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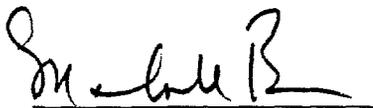
**PROJECT AUTHORIZATION**  
**(AMENDMENT NO. 2)**

Name of Country: Honduras

Name of Project: Small Business II

Number of Project: 522-0241

1. **BACKGROUND/PURPOSE OF AMENDMENT:** The Small Business II Project was authorized on August 8, 1988 with a funding of Fifteen Million United States Dollars (\$15,000,000) and a life of Project (LOP) of five years, one month and four days. Project Authorization Amendment No. 1, signed on August 25, 1992 extended the PACD by two (2) years to September 30, 1995. The purpose of this amendment is to increase the funding level to Fifteen Million, Eight Hundred Thousand United States Dollars (\$15,800,000).
2. **FUNDING LEVEL:** The project funding level is hereby increased from Fifteen Million United States Dollars (\$15,000,000) to Fifteen Million, Eight Hundred Thousand United States Dollars (\$15,800,000).
3. **OTHER TERMS AND CONDITIONS:** Except as otherwise amended, all other terms and conditions of the original Project Authorization and Amendment No. 1 shall remain in full force and effect.



**Marshall D. Brown**  
**Mission Director**  
**USAID/Honduras**

7/21/93

Date

# USAID/HONDURAS APPLE PROPOSAL



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**USAID/HONDURAS  
APPLE PROPOSAL  
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**USAID/HONDURAS  
APPLE PROPOSAL**

**1. HONDURAN BACKGROUND:**

Honduras with a population of 5.1 Million and an area of 43,000 square miles is one of the poorest countries in Latin America. With a GDP of \$590 per capita according to the World Bank (1990), Honduras is estimated to be the third poorest country in the Western Hemisphere. (Haiti and Guyana are poorer) In terms of purchasing power, its per capita income is roughly \$1,610. It is clearly quite poor, with underdeveloped industry, and a low level of education. Literacy is only 75%, infant mortality is 59 per thousand, while life expectancy is 65 years. Honduras has a large number of poor people in both urban and rural areas. About 36% of Honduran families receive less than \$50 a month and 62% receive less than \$100. The UNDP reports that 47% of Hondurans live in absolute poverty, not earning enough for an adequate diet.

The informal sector in Honduras provides approximately one-half of the total off-farm employment and contributes about 10% of the Gross Domestic Product of the country. There are approximately 300,000 individuals employed by about 78,000 micro and small enterprises. In addition, there are about 40,000 microbusiness market vendors and street merchants that employ an additional 120,000 persons.<sup>1</sup>

**2. SMALL BUSINESS II PROJECT BACKGROUND:**

The Small Business II Project supports the Mission's Goal of promoting a broad base sustainable economic growth. Specifically, the Project supports the Mission's Strategic Objective of increased private investment, production and trade. The project contributes toward the advancement of two major program outputs under this strategic objective; 1) improved financial intermediation and; 2) selected private sector institutions strengthened. It is expected that the increase access to credit will permit the micro and small enterprises to invest these resources so they may, expand their production levels, provide new employment opportunities and accelerate their incorporation in the formal financial and productive sector.

The Small Business II Project seeks to strengthen and expand the institutional system that provides credit, training, technical assistance and services to micro and small scale enterprises (MSSE). The project is directing assistance to more than 30,000 owners and employees of the MSSEs. To reach this number of beneficiaries, the project employs a multi-pronged approach through the formal and informal financial sector, providing credit, training and technical assistance to MSSEs.

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<sup>1</sup> Honduras: Country Economic Memorandum, World Bank, April 17, 1987.

In the formal sector, the project works with the Central Bank of Honduras. The Small and Micro Business Fund (FOPEME) established by the project finances a rediscount line of credit and guarantee fund to facilitate access to the commercial banks's credit program by MSSEs. To finance their profitable small loans at marginal cost, the participating financial institutions use their existing systems and procedures. Additionally, the project taps domestic savings and leverages the project's resources because it requires the participating banks to finance 30 percent of the loans from their own resources.

In the informal sector, the project works through the National Foundation for the Development of Honduras (FUNADEH) and the National Association of Industrialists (ANDI) which operates as an umbrella organization through six PVOs that provide credit, training and technical assistance to microenterprises that have good business prospects but, for the most part, have "unbankable" projects due to inadequate or insufficient collateral and no prior bank experience. The PVOs' credit programs seek not only to make resources available to the microenterprises but also to ensure that the programs are financially self-sufficient. As of December 1992 the project achieved the following results:

Table No. 1.

PROJECT ACCOMPLISHMENTS FROM SEPT. 88 TO DEC. 92	
DESCRIPTION	NUMBERS
No. of Loans	26,699
% of Loans to Women	54%
Amount of Loans	Lps. 209 Million
No. of Loans < \$300	15,261
Credit/Job Ratio	Lps 9,705
New Jobs Created	21,550
No. of Participants Trained	37,122

The project is currently being restructured. The FOPEME<sup>2</sup> line of credit will be phased out to support the GOH's policy of encouraging market mechanisms to mobilize and allocate financial resources. The FUNADEH Grant Agreement was amended in order to provide additional funding to finance the expansion of its successful micro and small business program from San Pedro Sula to the Capital City of Tegucigalpa. The ANDI/PYME grant has been reprogrammed to enable ANDI to consolidate its microbusiness program and strengthen PVOs that have viable credit programs.

The anti-poverty lending program will be implemented through ANDI. ANDI

<sup>2</sup>

The Mission will meet with and encourage the GOH to reprogram some of the original funds that were utilized by FOPEME to support ANDI's and FUNADEH's micro and small business programs.

will support the PVOs' poverty lending program by reprogramming US\$1.6 million for credit. This new assistance will serve two purposes: (1) the selected PVOs will be able to more quickly increase the size of their portfolio in order to achieve self-sufficiency and (2) ANDI/PYME will generate additional resources to cover its operating expenses as of 1996. The loan fund of the poverty lending program will be supported partly by the APPLE program financed by the PRE/SMIE Office in AID/W.

