own devices, through incompetence and lack of understanding decapitalize its portfolio over three years and, absent new donations, suspend operations. Instead, with PYME assistance, the institution preserves the value of its portfolio and qualifies for additional donor support ending up with a sustainable portfolio of Lps.1,500,000. As of now, only one PYME-assisted PVO appears to be near financial self-sufficiency with another 4 to 10 potential candidates. For this kind of measurement, an analysis of the results of each assisted PVO will be needed and a necessarily subjective judgement made as to what would have happened without PYME assistance.

Use of other measurements such as jobs generated or production increases realized confront similar measurement difficulties: how much of an SSE's improvement can be attributed to support from a PVO and how much of that can be attributed to PYME's support of the PVO? This sets aside the question of how value is assigned to a job created.

Whatever the final determination of benefits, program costs approach Lps.12 million as well as a substantial portion of the cost associated with the contracted technical assistance. Against this is the fact that the total loan portfolios of the 10 PYME-assisted PVOs with the best credit programs probably total less than Lps.9 million.

This leads to the issue of self-sufficiency for the assisted PVOs, which is principally a function of the size and yield of their loan portfolio. Yield is not only a function of the rate of interest, but also how the interest is calculated and charged, the fee structure, loan duration, and the proportion of overdue accounts. High yields will not cover costs if the portfolio is too small. Financial self-sufficiency by a

PVO involved in credit programs is feasible, but it requires effective policies, management, and systems as well as a critical mass in the portfolio.

Conceptually it is clear that PYME has significantly benefited several Honduran PVOs and that they in turn have benefited hundreds of individual Hondurans, but quantifying the cost-benefit ratio or determining an internal rate of return based on objective indicators does not appear feasible. This is especially true in that PYME's efforts are concentrated in training where there is little evidence as yet to substantiate a major impact in the income levels of the beneficiaries.

For these reasons, the evaluation team concluded that it was not technically possible to do a detailed cost-benefit ratio analysis for ANDI/PYME, especially since most of the benefits data would have to derive from the beneficiaries of the 18 PVOs assisted by ANDI/PYME to date.

**Project Selection**

This is an area that has brought perhaps the greatest criticism of PYME from the community of Honduran PVOs. Reportedly, under the Small Business I Project, criteria for PYME approval of PVO projects were liberal. Project objectives had to meet program criteria of assistance to micro- and small-scale businesses, but if the PVO met its projected targets in numbers of beneficiaries or courses, the project was considered to have been a success and subsequent projects could be considered.

This approach remained largely unchanged at the start-up of Small Business II, but in 1989 the PTU at the request of USAID developed new selection criteria that shifted the philosophy from general assistance to PVOs involved with SSEs to one of developing PVO financial self-sufficiency. It was also readily apparent that the resources available to PYME would not support intensive assistance programs to all the PVOs operating in the SSE field in Honduras. Subproject approval criteria became more rigorous: quality of management, credit policies, and portfolio performance came into question. By mid-1990, PYME, with advice from the PTU, had developed a Plan de Asistencia Integral (PAI) that combined institutional strengthening and training programs into one package designed to lead the recipient PVO into a condition of financial self-sufficiency, generally within three years.

To match the effort to PYME's resources, PAI's first stage has been limited to five PVOs. Because the PAI concentrates on credit programs, those PVOs that concentrate on training rather than on credit — for example, Grupo Dion — have almost by definition been left out of consideration for PAI for at least the intermediate term, a situation that most PVOs resent.

To achieve the goal of financial self-sufficiency for PVOs, the more rigorous criteria for the PVOs to be assisted is appropriate. Our finding is that the criteria used for the analysis of the institutional strengthening projects are good, but that analyses of the PVOs seem overly detailed, and may not provide a good picture of the experience or history of the PVO.

An area not clearly defined, however, is the question of training and technical assistance that is not necessarily connected to financial self-sufficiency programs. The PAI does include training of PVO staff and beneficiaries, which is important to the program's success. But, in the past 12 months, few projects have been approved solely for training, which implies that a majority of the community of Honduran PVOs will be left out of the program.

The criteria or conditions set by PYME are being met by the affected PVOs before funds are disbursed. This may be one of the reasons for delay in project approvals. In the case of the PAI, would-be participants must work to establish eligibility.

**Cooperatives/Village Banks**

The arrival in Honduras of the concept of *bancos comunales* or village banks has been fairly recent but is now well established. As a legitimate credit activity for PVOs assisted by PYME, village banks clearly qualify and such programs are under way with at least five PVOs.

As a credit mechanism, the village banks have proven to be effective in:

- Reaching the very poor. The easy access to a village bank, the low levels of conditionality for participation (the only requirement is attendance to the meetings), and the availability of loans in small amounts allow the village banking program to reach the very poor;

- Reaching women. The vast majority of the poor are women, and the village banks have proved worldwide to be a successful group mechanism to reach women. Program features such as small amounts, weekly installments, no collateral and savings are attractive to women. No requirement of previous experience in income generating activities is attractive as well. As a result, women represent over 90 percent of the village bank program beneficiaries worldwide;

- Assist the poorest to initiate income-generating activities. A feature that differentiates the village banking program from similar schemes is that it does not require from the participant previous experience in income generating activities. The program actually seeks to assist the poor in initiating these type of activities by providing them with start-up loans;

- Enhance savings mobilization. As in similar credit schemes, the village bank program includes a savings component. A significant difference, however, is that savings are pooled into an internal loan fund whose profits are divided among the savers. In this way, savers not only receive high returns (usually above market rates) but also are motivated to increase their savings; and

- Promote community development. The group mechanism has proven to be a good vehicle for promoting community activities. In the communities where they operate, village banks usually become leaders in activities aimed at gaining access to resources and improving the living conditions for the community at large.

