

A.I.D. EVALUATION SUMMARY—

PD ABG-188

INSTRUCTIONS: 2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office <u>USAID/Honduras</u> (ES# <u>FY93-3</u>)		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input type="checkbox"/> Slipped <input checked="" type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY <u>92</u> Q <u>4</u>	C. Evaluation Timing Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>
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D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)					
Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
522-0241.01	Small Business Development II (ANDI Grant)	1988	9/95	\$15.0 M	\$15.0 M

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director		Name of Officer Responsible for Action	Date Action to be Completed
Action(s) Required			
1. USAID will reprogram the ANDI Grant Agreement to assist those PVOs that have the possibility of becoming self-sufficient within the amended PACD extension. A Grant Amendment will be prepared for this purpose.		Bernai Velarde Project Officer PSP	Completed
2. USAID will assess the option of financing a credit fund for poverty lending. If a decision is made to go forward with this activity, USAID/Honduras will submit a request to access funds from the Anti-Poverty Lending Program that is managed by PRE/SMIE in AID/W.		Bernai Velarde Project Officer PSP	Completed
3. USAID will approve a no cost two-year extension of the Nathan & Associates, Inc. Contract, so that the PVOs may continue to receive technical assistance beyond the current contract termination date of September 30, 1993.		Bernai Velarde Project Officer PSP	Completed

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) 06 (Day) 09 (Year) 93

G. Approvals of Evaluation Summary And Action Decisions:

Name (Typed)	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
	<u>Bernai Velarde</u>	<u>Dorcas de Gonzalez</u>	<u>Don Soules</u> <u>Carmen Zambrana</u>	<u>BLEckersley</u>
Signature	<i>[Signature]</i>	<i>[Signature]</i>	<i>[Signature]</i>	<i>[Signature]</i>
Date		<u>6-2-93</u>		<u>6/9/93</u>

A B S T R A C T

H. Evaluation Abstract (Do not exceed the space provided)

The agreement of the Small Business II Project (522-0241) was signed in August 29, 1988 for \$15.0 Million LOP funds. The purpose of the project 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 the SSEs operate. The project consists of two interrelated components: (1) an SSE Support System component to strengthen and expand the programs of Honduran institutions, namely three NGOs called ANDI/PYME, ASEPADE and FUNADEH and other Private Financial Institutions (PFIs), which direct credit, technical assistance and training resources to the SSEs; and (2) an SSE Policy Analysis and Research component. The specific objectives of the ANDI/PYME component are to improve the ability of the organization 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 micro and small businesses. The purpose of the midterm evaluation was to measure the rate of progress achieved in comparison with the Project targets and to develop recommendations for adjustments in the program to better meet its goals. The evaluation was carried out by a three member team of Development Alternatives Inc (DAI), who reviewed documents and met with an array of people involved in the project from beneficiaries to USAID staff.

The major findings and conclusions are:

- * The concept of an umbrella organization to provide an array of services to PVOs remains valid due to the economy of scale which reduces the cost of services. However, ANDI/PYME will not become self-sustaining because of its role solely as second-tier (an organization that supports other organizations) organization. In order to insert the element of sustainability, PYME's role has to be modified to introduce other income generation activities such as a second floor financial operation (an organization that provides credit funds to other financial institutions) scheme.
- * The institutional level (developmental capacity) of Honduran PVOs was far lower than anticipated in the Grant Proposal. Financial, administrative and credit policies were rudimentary in most PVOs at the onset of the project. As a result, the outreach of the PYME project was smaller and the time and effort devoted to each PVO was greater than originally planned.
- * ANDI/PYME's effort to influence PVO policies and to encourage financial self-sufficiency has been hindered by failure of the project 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. This resulted in a lower number of sufficiently strengthened PVOs to become financially self-sufficient by the Project Assistance Completion Date (PACD).

Lessons Learned:

- * When the level of institutional development of the PVOs is very low, it affects the number of PVOs that could be assisted by a given project. The degree and coverage of project impact is also reduced.
- * The project design did not contemplate any linkages between the technical assistance and credit. As a consequence, PYME's leverage was weaker than expected.