### **3. ANDI'S PROGRAM OBJECTIVE:**

USAID/Honduras with the assistance of PRE/SMIE's APPLE program, will finance ANDI's microenterprise program and assist in establishing a second tier lending facility for poverty lending. ANDI will strengthen, concentrate and focus its activities in support of the Honduran organizations that directly serve micro and small scale enterprises. The objectives of this program are to: (1) improve the ability of ANDI/PYME to offer credit, training and technical assistance to client organizations who in turn provide credit, training, and technical assistance directly to micro entrepreneurs; and (2) enable ANDI/PYME to concentrate its technical and credit assistance in those PVOs that have the possibility of becoming self-sustaining within the time frame of the grant amendment.

### **4. PROGRAM BENEFICIARIES:**

The beneficiaries of the project will be the micro businesses which are owned and managed by people who may be broadly categorized as the working poor. The beneficiaries are persons having low incomes, little education, limited or no access to commercial credit, and mostly operating a family owned business. It is expected that women entrepreneurs will receive approximately 75% of the loans. The microenterprises assisted by the PVOs will generally have less than 10 employees.

### **5. INSTITUTIONAL ASSESSMENT:**

ANDI established its micro and small business program in 1983. It received its first grant under the Small Business I Project in 1984. Since its creation, ANDI/PYME has been working as an umbrella organization providing training and technical assistance to other PVOs that directly service the informal sector in Honduras. During the implementation of the Small Business I Project, ANDI/PYME financed 76 projects through 22 organizations which created over 5,250 new jobs. Under the Small Business II Project, ANDI has financed 80 projects for about L9.0 million, through 19 PVOs. These institutions have made over 8,850 new loans which have generated nearly 6,440 new jobs. Approximately 58% of the loans have gone to women owned and/or operated businesses. Nearly 73% of the loans disbursed by these organizations have

been for loans of less than \$300.

The ANDI/PYME midterm evaluation results recommended that ANDI focus its assistance programs on PVOs that have the possibility of becoming self-sustaining. The evaluation also recommends that ANDI concentrate its resources in a fewer number of PVOs and establish a loan fund to assist these PVOs to increase their portfolio levels so they could eventually cover their operating expenses from the spread of the credit program. To achieve this, the Mission extended the PACD date and signed an amended Cooperative Agreement with ANDI earmarking \$1.6 million for poverty lending.

To finance the poverty lending fund, the Mission will earmarked \$800,000 that were originally programmed for another component of the Small Business II Project and reprogrammed these funds for ANDI/PYME. To date the Mission has already obligated \$500,000 for ANDI's poverty lending program. The additional \$300,000 will be obligated to ANDI once the funds are deobligated and AID/W authority is given to reobligate these funds. The other \$800,000 will be financed by AID/W,PRE/SMIE Anti-Poverty Lending Program.

## **6. ACTIVITY DESCRIPTION:**

USAID will support ANDI/PYME's program in the following three areas: 1) financial restructuring of the selected PVO loan portfolio to improve their financial intermediation, 2) internal institutional strengthening to improve administrative and financial controls and 3) the establishment of a second tier lending facility for the poverty lending programs to ensure their sustainability.

**6.1. Financial Restructuring:** Technical assistance will be provided to the PVOs to improve the profitability of their financial operations. Credit manuals have been developed for the selected PVOs and technical assistance is being provided in their implementation. ANDI will provide the proper follow-up to ensure that the financial policies are implemented. The PVOs' loan analysis and collection systems will be improved to reduce the percentage of loans in arrears. Technical assistance will be provided to improve management of loan portfolios with regard to loan restructuring, mobilization of resources and allocation of these resources in investments that yield maximum returns.

**6.2. Internal Institutional Strengthening:** Technical assistance in the area of institutional development will be given to ANDI and the PVOs to improve their administrative and financial controls. The Project Technical Unit<sup>3</sup> (PTU) will provide assistance in the areas of institutional development, project management, financial management, management information systems and controls, information networks, and monitoring and evaluation. ANDI/PYME will strengthen the capacity of selected PVOs to become solid financial

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<sup>3</sup> The Project Technical Unit is a U.S. consulting firm (Nathan & Associates, Inc.) that was contracted to provide technical assistance to the implementing agencies of the Small Business II Project.

institutions with the capability of increasing the volume of loan portfolios in order to become financially self-sustaining. The assistance given under this component will concentrate in three basic areas:

**6.2.1. Strategic Planning:** In the area of strategic planning, ANDI has assisted a group of PVOs in preparing Institutional Analysis and Self-sufficiency Plans. These plans will be updated as required. The strategic plans contain a description of the PVOs current strategy, expected outputs, market analyses, internal operating analyses (operating costs, budgets, controls, financial policies, etc.) and financial analysis to determine the viability and return on investment of the institution's programs (loan portfolio, technical assistance, training program and other services). These plans will assist the PVOs to reach and surpass their break-even point.

**6.2.2. Program Implementation:** To execute the strategic plans, ANDI will provide assistance to the PVOs in the area of program implementation. Assistance will be given to the institutions in developing yearly work plans and budgets, monitoring program activities and evaluations, administrative audits and loan portfolio management. Special emphasis will be given to portfolio management, with a specific focus on credit analysis and approval, loan collection procedures, and financial management in order to reduce the percentage of loans in arrears and transaction costs in the credit delivery system.

**6.2.3. Operations Management:** In the area of operations management the assistance will concentrate on accounting systems, financial controls and management information systems.