In terms of program administration, the village bank mechanism enables small organizations to reach large numbers of beneficiaries rapidly, at low cost and with remarkably good repayment rates (95 percent to 100 percent). The bank committees are involved in loan processing, administration, and follow-up. This reduces both the administrative costs and, importantly, the risks for the implementing organization. Given that most Honduran PVOs face serious problems with repayment rates and have limited institutional capacity to reach large numbers of people efficiently, the village banks offer a good alternative methodology for the provision of credit. The results of the programs with FINCA, ODEF, and Save the Children support this thesis. Although the overall default rate for ODEF and ASCH credit programs is 24 percent and 17 percent, respectively, the rate for their village bank programs is 0 percent.

FINCA, which has only village bank programs, also has a 0 percent default rate. Similar results have been found in most programs around the world.

Nevertheless, village banks have several limitations that are worth noting:

- Because the loan amounts are very small (usually about US$50), they are most suitable for beneficiaries whose capital requirements are small;
- Accordingly, potential beneficiaries whose capital needs and length of loan requirements exceed the standards for village banks do not participate; and
- The small entrepreneur generally reached by the village bank tends to have a limited capacity to generate employment in the short term; as individuals, however, they convert from underemployed to fully employed.

The major issue for ANDI/PYME is not, however, the value of village banks to their members, but whether PYME's assumption of a role as a financial intermediary, channeling funds for village bank credit to PVOs, offers an appropriate vehicle for the generation of funds for PYME. This is a separate issue treated under conclusions and recommendations related to self-sufficiency.

**Technical Assistance**

The impact on PYME of the technical assistance offered by the institutional contractor has been substantial. Basically it has been an essential element in PYME's ability to plan and implement the PAI program to assist PVOs to attain financial self-sufficiency. The current resident advisor at ANDI/PYME is well regarded and has played an extremely important role in the installation of financial systems in the individual PVOs. Unfortunately, owing to lack of human resources at PYME, the resident advisor has found it necessary to enter actively into training and assistance efforts with the PVOs; in theory, this should have been supplied by PYME.

A key element in the institutional strengthening of PVOs has been in accounting, management, and computer systems — an activity largely accomplished by the Project Technical Unit. The PTU has been instrumental in designing manuals in administration, credit analysis, and procedures, as well as in the design of training modules for the microentrepreneur. It has also been instrumental in strengthening PYME's capacity in project design, analysis, monitoring, and evaluation.

The technical assistance provided has had a considerable impact in the professionalization of the staff in PYME. As a result, all PVOs interviewed commented on the high quality of PYME's services and staff.

In training PYME and PVO staffs, by and large the effort has been positive with occasional lapses as noted in the section under training. Turnover of personnel in the PTU and the inability to find fully qualified staff initially for all positions has been a problem, but seems to have been largely overcome.

PVOs complain that the systems are too rigid and too uniform, failing to take into account the idiosyncracies of the individual PVO programs. Some complain of the complexity of the computer programs. A general complaint is that there has been too little follow-up in support of the systems' installations and that after a two-day orientation program operating questions and practical problems always remain but that getting additional help is difficult.

Given the time and effort required to design and install new systems — and the PTU designed the credit software from scratch — that a single standard system is quite reasonable. Complaints as to the complexity of the computer system varied inversely with the degree of computer literacy within the affected PVO. Those with trained staff report no problems. Those without — like ODEF — have had great difficulties.

Although PVOs think highly of the work done by the PTU in developing manuals and systems, they are also concerned that the unit has concentrated too much of its training and follow-up efforts on the MIS systems to the neglect of administrative procedures and credit analysis. For example, credit manuals have been developed, but there has been little follow-up to ensure their proper use. An indicator of success for the technical assistance program to PVOs can be their overdue payment rates, which in the case of four of the five PVOs participating in the PAI remain unacceptably high. Lack of follow-up and hands-on assistance, however, is but one more symptom of PYME's general lack of an adequately-sized staff, which has added to the burden of the PTU. And difficulties in training and monitoring have been made even worse by high turnover of PVO field staff.

**Business Assistance Network**

ANDI/PYME's business assistance network has been a good method for delivering services to PVOs and SSEs. PYME's role as a second-tier organization, leaving the actual interface with the SSEs to the individual PVOs, represents a far more practical means of delivering training, technical assistance, and especially credit to small businesses and microentrepreneurs than the use of a single, large organization. Besides, the PVOs exist and for PYME or any other large organization to go directly to SSEs would either compete with the PVOs or push them aside.

In terms of economies of scale, the business assistance network provides technical assistance, evaluation, staff training, and other services that would be more expensive for each institution to finance separately and that are essential to the strengthening of their programs. This has been most evident in the development of operational manuals, design and reproduction of training materials and the design, development and implementation of permanent information and evaluation systems.

Program operations to date exhibit some limiting factors. PYME does not, nor was it designed to, have the capacity to assist the entire universe of Honduran PVOs involved with SSEs. This means, of course, that because PYME limits its services to a certain number of PVOs, many others will remain out of the reach of the business assistance network. In addition, having to work with so many different boards of directors and to take into account varied institutional priorities have complicated PYME's technical assistance efforts and slowed the rate of achievement.

This leads to the nature of PYME services and whether it should have two broadly defined kinds of assistance. The major thrust of the Small Business II Project has been to strengthen individual PVOs so that not only does the quality of their services to SSEs improve but that they become financially self-sustainable. Accepting the necessity that the number of PVOs that can be assisted at any one time is limited, PYME has done a good job of delivering services related to institutional strengthening and training.

In other services more broadly related to micro- and small-scale development such as marketing, promotion, and information, PYME has performed less well. These services need not be limited to those PVOs enrolled in the PAI program because by their nature they serve to benefit the whole field.

Although the evaluation team questions PYME's role in the commercialization of products, there are other areas in which PYME's services are presently weak but offer potential benefits. These would include policy dialogue; public education as to the role of SSEs; persuasion of PVO boards of directors of the value to their organizations and to their beneficiaries of positive real rates of interest, short loan periods and low overdue payment rates; counseling in areas of general concern — like legal matters; and development of better communication between PVOs. PYME's shortcomings in these areas reflect a lack of available resources. But they also reflect a lack of an effective strategy directed towards general improvement in the role of SSEs in Honduras' economy.