C O S T S

I. Evaluation Costs

1. Evaluation Team			Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name		Affiliation			
Wesley Boles	Chief of Party	DAI	40	\$92,300 1/	USAID/H
Donald Richardson	Financial Analyst	DAI	28		
Arelis Gomez	Small Business Analyst	DAI	28		

2. Mission/Office Professional Staff
Person-Days (Estimate) 10

3. Borrower/Grantee Professional
Staff Person-Days (Estimate) 15

A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
Address the following items:

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| <ul style="list-style-type: none"> • Purpose of evaluation and methodology used • Purpose of activity(ies) evaluated • Findings and conclusions (relate to questions) | <ul style="list-style-type: none"> • Principal recommendations • Lessons learned |
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Mission or Office: USAID/Honduras	Date This Summary Prepared: November 12, 1992	Title And Date Of Full Evaluation Report: Small Business II Project, Honduras. Midterm Evaluation of the ANDI/PYME Comp.2/92
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Purpose of Evaluation and Methodology Used: The Project Paper and the Grant Agreement with the National Industrialist Association (ANDI) call for an evaluation midway in the life of the project to assess progress made and to identify any problems inhibiting the achievement of the goals. Focusing on administrative, managerial, financial and project implementation issues, the evaluation of progress and problem areas has resulted in recommendations for program modifications and structural adjustments designed to improve the activities of the Small and Micro Enterprise Program (PYME), and thus strengthen and expand the institutional framework in Honduras in support of Small Scale Enterprise (SSE). Issues of financial self-sustainability and Mission's oversight function were also addressed by this midterm evaluation.

The methodology used in this evaluation included review of documentation available, interviews with a wide variety of people involved in project implementation, ranging from Mission staff to loan recipients in the field, as well as the implementing agencies' operational and executive staff.

Purpose of the Activities Evaluated: The Project purpose is to: (1) strengthen Small Business II Project 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 the SSEs operate. The SB II Project consists of two interrelated components: (1) an SSE Support System component to strengthen and expand the programs of Honduran institutions, which direct credit, technical assistance and training resources to the SSEs; and (2) an SSE Policy Analysis and Research component. The specific objectives of the ANDI/PYME program are to: (1) improve the ability of ANDI/PYME to offer training and technical assistance to client organizations -- which in turn provide credit, training and technical assistance directly to entrepreneurs; and (2) 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.

Findings and Conclusions:

- The institutional capacity of Honduran private voluntary organizations (PVOs) was far lower than anticipated, and the human resource base at PYME was limited. As a consequence, the reach of the Project was smaller, and the time and effort devoted to each PVO was greater than planned. Therefore, the number of PVOs that will be sufficiently strengthened, by the project assistance completion date (PACD), to be financially self-sufficient, will be much less than the original target.
- The PYME organization is well structured, however, it could be strengthened by increasing representation, and including PVO representation in the Committee. There is not strong evidence of broad institutional commitment by ANDI to project objectives. There is no clear definition of authority between the Executive Director of ANDI and the PYME Committee. Actions should be taken to address these concerns.
- 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. PVOs singled out the qualifications of the staff as one of the PYME's strongest aspects. However, there is a need for staff specialized in portfolio management, loan collection, Management Information System (MIS).
- At the beginning, the Unidad de Comercialización/PYME (UC/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 UC/PYME director seems well qualified and plans for future activities seem far more suited and limited to Honduran realities and ANDI's resources.

- Training has been of great importance both to beneficiaries and to PVO staffs. In general, numerical targets have been met. Training to the beneficiaries has gone from the very poor, who need training in everything, to those that work with established small businesses or microenterprises which seek to improve and expand on a base that they have already achieved. Training needs, therefore, have not been the same for all. Personnel shortages at PYME have affected full implementation of the annual training plan. More emphasis should be placed on product-related technical assistance for beneficiaries, and training for PVO staff could be improved through short term contracts, if necessary, in financial matters. So far, the impact of the training program is still uncertain, and there is no strong evidence of significant changes in the status of the microenterprises as a result of this activity.
- 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 that provides services to institutions, which in turn provide services to beneficiaries. Financial self-sufficiency of PVOs involved in credit programs is feasible, but it requires effective policies, management, and systems as well as a critical mass in the portfolio.
- PYME's selection criteria applied to PVO requests for funding have been made rigorous in the course of the SBII project. This has had the salutary effect of enforcing higher standards and performance from the PVOs, albeit limiting the number of institutions qualifying for project support. The development of an Integrated Assistance Plan (IAP), limited to an initial group of five PVOs, is an appropriate allocation of PYME's limited resources. These institutions are more likely to succeed than weaker institutions.
- The concept of village banks has been introduced successfully in Honduras and provides several advantages to PVOs. 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, offers an appropriate vehicle for the generation of funds for PYME. PVOs that have village bank programs should qualify for PYME support. PYME should not finance village banks directly but through these PVOs.
- Technical assistance to PYME from the Project Technical Unit (PTU) has been both effective and essential. The PTU has been instrumental in developing manuals, and providing training to PVOs in accounting, management, and computer systems. PYME did not have the capacity to carry out its program without substantial assistance from the PTU. This assistance continues to be needed. In addition, emphasis should be placed on training follow-up activities.
- 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 (MISs), but less well in marketing, information and promotion.
- Financial, administrative and credit policies were rudimentary in most PVOs at the onset of SBII. 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.
- MIS at PYME itself is in place. MISs for the selected PVOs are largely in place and being brought into full operation. However, there is little evidence to date to suggest that PVO management, or PYME management is using the data generated as an informational tool to assist in policy development or in planning.
- 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 of 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 SBII to provide any linkage between the PYME program and sources of credit funding. This has let the PVOs with the need to search for funding from a variety of sources, none assured. In conclusion, progress have been made, but none of the assisted PVOs has reached the desired level.