**6.3. Second Tier Lending Facility/Poverty Lending<sup>4</sup>:** Under this component, ANDI will establish a "second floor" credit facility to finance the loan portfolio of the PVOs involved in poverty lending. These resources, combined with those of other donors, will permit the PVOs to expand their loan portfolios, generate additional income and become self-sustaining within the life of the grant agreement. In addition, it will provide ANDI/PYME the necessary leverage to assure that all financial policies of the PVOs respond to market conditions. The interest rates charged by ANDI to the PVO intermediaries shall be market rate and will approximate the cost of local non-concessional sources of capital from the local capital market. The interest rate that the PVO intermediary will charge to the ultimate borrowers will be positive in real terms (when adjusted for inflation) and reflect market terms and conditions. Effective interest rates currently charged by the PVOs vary between 36% and 60% a year. The inflation rate for 1992 was approximately 8.8%.

**6.3.1. ANDI/PYME's Lending Policies:** ANDI/PYME will submit its Credit

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<sup>4</sup> PRE/SMIE's APPLE program will finance 50% (\$800,000) of the loan funds under this component.

Policies Manual to AID for approval. Preliminary discussions with ANDI/PYME's technical personnel indicate that they will implement the following policies.

Table No. 2

### **ANDI/PYME BASIC LOAN POLICY GUIDELINES**

The funds will be provided under the following financial conditions:

- ☛ All recipient PVOs should possess, efficient loan portfolio management and administrative structures as well as a loan policy that clearly indicates that a substantial portion of its loans are channeled to poor recipients that demands loans for amounts of \$300 or less.
- ☛ The interest rate to be charged by ANDI to the PVOs shall be market rates and will approximate the cost of non-concessional sources of capital from the local capital market, or the Central Bank rediscount rate, or 2% above the CD rates paid by the banks rate whichever is higher.
- ☛ Terms of loans to the PVOs shall be approved according to the characteristics and terms of the programs to be financed, but in no case ANDI/PYME will approve loan for more than three years.
- ☛ Loans disbursed by ANDI/PYME will be secured by the pledge of loans financed by such funds, as well as by an additional 50% of unpledged loans from the PVOs portfolios.
- ☛ PVOs arrears should not exceed 10%. Past due loans in excess of such a percentage can be accepted only if the individual PVO demonstrates that efforts are being made to reduce its arrears to acceptable levels, and that there are sufficient financial reserves to absorb estimated portfolio losses.
- ☛ ANDI/PYME will finance up to 70% of loans to be disbursed. The remaining 30% of the approved loan will be financed by the PVOs.

## **7. FINANCIAL INTERMEDIARIES (PVOs) TRACK RECORD:**

To implement its poverty lending program, ANDI/PYME will work through five PVOs<sup>5</sup> at a time. The selected PVOs are those organizations that have the most experience managing microenterprise programs in Honduras. All of the PVOs have poverty lending programs which utilize the methodology of village banks. Below is a brief description of the PVOs programs.

### **7.1. Instituto de Desarrollo de Honduras (IDH)**

Headquartered in Tegucigalpa, this organization founded in 1977, assists small and microentrepreneurs, principally in the greater Tegucigalpa/Comayagua metropolitan area (50%), but also around San Pedro Sula (15%), and rural cities such as Siguatepeque, Juticalpa & Catacamas, Danli and Choluteca. Sixty percent of the direct beneficiaries are men: average monthly sales are 3,000 Lempiras and average monthly incomes 800 Lempiras. Fifty-four percent of the beneficiaries engage in manufacturing, twenty-seven percent in trade, with the remainder in

<sup>5</sup> ANDI/PYME's work load and management structure is based on the option of working with five PVOs at a time. However, as the PVOs become self-sustaining and graduate from the system, ANDI will incorporate other PVOs to replace them and provide technical and financial assistance so they may become self-sustaining.

service, agro-industry and in livestock raising. Typical loans outstanding average is less than 2,000 Lempiras. In addition to its regular credit program, IDH has started a village bank program utilizing the Foundation for International Community Assistance (FINCA) methodology. ANDI/PYME will provide financial resources to finance IDH's poverty lending program.

**7.2. Foundation for International Community Assistance (FINCA)**

Headquartered in Tegucigalpa, this organization founded in 1990, works exclusively through the mechanism of village banks. Each bank has 25 to 30 members who are collectively responsible for the credit extended to the bank. Sixty percent of the beneficiaries are in the Capital City metropolitan area and forty percent are in rural areas. Beneficiaries are women involved in trade, services and cottage industries. Average monthly sales are slightly more than 500 Lempiras, with net monthly incomes around 300 Lempiras. FINCA/Honduras also receives technical assistance from FINCA International (a U.S. based PVO) which helped introduce the village bank methodology in Honduras.

**7.3. Organizacion para el Desarrollo Empresarial Femenino (ODEF)**

ODEF was founded in 1985 in San Pedro Sula. This organization assists women who have micro-enterprises and/or participate in the village bank program. About two thirds of the beneficiaries live in semi-urban communities surrounding San Pedro Sula. The other third of ODEF's beneficiaries are split between western Honduras - around Santa Barbara, and east of San Pedro Sula in the Department of Yoro. About 85% of the beneficiaries are engaged in trade of services, with the remainder in cottage industry or small animal husbandry. Typical beneficiaries are poor, with monthly sales in the range of 500 Lempiras and incomes of 150 Lempiras. About 50% of its beneficiaries are members of village banks. ODEF also receives technical assistance from KATALYSIS (a U.S. based PVO that has an A.I.D. PVO matching grant) in the areas of microenterprise development, women's program and environmentally sustainable development.