PYME's business assistance network has been overly concentrated on the technical and training aspects of beneficiary-related services. Not enough emphasis was placed on first strengthening the capacity of the implementing PVO to manage these services; for example is PYME paying for promoters without placing enough emphasis on their skill levels, or is it devoting resources to training but not devoting the same resources on salaries of the trainees.

ANDI/PYME clients have been the management and staffs of the assisted PVOs. Within the universe of Honduran PVOs involved in assisting the poor, PYME clients tend to concentrate on the use of credit as the mechanism to improve the living standards of the beneficiaries, whether they be small enterprises or individuals wishing to enter into business activities. PYME is not directed at institutions involved strictly in training, health care, or education.

As to a profile of PYME's final beneficiaries (the micro- and small-scale entrepreneurs reached by PYME clients), the figures in the evaluation report indicate that 69 percent are located in Tegucigalpa. Fifty-one percent of those entrepreneurs are women. The educational levels of the beneficiaries are low; 50 percent of them have only primary education. This percentage increases to 70 percent in the case of the female beneficiaries.

Figures on the type of economic activities reveal that 55 percent of program beneficiaries are involved in production, particularly textiles (42 percent), shoemaking (26 percent), food processing (18 percent), and others (14 percent); 36 percent are involved in service and commerce, mainly food stores (48 percent), street and market vending (18 percent), and cafeterias (16 percent). A small number of beneficiaries (9 percent) are involved in agriculture.

For PYME's final beneficiaries as a whole the average annual sale is Lps.50,649 (about US$800 a month). The lowest average is present among AHDEJUMUR beneficiaries with 23,900 Lempiras a year (US$400 a month); the highest average is found among FEHCIL's with Lps.58,900 (US$1000 a month). Although 28 percent of the businesses have no employees at all, the number of employees averaged 4.5 (3.5 male; 1.0 female); two-thirds of them work full-time. Men represent 85 percent of the paid employees while women represent only 15 percent.

The average loan size is Lps.1,975, with a minimum average of Lps.256 (US$50) in the case of FINCA, and a maximum of Lps.17,384 (US$3,400) presented by FEHCIL.

As detailed in the section on project targets above, the reported number of beneficiaries reached indirectly through PYME's activities is 3,339 microentrepreneurs, out of which 52.4 percent were women. A total of 1,928 have received credit in addition to training. The gender impact varies with the nature of the program. Credit for small businesses, while not gender specific, is affected by customary practice: men are shoemakers, carpenters, welders, and iron workers; women are dressmakers and food processors. Division of the portfolio between the genders is a function of the portfolio distribution by

economic activity. At the individual microentrepreneur level, especially village banks, the beneficiaries are predominantly women.

**Management Information Systems**

A computerized management information system was set up in PYME during the Small Business I Project. It has been strengthened and expanded under the current project with the assistance of the PTU. A review of the monthly project reports prepared by PYME and the quality of its financial reporting indicate that the system is both useful and adequate.

The installation of modern, computerized MIS systems in individual PVOs is under way. Indications are that those systems installed are functioning rather well. The evaluation team has visited the main offices of ODEF, FUNHDEMU, AHDEJUMUR, and IDH, four of the five current recipients of PAI, and found that the systems are in place and are running reasonably well. It is expected that in time a network of MIS systems will exist among the PVOs, feeding data in for consolidation by PYME or whichever other institution is set up to coordinate the programs. Current transactions are being recorded, but most of the previous history in each PVO has yet to be entered into the computer systems.

Development of these systems has taken this long owing to the need, in most cases, to develop manual accounting and portfolio systems to generate the needed data, delays in procuring the equipment, and the time needed to design the operating software. The results are now being applied but the payoff in terms of information is still mostly to come.

A general comment on the utility of the systems is that there is little evidence to date to suggest that PVO management, or PYME management for that matter, is using the data generated as an informational tool to assist in developing policy or in planning. This is because the individual PVO systems have just come into operation and neither PYME nor PVO management has experience in using MIS as a policy or planning tool.

**Financial/Administrative Policies**

The major thrust of the PYME institutional strengthening program has been to develop modern financial and administrative policies and procedures within the assisted PVOs. Progress has been made, but none of the assisted PVOs has reached the desired level. Computer hardware, software, accounting systems, portfolio systems, procedures manuals, credit manuals, training, and technical assistance have been provided to selected PVOs in an effort to achieve institutional self-sufficiency.

A major problem has been attitudinal. There has been a need to change the philosophy that holds that the poor need not be held to a high standard of performance and that interest rates, repayment procedures, and so forth need to be limited because the poor have limited capacity to pay as against their many needs. Many involved in the field have not yet accepted the concepts that credit programs for the micro- and small-scale entrepreneur are not charity programs but mechanisms to bring the beneficiary into the national economy, and that the credit programs must be run in a businesslike fashion for the benefit of both the lender and the borrower.

An example of this attitude is interest rates: many of the PVOs have strongly resisted the idea of market or true recovery cost interest rates, believing the poor can not or should not pay high rates.

In fact, borrowers are less concerned about the rate of interest on their loan than they are about quick access to the money, the amount lent, and how much they have to pay back each week or month.

Only one of the PVOs in the program visited during the evaluation, FUNHDEMU, is operating at a satisfactory level with internal controls, policies, and procedures in place. FUNHDEMU's efficiency, however, is adversely affected by the small size of its loan portfolio, which results in its administrative costs exceeding the yield from its outstanding loan portfolio. The past due collection rate of 9 percent is good; its cost per Lempira lent of 25 centavos meets the project standard of 30, but is not as good as that attained by other microenterprise credit programs in other countries (five cents or less)

An important but prevalent failing of the assisted PVOs is in collection procedures. Improvement in performance and in quality of operation revolve around training of PVO staff and, very importantly, selection of qualified personnel paid sufficiently well to inhibit staff turnover. In many cases, the low salaries and poor working conditions within the PVOs, particularly for promoter/advisors, leads to high employee turnover and waste of training resources as well as loss of program continuity. It is difficult to carry out relatively sophisticated programs of credit analysis, follow-up, and collection with personnel that has only a high school education and in most instances little previous work experience.