- An important benefit of the ANDI/PYME program has been the development of credit policies within the PVOs. Credit manuals and credit procedures are in place for the PVOs that benefit from the Integrated Program Assistance (PAI). However, acceptance by individual PVOs of the recommended credit policies has been mixed. 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.

Principal Recommendations:

- Membership in the PYME Committee should be expanded to include the Executive Director of ANDI and a representative of the PVOs;
- PYME should hire as many as five new staff members for the specialized areas of computer systems, credit analysis and training, instead of trying to find five resident experts each with all of these qualifications.
- No further project funds should be provided to the Unidad Comercializadora/PYME, and its future activities should be funded from its existing fund (the residue from the funding supplied to EXPOPYME I) earnings, if any, and by ANDI.
- PYME should concentrate more efforts on promotion and public education in place of marketing;
- Training programs for both the beneficiaries and the PVOs should be strengthened; and
- USAID should consider establishing a second-tier credit facility within PYME to channel credit funds to eligible PVOs.

For a complete list of recommendations and corresponding Mission response, please refer to Attachment B.

Lessons Learned:

- When the institutional development level of PVOs is low, significant levels of effort are required to ensure significant impact. Otherwise, the number of PVOs to be assisted needs to be reduced.
- A key element in the equation of financially self-sufficient PVOs is portfolio size. The project design should have linked technical assistance to PVOs with funds for portfolio expansion.
- To achieve impact, special efforts should be made to overcome the general lack of understanding within the PVO community of the benefits flowing to the microentrepreneurs from effective financial policies that reflect the market.

A T T A C H M E N T S

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

- Attachment A: Outline of Basic Project Implementation Data
- Attachment B: Summary of Evaluation, Recommendations and Mission Response
- Attachment C: Evaluation Report titled Small Business II Project,
Honduras Midterm Evaluation of the ANDI/PYME Component
February , 1992

NOTE: The final Evaluation Report was forwarded to AID/W on March 30, 1992.

C O M M E N T S

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

The Office of Private Sector Programs believes this evaluation was effectively carried out. The evaluation team was formed by competent professionals who thoroughly analyzed the project from various points of view. The rapport established with the implementing agencies permitted them to obtain accurate and factual information utilized to prepare the report. The report covered all aspects outlined in the scope of work and provided valuable information on project accomplishments, and an in-depth analysis of the obstacles and problems that have affected the project implementation process.

The recommendations have been particularly useful, since it has provided the necessary guidelines to amend the Grant Agreement and has increased the potential for achieving full project impact. As a result of this evaluation and other analyses, the Mission has begun to reprogram project funds within the different Small Business II Project components.

The major complaint that the Mission had with regards to the evaluation was that the contractor deliver the final report two months later than scheduled.

ATTACHMENT A

OUTLINE OF BASIC PROJECT IDENTIFICATION DATA

1. **Country:** Honduras
2. **Project Title:** Small Business Development II Project
3. **Project Number:** 522-0241
4. **Project Dates:** August 29, 1988 to July 28, 1993
(Amended to September 30, 1995)
 - Project Agreement Date: August 29, 1988
 - Final Obligation Date: September 14, 1992
 - Most Recent PACD: September 30, 1995
5. **Project Funding:** (amount obligated to date in dollars or dollar equivalent from the following sources)
 - AID Bilateral Funding: 15.0 M
 - Other Major Donors: -0-
 - Host Country Counterpart Funds: 30.0 M
 - Total: 45.0 M
6. **Mode of Implementation:** National Industrialist Association Small/Micro Enterprise Committee (ANDI/PYME).
7. **Project Designers:** ANDI/PYME and USAID/Honduras
8. **Responsible Mission Officials During Project Implementation:**
 - Mission Director(s) John Sanbrailo, MD, 1987-1991
Marshall Brown, MD, 1991-
 - Project Officers: James T. Grossman, Director PSP, 1988-1990
Reese Moyers, Director PSP, 1990-1991
Richard Whelden, Director PSP, 1992-1993
Bernai Velarde, Project Officer, 1988-
 - Previous Evaluations: N/A