**7.4. World Relief of Honduras (WRH) (Auxilio Mundial Honduras)**

World Relief is an organization for international Christian humanitarian assistance, founded in the United States in 1944 and active in Honduras since 1974. It provides emergency relief for victims of war and natural disasters and supports community development efforts, providing child survival care, credit and technical assistance. Currently World Relief has 40 village banks in Olancho, 38 supported by its A.I.D. PVO matching grant, and 2 supported by the Canadian International Development Agency. Following the FINCA model, loan amounts start small and increase as each short term loan (four months) is paid back. World Relief also receives technical assistance from its sister organization in the United States (World Relief International).

**7.5. Hermandad de Honduras (HdeH)**

HDH was founded in 1977 and is headquartered in the town of San Marcos in the Department of Ocotepeque. It serves the poor in the departments of Ocotepeque, Colon and Lempira. Specifically, it has activities in 13 communities in Ocotepeque, 3 in Colon, and 5 in Lempira. Seventy percent of the beneficiaries are men. Average monthly sales 2,125 Lempiras with average monthly incomes of 880 Lempiras. Seventy percent of the SSE credits are to the manufacturing sector and thirty percent to the service sector. Average loans are for less 2,500 Lempiras.

**8. SELF-SUSTAINABILITY OF THE PVOS:**

The ANDI/PYME Cooperative Agreement seeks to establish a self-sufficient financial mechanism that will give the informal sector access to credit through selected PVOs. ANDI will provide technical assistance and loan funds to the PVOs (see section 6 of this proposal). This assistance will enable the PVOs to improve their cost efficiency and increase their incomes. Attachment No. 1 indicates the level of portfolio needed so that the PVOs may become self-sustaining by 1995. To assist the PVOs in their goal to become self-sustaining ANDI conducts an assessment to identify the organization's strengths and weaknesses and determine if it qualifies to participate in its microenterprise program. After the assessment is conducted and a eligibility determination has been made, ANDI drafts a business plan for the organization describing the actions that have to be taken so the organization may become self-sustaining within the life of the project. Technical assistance is provided so the organization may restructure its financial policies and loan portfolio to ensure the highest return of its credit program. In addition, funds will be provided to increase the size of PVOs portfolios. ANDI will constantly monitor the business plan to ensure that recommendations are implemented and targets are met.

**8.1. Cost Efficiency/Self-Sufficiency:**

The ANDI/PYME Cooperative Agreement seeks to strengthen the self-sufficiency of the participating PVOs. This will be accomplished by providing intensive technical assistance as described in section 6 of this proposal and by providing additional loan funds so that the PVOs may enhance the size and quality of the credit portfolio. Table No. 1 of the Attachment shows financial projections which indicate when the PVOs will achieve their self-sufficiency and the portfolio level needed to achieve this objective. Table No. 2 provides information on the financial policies utilized by the PVOs in their credit programs. In addition, this table also provides general information about the impact of their loan portfolios.

**9. BUDGET/ILLUSTRATIVE FINANCIAL PLAN:**

Out of the total budget, USAID will finance 68% of the cost and ANDI and the PVOs will finance 32% of the budget.

Table No. 3

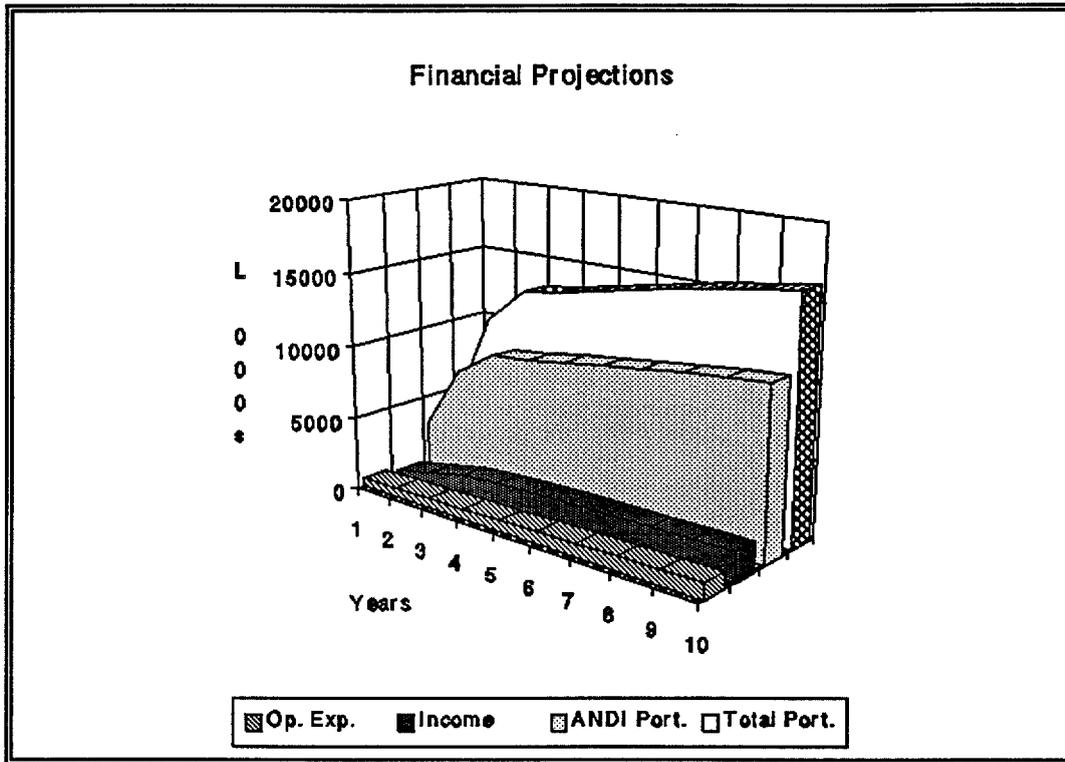
Illustrative Financial Plan (U.S. \$000s)				
Description	APPLE	USAID	Counterpart	Total
1. Institutional Support	0.0	900.0	814.8	1,714.8
2. Business Training	0.0	1,750.0	0.0	1,750.0
3. Training for NGOs	0.0	52.7	187.3	240.0
4. Information Network	0.0	47.0	119.4	166.4
5. Evaluation/Monitoring	0.0	5.2	0.0	5.2
6. TA to NGOs	0.0	0.0	221.8	221.8
7. Credit Fund	800.0	800 <sup>6</sup>	686.0	2,286.0
Total	800.0	3,555.0	2,029.0	6,384.0