Improvement in these areas is related both to financial resources and, probably more importantly, to the management philosophies of the PVO boards, which are more attuned to voluntary assistance to the poor rather than modern financial management.

A broad view of the portfolio performance of the PVOs indicates that portfolio delinquency rates tend to be unacceptably high: in the case of the five PVOs now in the PAI program, these rates range from 6 percent to 36 percent, with most around 24 percent. FEHCIL, with a relatively large portfolio and a very high past due rate (55 percent), has been dropped from the PYME program for failure to address this and other problems.

The cost per Lempira loaned is high as well, indicating inefficient credit administration among most organizations. The table shows that 12 out of 16 PVOs have a cost per Lempira loaned of above 20 cents in contrast with the indicator of efficiency of five cents. In fact, it costs ASTHECH Lps.1.20 to loan Lps.1.00. Only DION and CSJB present low cost levels of five cents and seven cents, respectively.

**Microenterprise Credit**

Credit manuals and credit procedures are in place for the PVOs that benefit from PAI. Training has been provided to staff, but this area appears not to have received sufficient attention in the PYME training program.

An important benefit of the ANDI/PYME program has been to develop credit policies within the PVOs. Training of PVO staffs in the various elements that make up a credit policy, which is not just the interest rate but includes length of loan, method of interest calculation, loan amounts, and risk management, has been instrumental in developing financial self-sufficiency programs. The need to preserve capital bases by factoring in likely inflation rates into the interest rate formula is a totally new concept for many if not most of the involved PVOs.

Acceptance by the individual PVOs of the recommended credit policies has been mixed. Those in PAI have done so, although in some cases the boards of directors have not accepted the recommended

rates of interest, and effective portfolio yields are not as high as they need to be. Another drag on the yield is the delinquent loan rate. For several PVOs, this is a serious problem.

The standards sought in the PAI program for the individual PVOs clearly meet the requirements listed in the Scope of Work for effective credit programs. Compliance with these standards is mixed, nor does it appear likely that more than a handful of PVOs in the program will achieve these standards within the PACD.

As for repeat loans, for many credit programs, particularly the village banks, repeat loans are an essential element of the program. The ability to borrow a larger amount upon prompt payment of the current loan is a major motivation for repayment for many borrowers. High loan turnover tends to increase the effective yield of the PVOs' portfolio because interest is usually calculated on the entire amount borrowed and added in total to the repayment schedule. Many of the PVOs, however, have not understood the need to link loan duration to the amount and use of the loan funds and have set periods too long for repayment of the loan, contributing to loan delinquencies and to reduced yields.

There is anecdotal evidence that some micro- and small-scale businesses have reached a point where they have qualified for commercial bank credit. In many instances, however, they prefer dealing with a PVO credit program owing to the ease of processing their loan applications. Commercial banks are notorious for lengthy and burdensome procedures. A small producer in urgent need of additional working capital cannot often wait five or six months to have the loan application processed.

The team uncovered no evidence of PVOs tapping into commercial bank credit. Of necessity, banks are used to disburse and receive payments and PYME has worked with the PVOs to improve their money management practices by reducing the number of accounts and obtaining interest from the banks on account balances.

Funding for PVO credit programs is uncertain. The Small Business II Project did not establish a link between PYME assistance and the availability of credit funds. Some PVOs obtained initial credit tranches from FOPRIDEH. Others are negotiating with the IADB. Some have received modest amounts from other international donors. An apparent new source of funding is the Fondo Hondureno de Inversion Social (FHIS) which has established a micro- and small-scale enterprise fund and is dealing with several of the community of PVOs assisted by PYME.

There are mixed reports about the FHIS program. Indications are that FHIS intends that the PVOs become conduits and that the beneficiaries will receive the loans from FHIS through the assistance of the PVOs, which will not hold the portfolio. Other reports are that FHIS will lend money to PVOs, but at an interest rate of 25 percent. There are reports that FHIS has its own technical staff and that they are pressuring the PVOs to use FHIS administrative procedures and standards.

The fact remains that ANDI/PYME's ability to enforce project goals in terms of effective credit and administrative policies among the assisted PVOs is limited by its divorce from their sources of loan funds. To the extent that the PVOs become increasingly self-sufficient, PYME's leverage with them decreases and the tendency of the PVOs to go along with interest rate policies set by donors that heavily subsidize the credit can only increase.

The PVOs themselves would prefer that PYME supply funds for the credit programs as well. Having worked closely with PYME, the PVOs feel that their needs are well understood and that the working relationship between them is good.

**USAID Funding**

Through August 31, 1991, USAID funds expended by ANDI/PYME had totaled $1,435,600, or 30.07 percent of the total budgeted amount for the project of $4.6 million. Given that the project is completing its third year of its five-year term, it is very likely that PYME will not use the full amount of the original grant by the PACD. The major reason, of course, is that the original grant was based on supporting Lempira costs at the rate of two per one dollar. With the devaluation, the dollar utilization rate has dropped substantially.

## CONCLUSIONS

**Project Targets**

In retrospect, it appears that the amount of effort required to bring the typical Honduran PVO up to an administrative and management level necessary to attain financial self-sufficiency was seriously underestimated. In the Project Paper, mention was made of the administrative weaknesses and lack of systems in ASEPADE. In a review of the other PVOs, it is clear that ASEPADE was the norm, not the exception. The evaluation team's impression is that perhaps two of the 18 PVOs PYME has dealt with had usable manual accounting and credit systems in place at the time of project start-up. This has meant that each assisted PVO has required far more time and effort than originally envisaged.

The project target of provision of significant assistance to as many as 30 PVOs will not be met by the PACD. Services to PVOs over the remainder of the project will probably not reach more than a maximum of 15, all of them already included in the 18 that have received services to date. The evaluation team sees no particular reason to require PYME to go beyond this number. If PYME can achieve a substantial strengthening of as many as 10 PVOs, that will be a major achievement and one that will provide continuing benefits to SSEs for the future.

However, in the evaluation team's judgement, supported by PTU studies, it is not realistic to expect that more than four or five PYME-assisted PVOs will reach financial self-sufficiency by the PACD. Therefore, if the project is allowed to lapse at the scheduled time, the original project goal of developing a sizeable number of well-organized and sustainable PVOs in position to promote SSEs will not have been met.