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ATTACHMENT B

SUMMARY OF EVALUATION RECOMMENDATIONS AND MISSION RESPONSE

RECOMMENDATIONS	RESPONSE
<p>Organization:</p> <ul style="list-style-type: none">● The PYME Committee Membership should be expanded to include the Executive Director of ANDI and a representative of the PVOs.● The PYME Committee should be supported by a Secretary to handle minutes, coordination and documentation.● The Program Manager will continue to report to the committee.● ANDI should reduce the frequency of the PYME Committee meetings.	<p>Organization:</p> <ul style="list-style-type: none">● ANDI appointed the Executive Director as part of the PYME Committee. ANDI does not agree with the incorporation of a PVO representative in the PYME Committee for conflict of interest reasons as was experienced in the prior project, Small Business I.● ANDI has assigned these duties to the senior secretary in PYME.● The Program Manager is reporting to the PYME Committee on a regular basis.● The PYME Committee meets according to the requirements set by the workload. The frequency of the meetings, however, has been reduced on the average.

ATTACHMENT B

SUMMARY OF EVALUATION RECOMMENDATIONS AND MISSION RESPONSE

<p>Personnel:</p> <ul style="list-style-type: none">● The PYME staff should be expanded by as many as five positions.● Every effort should be made to develop salary structures and terms of employment sufficiently attractive to employ and retain qualified staff.● The evaluation team does 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 data bank and training courses.	<p>Personnel:</p> <ul style="list-style-type: none">● Ongoing. The staff will be expanded according to the perceived needs of the project. This recommendation has been overtaken by events, since the project focus has been scaled down to handle only 5 selected PVOs with the potential to achieve self-sufficiency instead of 35 PVOs as originally planned.● Key personnel staff salaries have been adjusted according to current market rates. Further necessary adjustments were made when ANDI presented its 1993 budget and work plan (January 1993). These adjustments will be made as appropriate, each year up to the PACD.● Additional specialists have been contracted by ANDI in the areas of financial and computer systems. In addition, the PVOs have agreed to reinforce their staff by contracting a Deputy Director that will be in charge of the financial operations and management information systems. ANDI is financing the position of Deputy Directors in the PVOs.
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ATTACHMENT B

SUMMARY OF EVALUATION RECOMMENDATIONS AND MISSION RESPONSE

<p>● Project Approval Procedure: ANDI should simplify the process of the development and approval of subprojects. 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.</p>	<p>● Project Approval Procedure: ANDI has simplified the process of development and approval of subprojects. ANDI is now approving a strategic plan for each PVO that it will work with and thereafter yearly work plan and budgets. In essence, ANDI is replicating the same system that USAID utilizes under the Grant Agreement.</p>
<p>Marketing: No additional project funds should be provided to finance the future activities of the Marketing Unit. All future activities should be funded from its existing fund (the balance from the funding supplied to EXPOPYME), future earnings, if any, and by ANDI.</p>	<p>Marketing: ANDI does not agree with this specific recommendation because it considers that the impact of the Project will be diminished in the detriment of the microenterprises. USAID however has discussed this issue with ANDI and it has agreed not to disburse additional funds for ANDI's Marketing Program. However, additional resources may be provided for other specialized activities based on its individual merit.</p>
<p>Promotion: ANDI/PYME should 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.</p>	<p>Promotion: This recommendation has been overtaken by events. The recommendation is no longer valid since the project scope has been reduced and ANDI will only be assisting five potentially self-sustaining PVOs and not 35 PVOs as contemplated in ANDI's original proposal. The target market has already been identified.</p>

ATTACHMENT B

SUMMARY OF EVALUATION RECOMMENDATIONS AND MISSION RESPONSE

<p>Training:</p> <ul style="list-style-type: none">● The training of PVO beneficiaries should continue to be through the PVOs. More emphasis however, should be given to product-oriented training. This should include specific training in marketing of the products or services involved as well as assistance in design, quality control, and production efficiency.● The quality of training of the PVO staff should be improved through short-term contracts with professionally qualified instructors, if necessary, and training in collection procedures be added to the curriculum.	<p>Training:</p> <ul style="list-style-type: none">● ANDI has implemented this recommendation by contracting the services of the International Executive Service Corps to give a variety of seminars and technical assistance that are product oriented. To date, training and technical assistance has been given in the areas of apparel, wood works and leather products.● Since the scope of the project has been reduced, ANDI will provide direct technical assistance to the PVOs. ANDI has also financed two seminars which were given by short-term consultants in credit collection.
<p>Financial Intermediation: The Mission should develop a credit intermediation program in which ANDI/PYME is provided funds 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 tying 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.</p>	<p>Financial Intermediation: The Mission has agreed to provide T.A. and finance a credit fund that will be managed by ANDI for poverty lending. In addition, the Mission will request support from AID/W to obtain resources from its Anti Poverty Lending Program (APPLE). The estimated amount of the new credit fund will be the local currency equivalent of \$1.0 million. (Action No. 2 on face sheet). ANDI will prepare a credit manual which will be approved in form and in substance by USAID.</p>

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