#### 10. FINANCIAL VIABILITY:

The 2nd tier lending facility in ANDI will be capitalized with a grant of \$1.6 million. USAID/Honduras will finance 50% of the credit fund from its Small Business II Project and AID/W will match these funds through its Anti-Poverty Lending Program. The loan fund will provide credit to PVOs so that they may in turn provide these resources directly to the microenterprises. The financial projections of Attachment No. 6, indicate that ANDI/PYME will reach its break even point for its credit program during the second year of operation. All surplus funds generated by the loan fund will be utilized to capitalize the fund.

The following graph illustrates the performance of ANDI's loan fund. In the first year of operation ANDI's operating expenses will exceed the income earned from its portfolio. During the second year of operation however, ANDI will reach and surpass its break-even point. The income generated from there on is greater than its operating expenses. As may be observed in the graph, ANDI's portfolio will continue to increase throughout the 10 years projection. ANDI will finance 70% of the loans made by the PVOs. The graph also illustrates the total portfolio financed by both ANDI and the PVOs. For additional technical detail see attachment 6.

<sup>6</sup> The most recent obligation that includes five hundred thousand dollars for ANDI's poverty lending program was obligated by USAID/Honduras on September 11, 1992. The additional \$300,000 will be obligated from funds that were deobligated from another component of the small business II Project. The Mission is still in the deob/reob process for this amount. The Anti-Poverty Lending Program managed by AID/W/SMIE/PRE will contribute \$800,000, for ANDI's loan fund.



## 11. PROJECT TARGETS:

ANDI/PYME estimates that the PVOs will provide about 8,163 credits. All initial loan disbursements will be \$300 or less. Approximately 75% of the credit will be given to women owned or managed enterprises. The PVOs receiving assistance will provide training to approximately 6,400 MSSEs. The assistance given to these MSSEs will result in the creation of approximately 6,400 new jobs. By the end of 1996, ANDI expects that five of the assisted PVOs will be self-sufficient. In addition, ANDI's loan program will break-even during its second year of operation.

# **ATTACHMENTS**

## Attachment No. 1

<b>COST EFFECTIVENESS AND SELF-SUFFICIENCY (2)</b> <b>(From January 1 to December 1992)</b>						
<b>CONCEPT</b>	<b>IDH</b>	<b>FINCA</b>	<b>ODEF</b>	<b>HDH</b>	<b>WR</b>	<b>TOTAL</b>
<b>SOCIO-ECONOMIC IMPACT ON ENTREPRENEUR</b>						
Number of Beneficiaries in Portfolio by PVO	1520	3098	2200	358	1461	8637
Employment Generation by PVO	357	557	121	173	347	1555
Self/Existing Employment by PVO	595	1548	732	564	1421	4860
Estimated Average Sales Increase in SSEs	42%	25%	30%	65%	30%	32%
Estimated Average Income Increase in SSEs	45%	37%	31%	73%	35%	37%
<b>PVO's FINANCIAL IMPACT</b>						
Financial Self-sufficiency (Note 1)	96%	48%	38%	40%	51%	n.a.
Effective Interest Rate (to date)	36%	60%	51%	43%	60%	n.a.
Portfolio Contribution Margin	20%	16%	12%	10%	57%	n.a.
Avg. Portfolio Return (Fin. Income + Avg. Portfolio)	25%	37%	22%	12%	57%	n.a.
Average Financial Cost (Fin. Cost + Avg. Portfolio)	5%	21%	10%	2%	0%	n.a.
Cost per \$1.00 Portfolio (Expenses + Avg. Portfolio)	0.35	0.70	0.57	0.39	0.70	n.a.
Cost per \$1.00 Lent (Expenses + Loan disbursement)	0.42	0.20	0.39	0.47	0.19	n.a.
<b>Outstanding Loan Portfolio (thousands US\$)</b>						
Outstanding Loan Portfolio (thousands US\$)	512	285	293	261	102	1,453
Average Loan Portfolio (thousands US\$)	542	179	237	271	64	1,293
Break-even Average Loan Portfolio (thousands US\$)	578	650	1,299	808	64	3,399
Number of Loans Delinquent	775	N.A.	409	N.A.	N.A.	N.A.

<b>COST EFFECTIVENESS AND SELF-SUFFICIENCY (2)</b> (From January 1 to December 1992)						
<b>CONCEPT</b>	<b>IDH</b>	<b>FINCA</b>	<b>ODEF</b>	<b>HDH</b>	<b>WR</b>	<b>TOTAL</b>
<b>SOCIO-ECONOMIC IMPACT ON ENTREPRENEUR</b>						
Amount of Arrears > 30 days (thousands US\$)	220	7	61	23	4	315
Ratio of Loan in Arrears to Loan Portfolio (4)	43%	3%	21%	9%	4%	n.a.
<b>FINANCIAL PROJECTIONS (3)</b>						
Self-sufficiency Level 1993	106%	76%	60%	65%	68%	n.a.
Self-sufficiency Level 1994	122%	100%	80%	82%	85%	n.a.
Self-sufficiency Level 1995	140%	120%	100%	100%	100%	n.a.
Portfolio Contribution Margin 1993	18%	17%	15%	17%	46%	n.a.
Portfolio Contribution Margin 1994	19%	20%	23%	23%	45%	n.a.
Portfolio Contribution Margin 1995	20%	25%	25%	25%	45%	n.a.
Average Portfolio Return 1993	27%	40%	27%	29%	60%	n.a.
Average Portfolio Return 1994	30%	45%	35%	35%	63%	n.a.
Average Portfolio Return 1995	30%	55%	35%	35%	65%	n.a.
Outstanding Loan Portfolio 1993 (thousands US\$)	661	343	453	427	204	2,088
Outstanding Loan Portfolio 1994 (thousands US\$)(5)	735	447	577	486	311	2,557
Outstanding Loan Portfolio 1995 (thousands US\$)(5)	800	445	608	508	430	2,791

Notes: (1) Income - grant money - direct cost of lending - administrative expenses.