A similar comment can be made relative to the number of subprojects approved. Trying to assign numerical targets without assessing the size, nature, and quality of each subproject vitiates the usefulness of the target. In strictly numerical terms, PYME is well along in projects approved for institutional strengthening and training. Its concentration on fewer PVOs but with more intensive programs makes sense and should help PYME reach its qualitative goals even it if falls short in terms of pure numbers.

PYME seems to be on track in terms of numbers of training programs. This effort should be encouraged, but with efforts to assure or improve the quality.

As to what might be termed ancillary targets, marketing, promotion, industrial profiles, and so forth, PYME will fall short. In the marketing area, this is not viewed as a problem. Efforts so far have represented a diversion of PYME's limited resources without engendering compensatory benefits. Except in the case of the large-scale conferences between large and small business people, the numerical targets for promotion and information networking have been met, but the quality of the effort has not been particularly good.

**ANDI/PYME's Organization**

The organization could benefit from a clearer demarcation of authority between the PYME Committee, ANDI's Executive Director, and the program's professional staff. The fundamental management problems at PYME are not the organization, but the people involved and their attitudes. In practice, the Executive Director tends to concentrate authority to herself.

The position of PYME program manager has been vacant since February. ANDI/PYME has been looking for a highly qualified individual who, if found, will require a salary higher than the current one for ANDI's Executive Director, a situation ANDI has come to accept. On the other hand, ANDI has, for whatever reason, been reluctant to develop a large and highly qualified PYME staff. The finding in the PP that PYME staff were few and stretched thin has not changed in the succeeding three years. This is not merely a question of a program manager, but a need for more staff.

There is also a question of the adequacy of policy direction from the PYME Committee. PVO managements interviewed during the evaluation complained that the PYME Committee lacked continuity in membership, and that new members had a less than complete understanding of the situation and programs of the individual PVOs. The unwillingness to make decisions is not a question of organization, however, but a matter of attitude, and probably reflects the fact that the ultimate decision maker is the Mission because it holds the purse strings. Quite understandably, PYME does not want to approve funding measures that might later prove to be unacceptable to USAID.

**Personnel**

The basic personnel problem confronted by ANDI/PYME is not the absence of established procedures or even in the qualifications of its staff, but in the fact that the staff is too small to handle the tasks at hand. Failure to fill key management positions for months on end contributes to the problem. This has had the effect of concentrating program management in the hands of ANDI's Executive Director, overloading her responsibilities and contributing to the lack of decision making and effective management of program resources.

The current salary scale may represent a minor problem in attracting competent staff, but the major problem is the unwillingness of ANDI to expand the PYME staff.

**PYME's Marketing Program**

Although the Project Paper brought out the need to develop more effective means of sourcing raw materials and accessing markets for Honduran SSEs, ANDI/PYME's overriding concern has been to develop a marketing division as a profit center, partly as a means to help microentrepreneurs but mostly to help meet the counterpart contribution requirement. Thus, every activity envisaged in this area has

required the financing of a PYME activity. To date, and including ANDI funds spent on the directory, this effort has resulted in a net cost of over Lps.300,000. Based on the record, there is little reason to believe that UCPYME will do more than (possibly) cover its operating costs and thus will not be a source of counterpart funding for the PYME program.

PYME's chosen instruments have been basically the commercialization of existing products through fairs with a special interest in exports. The reality of Honduran SSEs is that production efficiency, product quality and design, and marketing competence are, with few exceptions, below Central American standards and products are not suitable for export to developed country markets. Development of nontraditional exports of manufactured goods for Honduras has been a lengthy and difficult process with some success achieved only now by a handful of furniture companies and one or two firms in the handicraft field. There is no record of a volunteer or government entity having attained much success and none has covered the operational costs assigned to the task.

At the beginning, PYME lacked a marketing plan as well as the human resources to carry out its marketing program. For an institution that lacked the capacity in place to handle its expanded program of training and institutional strengthening effectively, devotion of time and effort to marketing was ill advised.

The strategy for development of product sales by Honduran SSEs would be better directed at the domestic market and carried out at the level of technical assistance directly to the producer.

The current UCPYME director seems well qualified and her plans for future activities seem far more suited to Honduran realities and ANDI's resources.

**ANDI/PYME Training Programs**

Training to the beneficiary is a key element in the success of credit programs directed at SSEs. Training in basic business practices, such as calculation of costs, maintenance of basic records, and adequate pricing is essential and needed, but not sufficient in itself. The already-established small business needs to improve its product and practices and the would-be microproducer needs to learn what to make and how to make it.

The conclusion reached by the evaluation is that both types of training are taking place, but that there has been an overemphasis on the business practices side and too little attention paid to product- or market-oriented technical assistance. This concentration on management and accounting is even less relevant at the beneficiary level given their generally very small size.

As to training of PVO staff, also a necessary ingredient to the program, the record generally has been favorable but could be improved. It is a truism in teaching that even though a person may have a thorough knowledge of the subject matter, that person may not be able to teach it effectively. ANDI/PYME particularly and the PTU to a degree have tended to confine PVO staff instruction to their own staff members. In several subject matters, the material could have been taught more effectively by outside contractors. In developing training programs, less emphasis should be placed on budget and more on training effectiveness.

**ANDI/PYME Self-sufficiency**

The Project Paper did not make financial self-sufficiency for PYME a project goal. It did require a counterpart contribution from PYME and from assisted PVOs of about 25 percent or Lps.3 million. As illustrated above, PYME has been unable to develop any real sources of income other than its and the PVOs institutional funds.

Thus, there is no possibility of PYME generating significant funding without assuming the role of financial intermediary and benefiting from an interest differential. We understand that PYME has considered proposing the establishment of a Lps.2.5 million credit fund to support village bank creations.

The PYME-assisted PVOs have expressed support for PYME's assumption of the role of financial intermediary and have indicated willingness to receive the funds on an interest-paying loan basis. An interest rate of 12 percent has been suggested. This willingness on the part of the PVOs illustrates what may be termed a design flaw in the Small Business II Project. Substantial effort was dedicated to institution building — to strengthening the PVOs' ability to manage and deliver services — but there was no formal linkage to supplying the PVOs with funds. One of the important elements in the PVOs attaining financial self-sufficiency is the size of the portfolio. No matter how efficient, no PVO can realistically expect to cover its expenses from its earnings until the amount of loans outstanding reaches a certain critical mass.

The advantages to PYME's becoming a financial intermediary is the opportunity to generate income, but also that PYME staff having worked intensively with the prospective client PVOs, including review and negotiation of subproject grants and monitoring of the activities, already possess an in-depth understanding and working relationship with them. On the negative side are the questions of whether subsidized or directed credit is appropriate and whether PYME with its already noted management and personnel weaknesses could handle a loan portfolio effectively.

At the level of the individual PVO, financial self-sufficiency is feasible, but not easy. Requisites include effective, professionally trained management; established accounting and portfolio data systems; careful client selection and follow-up; credit policies that include interest income sufficient to cover financing costs and the rate of inflation; relatively short loan terms; effective collection procedures, resulting in low overdue payment rates; and a reasonably sized portfolio.

None of the PVOs within PYME's universe met these criteria at the project's outset. Strengthening PVOs institutionally to meet these criteria has been the major thrust of the PYME program under Small Business II. At the time of the evaluation, one institution, FUNHDEMU, was close to becoming self-sufficient — a disadvantage being the relatively small size of its portfolio, in the 800,000 to 900,000 Lempira range. Its overdue payment rate was one of the best, 6 percent, and cost per loan granted among the lowest. Its cost per Lempira lent of 0.25 Lps was adequate but could be lowered with a larger portfolio. APRODIB operating in Roatan has problems, including a high overdue rate of 36 percent, but with improved management and additional credit funding from the Inter-American Development Bank, it might make it by the PACD.

AHDEJUMUR's problems of overdue collections is sufficiently severe to require a special three-month pause in the PAI program to monitor its effectiveness at collection. If it fails the test, it will be dropped from the program. IDH benefits from a relatively large portfolio and well-established management. It and ODEF may well achieve self-sufficiency relatively soon. That there will be time to complete the PAI program for the initial five organizations and undertake a successful program with a second set of PVOs by the PACD seems unlikely.

The team also concluded that termination of the PYME program in September 1993 will not only leave a majority of the PVOs short of the goal of financial self-sufficiency, but will also jeopardize the status of those that have achieved self-sufficiency owing to the lack of follow-up to compensate for possible employee turnover, portfolio expansion, and so on.

A related issue is financial self-sufficiency compared to institutional self-sufficiency. While it is imperative to the maintenance of the institution's net worth that its loan portfolio maintain its value and cover its expenses, this does not necessarily provide sufficient income to cover training and technical assistance programs. Some income can be generated in these latter programs through user fees, but it should be understood that true institutional self-sufficiency may require a relatively large loan portfolio, high effective yields, and better program management of training and technical assistance.

**Project Selectionn**

With respect to the criteria applied currently by PYME in the approval of subprojects for the PVOs, the team concludes that they are generally appropriate. As long as the prime objective is to develop well-managed and financially self-sufficient PVOs serving the SSE community, it seems appropriate to limit the integrated institutional strengthening projects to a discrete number to best concentrate PYME's limited resources.

Selection criteria should be reduced to the few most relevant indicators. This could simplify the analysis while not changing relative factor weight. Criteria for training or technical assistance subprojects now include 13 indicators that could be reduced to 5 or 6:

- Fulfillment of previous project goals;
- Counterpart contribution;
- Number of people to be trained;
- Cost per person trained; and
- A qualitative assessment of the target audience, nature of the courses, and quality of the training staff and their appropriateness to project goals.

That this represents a new ball game for the PVOs is clear and that they prefer the old system where nearly any project could be approved is understandable. Complaints about the administration of the program appear to have more basis in fact. The length of time and uncertainties involved in developing a subproject and getting it approved is often excessive. There is also the practice to approve an integrated institutional strengthening project with a three-year time frame, but to require each year's portion to be argued de novo.

Another issue is whether PYME should continue the funding of training programs for PVOs that are not yet included in the Plan de Asistencia Integral or for which credit programs are not a major activity, such as Grupo Dion.

**Village Banks**

The village banks programs in Honduras have proved to be very successful mechanisms for reaching large numbers of people at very low cost and with high repayment rates. They have also proved to be effective in reaching the very poor, the majority of which are women. Village banking offers to small organizations with a weak administration a methodology that minimizes the risks involved in a credit program and the cost of loan administration and collection.

Village banks do have a positive social impact on their beneficiaries. However, this does not necessarily translate into job creation; the typical loan recipient is an individual who betters his or her standard of living but does not hire others. Some will graduate beyond the loan limits of the village bank, for example, 1,500 Lempiras, and become microentrepreneurs hiring others.

Objectives related to massification, self-sufficiency, women's development, and poverty alleviation, could effectively be achieved through village banking. Objectives related to employment generation are, however, more difficult to achieve through such a scheme. Job generation is more likely to occur with supplying credit to existing micro- and small-scale enterprises that have an existing base on which to expand. If USAID's major project objective remains job generation, USAID provision of funds to PYME for relending to PVOs for village bank purposes would not be as effective as directing the credit towards existing micro- and small-scale enterprises.

Although the evaluation team does not recommend that PYME support village bank schemes exclusively, it strongly recommends the support and promotion of this model among those PVOs that reach the very small and poor, and among those PVOs that are small or administratively weak. The team would also recommend PYME to promote and support village banking program among new organizations that want to initiate credit programs but have no experience.

**Technical Assistance to ANDI/PYME**

Our basic conclusion is that the technical assistance provided PYME by the Project Technical Unit has been both essential and effective. Clearly PYME's resources and experience were inadequate for the development of an intensive institutional development program. The development of the subproject criteria as well as that of the systems analysis and installation in the individual PVOs has largely been the result of the efforts of the PTU.