(2) Exchange rate 1992 = U.S. \$1.00 = L.5.70

(3) Exchange rate 1993 = U.S. \$1.00 = L.6.00

(4) IDH lowered its level of arrears to 27% after implementing its bad debt policies.

This is the first time in 11 years that IDH has written off bad loans.

(5) Does not include new PVOs that will be selected in the future to participate in the program.

n.a. = Not Applicable N.A. = Not Available  
Source: ANDI/PYME

## Attachment No. 2

FINANCIAL POLICY AND DATA (1) (December 1992)						
CONCEPT	IDH	FINCA	ODEF	HDH	WR	Total
<b>INTEREST:</b>						
Nominal Rate	24%	36%	24%	28%	36%	n.a.
Charged on Flat Basis	No	No	Yes (3)	Yes	Yes	n.a.
Charged on Declining Basis	Yes	Yes	Yes	Yes	No	n.a.
Paid in Advance	No	No	Yes (3)	No	No	n.a.
Paid Over the Loan Term	Yes	Yes	Yes	Yes	Yes	n.a.
Other Deductions	Yes	No	Yes	No	No	n.a.
<b>SAVINGS:</b>						
Forced Savings by PVO	No	No	No	Yes	No	n.a.
Forced Savings by Communal Bank	Yes	Yes	Yes	n.a.	Yes	n.a.
Percent of Loan or Amount per Period	10%	20%	10%	10%	20%	n.a.
Interest Rate Earned	No	No	No	0%	No	n.a.
Paid by Whom	No	No	No	No	No	n.a.
<b>FEES:</b>						
Initial Application Fee	5%	0%	2%	0%	0%	n.a.
Other Initial Charges	0%	0%	0%	0%	0%	n.a.
Other Fees	0%	0%	0%	0%	0%	n.a.
Late Annual Fees (delinquent)	24%	12%	36%	36%	36%	n.a.
<b>TERM:</b>						
Length of Loan Repayment (Working Capital)	12 m.	4m.	12 m.	12 m.	4m.	n.a.
Length of Loan Repayment (Fixed Assets)	24 m.	0	24 m.	24 m.	0	n.a.

FINANCIAL POLICY AND DATA (1) (December 1992)						
CONCEPT	IDH	FINCA	ODEF	HDH	WR	Total
<b>GENERAL PROGRAM INFORMATION:</b>						
Number of Clients - Male	980	0	48	286	0	1,314
Number of Clients - Female	540	3,098	2,152	72	1,461	7,323
Number of Loans Disbursements - Male	284	0	367	144	0	795
Number of Loans Disbursements - Female	298	267	133	33	124	855
Amount of Loan Disbursed - Male (Thousands US\$)	152	0	16	75	0	243
Amount of Loan Disbursed - Female (Thousands US\$)	176	661	393	14	372	1,616
Total Amount Being Loaned - Male (thousand US\$)	157	0	17	83	0	257
Total Amount Being Loaned - Female (thousand US\$)	171	661	401	16	372	1,621
Average Loan Size	702	131	158	509	123	1,622
Approximate Yearly Income of Clientele	1,200	388	438	258	300	2,584
Number of Branch Offices - Urban	2	1	1	0	1	5
Number of Branch Offices - Rural	4	2	4	3	2	15
Effective Rate Charged by Informal Money Lenders	520%	1040%	1040%	1040%	1040%	n.a.

NOTE: (1) Exchange Rate 1992 = Lps.5.70 per US\$1.00

(2) PYME = ANDI/PYME

(3) Flat charges paid in advance.

n.a. = Not Available

SOURCE: ANDI/PYME

## Attachment 3

<b>BUDGET - CREDIT PROGRAM (1)</b> <b>Figures in Thousand of US Dollars (2)</b> <b>(From January 1 to December 1993)</b>						
CONCEPT	IDH	FINCA	ODEF	HDH	WR	Total
<b>INCOME:</b>						
Interest Income from Loan to Clients	198	126	99	77	N.A	500
Fee Income from Loans to Clients	25	0	19	0	N.A	44
Interest Income from Other Sources	25	0	0	2	N.A	27
Income from Other Services	0	9	9	0	N.A	18
Operating Grants	9	30	74	62	N.A	175
Capital Grants	11	6	3	5	N.A	25
<b>TOTAL INCOME</b>	<b>268</b>	<b>171</b>	<b>204</b>	<b>146</b>	<b>N.A</b>	<b>789</b>
					N.A	
<b>FINANCIAL COSTS:</b>					N.A	
Cost of Commercial Money	58	47	59	38	N.A	202
Cost of Grant Money	0	0	0	0	N.A	0
Cost of Interest Payment on Savings Accounts	0	0	0	0	N.A	0
<b>TOTAL COSTS</b>	<b>58</b>	<b>47</b>	<b>59</b>	<b>38</b>	<b>N.A</b>	<b>202</b>
					N.A	
<b>LOAN MANAGEMENT COSTS;</b>					N.A	
Salaries and Benefits	62	59	69	45	N.A	235
Auditing, Legal, Computer and Miscellaneous Fees	4	6	4	5	N.A	19
Rent + Office Maintenance and Repairs	4	4	3	2	N.A	12
Insurance	0	1	0	5	N.A	5
Equipment Maintenance and Repair	5	1	1		N.A	7
Publicity	5	1	1	1	N.A	8
Basic Office Materials	5	4	1	3	N.A	13
Transportation of Field Staff	5	2	1	11	N.A	18