It should be noted, however, that the real effort in the program really did not take hold until the second year of the project. Some of this was delay in deciding the level of support to be provided PYME — for example, a resident advisor; there was additional delay in commodity procurement, which relates more to USAID procedures than to PTU performance. Some question has also been raised as to whether it was necessary to wait until a PVO had an accounting system in place before working on analysis of its portfolio. But for several of the PVOs, the systems are in place and beginning to prove effective.

There has been universal complaint from PVO field staff that the computer system developed by the PTU is too complex. The evaluation team had neither the time nor the technical expertise to isolate and define the problem, but assumes that the breadth of the complaint implied some justification.

Technical assistance to PYME has been of high quality on the financial side, but perhaps deficient in questions of training and product-oriented assistance. Technical assistance in marketing seems to have been highly professional, but at least early in the project it was based on an assumption that products then

available from Honduran micro- and small-scale entrepreneurs were readily saleable in export markets. This is not the case. Marketing efforts, carried out by the PVOs, will be better directed at teaching the beneficiaries how to determine the domestic markets' demands and how to satisfy these demands before moving on to exports.

**Business Assistance Network**

Our conclusion is that PYME's role as a second-tier organization delivering an array of services to a community of PVOs is both more practical and more effective than for PYME to work directly with SSEs. Given the limitations noted in earlier sections the effort has been effective in institutional strengthening and, in general terms, in training.

PYME has been less effective in the broader area of education and promotion. By education we mean developing an understanding among the managing boards of the PVOs and the public of the utility of the financial-systems approach to SSE development: that market interest rates, effective collection policies, and savings mobilization programs benefit the SSEs by enabling them to become self-reliant and competitive in the real market place and that, therefore, these measures are not just burdens imposed on the poor.

Efforts to encourage communication between the community of PVOs has been effective. They communicate with one another and appear to be knowledgeable about each other's problems.

Promotion efforts towards the general public and efforts to bring together the large and small businesses have been much less effective. No large-scale forums called for in the project to discuss problems of the SSE in the Honduran economy have been held.

**ANDI/PYME Management Information Systems**

Based on the data made available to the team and a review of PYME's reporting — its eleventh monthly report — the installed MIS system is adequate to the management tasks at hand. The conclusion on the development of a credit databank for use by the PVOs is that the system exists, but that to date there has been too little personnel time available to collect and input the necessary data.

**Financial/Administrative Policies**

As pointed out in the FINDINGS, ANDI/PYME, in conjunction with the PTU, has developed an array of appropriate, adequate financial and administrative procedures and policies for use by the PVOs. Owing again to the very low state of institutional development at the onset of the project, these systems have not been successfully implemented in the broad array of those PVOs assisting SSEs. For the five PVOs now in the PAI program, these systems are in place or being installed.

**Microenterprise Credit Policies**

The PTU has developed a sound set of credit policies for use by PYME and its assisted PVOs. The credit analysis manuals are complete and usable. The problem has been in obtaining acceptance by the boards of the PVOs of the utility of credit policies based on sound financial principles and in the

training of the PVO staffs to apply them. The policies at the PVO level in many instances have been improved and are now adequate; implementation remains the problem.

**USAID Funding**

From the disbursement rate of USAID funds as compared to the original size of the grant, it would be feasible to program funds for additional project activities. A credit fund of as much as 4 million Lempiras could fit within the Grant Agreement funding limits without interfering with PYME's current portfolio of PVO support activities.

Alternatively, should the Mission determine that PYME's activities need to be extended beyond the PACD, there would appear to be no reason to program funds beyond the amount earmarked for ANDI/PYME.

**Impact on Development**

PYME has reached 3,339 microentrepreneurs with credit or training services. Fifty-one percent of the program beneficiaries have been women. As a result of PYME's efforts, as of March 1991, about 2,786 jobs have been generated and 8,000 more have been sustained. The total added value to the national product for the program is Lps.5.0 million. Credit and training have been provided several thousand small and individual business persons and in a majority of cases have resulted in that person or enterprise improving his or her standard of living and usually expanding economic activity.

Whether, in the aggregate, the impact is sufficient to be measurable in terms of the national economy is more difficult to establish. The total of ANDI/PYME beneficiaries is only 3,339 microentrepreneurs, which represent a small proportion of the target population.

## RECOMMENDATIONS

**Organization**

We recommend that the PYME Committee membership be expanded to include the Executive Director of ANDI and a representative of the committee of PYME-assisted PVOs. Further, that the committee be supported by a Secretary to handle minutes, coordination, and documentation. This person should be employed as part of the PYME program. The program manager will continue to report to the committee. ANDI may also want to review the frequency of PYME Committee meetings with the thought that fewer meetings, monthly rather than weekly, would enhance the attractiveness of service on the committee for the ANDI membership.

**Personnel**

We recommend that the PYME staff be expanded by as many as five positions and that every effort be made to develop salary structures and terms of employment sufficiently attractive to employ and retain qualified staff. We do not favor the concept of recruiting resident advisors for individual PVOs, but believe that recruitment of additional specialists in such fields as computer systems, credit analysis,

and training, who will have time to spend with the PVOs, will prove more effective than trying to find one person to do all of the above within a single PVO. Short term contracts should also be considered for such tasks as developing the credit databank and training courses.

**Project Approval Procedures**

We recommend that in the development and approval of subprojects, efforts be made to simplify the process, for example, by reducing the number of subproject criteria, and shortening the process from its current average of six months. Integrated assistance projects that have three-year implementation periods should not be subject to annual presentations and approvals. This assumes, of course, that the respective PVOs have adequate management systems in place and that PYME maintains an effective monitoring capacity in place to assure compliance with project conditions.

**Marketing**

We recommend that no further project funds be provided to the Unidad Comercializadora/PYME, and that its future activities be funded from its existing fund (the residue from the funding supplied to EXPOPYME I), future earnings, if any, and by ANDI.

**Promotion**

We recommend that ANDI/PYME develop a promotional campaign in line with that outlined in the Project Paper and that funds that would have gone to marketing be used as necessary to contract professional public relations assistance.