<b>BUDGET - CREDIT PROGRAM (1)</b> <b>Figures in Thousand of US Dollars (2)</b> <b>(From January 1 to December 1993)</b>						
CONCEPT	IDH	FINCA	ODEF	HDH	WR	Total
Per Diem, if Paid	4	9	1	5	N.A	19
Materials Costs for Loan Documentation	7	4	1	1	N.A	13
Bank Charges for Repayment Handling	0	0	0		N.A	0
Information Services on Clients	0	3	1	1	N.A	5
Bad Debt Reserve	13	2	12	4	N.A	31
Depreciation	3	4	7	15	N.A	29
Employee Retirement Reserve	4	4	5	3	N.A	16
Other Expenses		5	1	5	N.A	10
<b>TOTAL LOAN MANAGEMENT COSTS</b>	<b>121</b>	<b>109</b>	<b>108</b>	<b>103</b>	<b>N.A</b>	<b>440</b>
<b>LOAN MARGIN (DEFICIT)</b>	<b>89</b>	<b>15</b>	<b>37</b>	<b>5</b>	<b>N.A</b>	<b>146</b>
(-)Equipment Acquisition Fund	11	6	3	5	N.A	25
<b>Budget Margin (Deficit)</b>	<b>78</b>	<b>10</b>	<b>35</b>	<b>0</b>	<b>N.A</b>	<b>122</b>

NOTE: (1) Administrative and general expenses are entirely allocated at the credit program.

(2) Exchange Rate 1992 = Lps6.00 per US\$1.00

(3) PYME = ANDI/PYME

(4) Off of the amount US\$500.0 thousand will be disbursed as loan to PVOs.

N.A. = Not Available

SOURCE: ANDI/PYME

## Attachment 4

BALANCE SHEET							
Figures in Thousands of US Dollars (1)							
(As of December 1992)							
CONCEPT	IDH	FINCA	ODEF	HDH	WR	Total	PYME (2)
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and Bank	180	44	110	61	53	449	21
Loan Portfolio (Net)	450	283	253	135	102	1,222	0
Account Receivables	0	2	2	35	2	41	41
Inter-fund Account Receivables	302	0	0	29	0	331	0
Inventory	0	0	8	45	4	57	0
Pre-Paid Expenses	1	1	1	2	0	5	11
<b>TOTAL CURRENT ASSETS</b>	<b>933</b>	<b>330</b>	<b>374</b>	<b>307</b>	<b>160</b>	<b>2,105</b>	<b>72</b>
<b>FIXED ASSETS:</b>							
Loan Portfolio (Net)	76	0	25	101	0	201	0
Portfolio in Trust	274	0	0	0	0	274	0
Fixed Assets (Net)	95	30	30	120	33	308	23
Differed Charges	1	0	0	0	0	1	0
Other Assets	7	0	0	0	0	7	0
<b>TOTAL FIXED ASSETS</b>	<b>453</b>	<b>30</b>	<b>55</b>	<b>221</b>	<b>33</b>	<b>791</b>	<b>23</b>
<b>TOTAL ASSETS</b>	<b>1,386</b>	<b>360</b>	<b>429</b>	<b>528</b>	<b>193</b>	<b>2,896</b>	<b>95</b>
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES:</b>							
Debt (Short Term)	3	98	104	0	0	204	0

<b>BALANCE SHEET</b>							
<b>Figures in Thousands of US Dollars ((1)</b>							
<b>(As of December 1992)</b>							
CONCEPT	IDH	FINCA	ODEF	HDH	WR	Total	PYME (2)
Account Payable	302	2	16	29	26	374	22
Inter-Fund Account Payable	23	3	0	20	0	46	0
<b>TOTAL CURRENT LIABILITIES</b>	<b>305</b>	<b>100</b>	<b>120</b>	<b>29</b>	<b>26</b>	<b>579</b>	<b>22</b>
<b>FIXED LIABILITIES</b>							
Debt (Long Term)	403	98	138	261	0	900	0
Savings from Clients	0	0		27	0	27	0
Differed Credit (enclosed prepaid interest)	17	6	4	0	4	31	0
Operating Grant Funds (Pending application)	0	29	30	103	0	162	0
<b>TOTAL FIXED LIABILITIES</b>	<b>420</b>	<b>133</b>	<b>171</b>	<b>392</b>	<b>4</b>	<b>1,119</b>	<b>0</b>
<b>TOTAL LIABILITIES</b>	<b>725</b>	<b>233</b>	<b>291</b>	<b>421</b>	<b>30</b>	<b>1,698</b>	<b>22</b>
<b>EQUITY:</b>							
Contributions and Capital Grants	546	121	65	58	192	982	75
Accumulated Surplus (Losses)	116	7	74	50	(29)	217	(1)
<b>TOTAL EQUITY</b>	<b>661</b>	<b>127</b>	<b>139</b>	<b>108</b>	<b>163</b>	<b>1,198</b>	<b>74</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,386</b>	<b>360</b>	<b>430</b>	<b>529</b>	<b>193</b>	<b>2,896</b>	<b>96</b>

NOTE: (1) Exchange Rate 1992 = Lps.5.70 per US\$1.00

(2) PYME = ANDI/PYME (Credit program starts second semester of 1993)