**Training**

We recommend that training to PVO beneficiaries continue to be through the PVOs, but that more emphasis be given to product-oriented training. This should include specific training in marketing and commercialization of the products or services involved as well as assistance in design, quality control, and production efficiency.

We recommend that the quality of training of the PVO staff be improved through short-term contracts with professionally qualified instructors, if necessary, and that training in collection procedures be added to the curriculum.

**Financial Intermediation**

We recommend that the Mission develop a credit intermediation program in which ANDI/PYME is provided Lps.2-4 million with which to finance — on a loan basis — the credit portfolios of qualified Honduran PVOs. This achieves two objectives: it closes the loop with the PYME-assisted PVOs by tieing in expansion of their portfolios with institutional strengthening to better assure self-sufficiency, and it provides a source of income to PYME. A condition precedent to this should be the establishment of an adequate credit management facility within PYME.

# LESSONS LEARNED

1. The institutional development level of Honduran PVOs was much lower than anticipated. The corollaries from this were that PYME's institutional reach had to be smaller, implementation required much more time and resources than planned, and the project was unable to reach its full numerical targets by the PACD.

2. The project design established no assured linkage of technical assistance to PVOs with funds for portfolio expansion. This has hindered the PVOs in their quest for financial self-sufficiency in that a key element in the equation is portfolio size. Operational efficiency is enhanced by economies of scale and basic fixed costs must be covered by the net income stream.

The lack of any assured source of funding for credit programs also left the PVOs to deal with a somewhat confused set of potential donors such as the IADB or FHIS, the conditions and requirements of which differ not only from each other but from institutions financed by USAID. Finally, to the extent that PYME-assisted PVOs depend upon other institutions for financial assistance, ANDI/PYME's ability to insist on improved management practices and financial self-sufficiency is weakened.

3. We believe that more effort was and remains needed to overcome a general lack of understanding within the PVO community and most Hondurans of the benefits flowing to the micro- and small-scale entrepreneurs from effective financial policies and realistic credit programs.

# APPENDIX 1

# COPY OF SCOPE OF WORK

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.

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

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?

# APPENDIX 2

## PROJECT LOGICAL FRAMEWORK — ANDI/PYME COMPONENT

# 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:<br><br>1. A self sustaining loan fund managed by Fiduciary Agent capable of financing 450 new loans per year through existing PFIs and PVOs. | Magnitude of Outputs:<br><br>1. No. of loans year 5 in Portfolio: 968<br>Outstanding Portfolio: $21.7 million | 1. Management Information Systems of the participating institutions.<br>- Annual Report of the Intermediaries.<br>- 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.<br>No. of PFIs Participating: 8 | 2. Amount of Portfolio Guaranteed: $15.2 million | 2. Guarantee premium received by Fiduciary Agent.<br>- Amount of Guarantee certificates issued.<br>- Default can be held to projected levels. |
| 3. Training and TA is capable of improving SSEs operation;<br>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.<br>No. of bank training seminars given: 10 | 3. PVOs Management Information System:<br>- No. of firms that receive TA.<br>- 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 undertaken. | 4. Research and studies conducted: 10 | 4. Policy reforms undertaken. |

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# APPENDIX 3

# METHODOLOGY

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# APPENDIX 3

## METHODOLOGY

The methodology used in this evaluation included review of documentation available at the Mission, at the offices of the Project Technical Unit (PTU), and from individual private voluntary organizations. A list of documents reviewed appears in Appendix 4.

In addition, the evaluation team benefited from briefings at the Mission, at the PTU, and at ANDI/PYME. The team also conducted interviews with a wide variety of people involved in the program, ranging from Mission staff to loan recipients in the field and including operational staff at ANDI/PYME, the Interamerican Development Bank (BID),the PTU, and such PVOs as the Instituto de Desarrollo Hondureno (IDH), the Organizacion de Desarrollo Empresarial Feminino (ODEF), the Fundacion Internacional de Cooperativos de Ahorro (FINCA), the Fundacion Hondurena de Desarrollo de la Mujer (FUNHDEMU) and the Fundacion Nacional de Desarrollo (FUNADEH). The team also met with representatives of nine PVOs to hear their impressions and comments related to the PYME program. One member of the team attended a PYME Committee meeting.

Given the limited time and personnel, no attempt was made to develop an assessment of the project's impact through an original field survey. The evaluation is based on a review of the documents, personal interviews, and anecdotal evidence relevant to the evaluation.

# APPENDIX 4

# LIST OF DOCUMENTS REVIEWED

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# APPENDIX 4

## LIST OF DOCUMENTS REVIEWED

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

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.

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

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

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

# APPENDIX 5

# LIST OF PERSONS INTERVIEWED

# APPENDIX 5

## LIST OF PERSONS INTERVIEWED

| | |
|---|---|
| Ricardo Bográn | ANDI/PYME Committee |
| Gonzalo Afcha | RRNA Economist |
| Jaime Arguello | RRNA Advisor for ANDI/PYME |
| Henry Bahr | ANDI/PYME Committee |
| Ward Barman | American Embassy |
| Hector Duarte | Asst. Mgr. ANDI/PYME |
| Bruce L. Eckersley | USAID Mission Deputy Director |
| Sergio Fernandez | ODEF |
| Juan Carlos Funes | FUNADEH |
| Dorcas de González | Executive Director ANDI |
| Margaret Kromhout | USAID |
| Munier Mahomar | ANDI/PYME Committee |
| Daniel Martínez | USAID |
| Joaquín Medina | Candidate for General Manager ANDI/PYME |
| Reese Moyers | USAID Private Sector Office Director |
| Carmen Zambrana | USAID |
| Carlton Padgett | RRNA |
| Antonio Peraza | ANDI/PYME Committee |
| Mario Pfaeffle | RRNA Marketing Advisor |
| Charles Richter | USAID Economist |
| Gloria Sarmiento | ODEF |
| Jesús Torres | RRNA Systems Specialist |
| Bernai Velarde | USAID Private Sector Project Officer |
| Hilario Hooker | RRNA Technical Unit Director |

# 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.

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*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.

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