SOURCE: ANDI/PYME

Attachment 5

<b>INCOME STATEMENTS - CREDIT PROGRAM (1)</b> <b>Figures in Thousands of US Dollars (2)</b> <b>(From January 1 to December 1992)</b>							
CONCEPT	IDH	FINCA	ODEF	HDH	WR	Total	PYME (5)
<b>INCOME:</b>							
Interest Income from Loan to Clients	122	66	44	33	36	302	0
Fee Income from Loans to Clients	13	0	8	0	0	20	0
Interest Income from Other Sources (On savings)	3	2	5	4	2	17	1
Income from Other Services	37	3	9	14	1	63	3
Operating Grants	45	76	182	135	29	468	294
Capital Grants	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8
<b>TOTAL INCOME</b>	<b>220</b>	<b>148</b>	<b>248</b>	<b>186</b>	<b>69</b>	<b>870</b>	<b>306</b>
<b>FINANCIAL COSTS:</b>							
Cost of Commercial Money	27	9	24	8	26	93	0
Cost of Grant Money	0	29	0	0	0	29	0
Cost of Interest Payment on Savings Accounts	0	0	0	1	0	1	0
<b>TOTAL COSTS</b>	<b>27</b>	<b>38</b>	<b>24</b>	<b>9</b>	<b>26</b>	<b>124</b>	<b>0</b>
<b>LOAN MANAGEMENT COSTS;</b>							
Salaries and Benefits	76	56	68	53	24	277	93
Auditing, Legal, Computer and Miscellaneous Fees	n.a.	8	3	2	2	15	16
Rent + Office Maintenance and Repairs	n.a.	3	12	n.a.	n.a.	16	6
Insurance	n.a.	0	0	n.a.	n.a.	0	5
Equipment Maintenance and Repair	7	1	2	n.a.	n.a.	10	7
Publicity	n.a.	1	1	n.a.	n.a.	2	4
Basic Office Materials	n.a.	4	7	n.a.	n.a.	11	5

INCOME STATEMENTS - CREDIT PROGRAM (1)							
Figures in Thousands of US Dollars (2)							
(From January 1 to December 1992)							
CONCEPT	IDH	FINCA	ODEF	HDH	WR	Total	PYME (5)
Transportation of Field Staff	n.a.	5	9	n.a.	n.a.	14	3
Per Diem, if Paid	n.a.	4	8	n.a.	n.a.	12	7
Materials Costs for Loan Documentation	n.a.	4	1	n.a.	n.a.	5	0
Bank Charges for Repayment Handling	n.a.	0	0	n.a.	n.a.	0	0
Information Services on Clients (Phone + others)	n.a.	3	8	n.a.	n.a.	11	3
Bad Debt Reserve	18	3	10	8	0	39	0
Depreciation	n.a.	4	4	11	9	28	7
Other Administrative Expenses (3)	33	11	10	30	13	97	1
Other General Expenses (3)	20	3	4	14	4	45	3
<b>TOTAL LOAN MANAGEMENT COSTS</b>	<b>155</b>	<b>110</b>	<b>146</b>	<b>118</b>	<b>52</b>	<b>581</b>	<b>157</b>
<b>LOAN MARGIN (DEFICIT)</b>	<b>38</b>	<b>0</b>	<b>77</b>	<b>58</b>	<b>(9)</b>	<b>165</b>	<b>(150)</b>
Equipment Acquisition Fund	n.a.						

NOTE: (1) Administrative and general expenses are entirely allocated to the credit program.

(2) Exchange Rate 1992 = Lps.5.70 per US\$1.00

(3) Whenever it was not possible to obtain a break down of administrative and general expenses.

(4) n.a. = not available

(5) PYME = ANDI/PYME (Credit program starts second semester of 1993)

SOURCE: ANDI/PYME

## FINANCIAL PROJECTIONS FOR ANDI/PYME

ASSUMPTIONS	
9,600,000	AMOUNT OF FUNDS FOR CAPITALIZATION
70%	PORTFOLIO FINANCED BY ANDI
17%	INTEREST RATE CHARGED TO PVOS
576,000	OPERATING EXPENSES OF ANDI
5.00%	DEFAULT RATE
8.00%	YEARLY PERCENTAGE INCREASE IN OPERATING EXPENSES
DISBURSEMENT SCHEDULE IN LPS.	
3,000,000	YR.1
4,800,000	YR.2
1,800,000	YR.3

DESCRIPTION \ YEARS	1	2	3	4	5	6	7	8	9	10
TOTAL PVO PORTFOLIO	4,285,714	10,577,143	12,946,286	13,321,488	13,883,504	14,430,036	14,952,593	15,441,133	15,883,837	16,266,846
TOTAL PORTFOLIO	3,000,000	7,404,000	9,062,400	9,325,042	9,718,452	10,101,025	10,466,815	10,808,793	11,118,686	11,386,792
ANDI's PREVIOUS YR. PORTFOLIO	0	2,925,000	7,033,800	8,609,280	8,858,790	9,232,530	9,595,974	9,943,474	10,268,354	10,562,752
PROJECT DISBURSEMENT	3,000,000	4,800,000	1,800,000	0	0	0	0	0	0	0
PREVIOUS YEAR PROFIT (LOSS)	0	(321,000)	228,600	715,762	859,663	868,495	870,841	865,319	850,332	824,041
INCOME	255,000	850,680	1,387,608	1,585,257	1,652,137	1,717,174	1,779,359	1,837,495	1,890,177	1,935,755
OPERATING EXPENSES	576,000	622,080	671,846	725,594	783,642	846,333	914,040	987,163	1,066,136	1,151,427
PROFIT (LOSS)	(321,000)	228,600	715,762	859,663	868,495	870,841	865,319	850,332	824,041	784,328
CUMULATIVE PROFIT (LOSS)	(321,000)	(92,400)	623,362	1,483,025	2,351,520	3,222,361	4,087,680	4,938,012	5,762,053	6,546,381

The financial projections are based on disbursement level of L9.6 million (\$1.6 million). ANDI will finance 70% of the loans made by the PVOs through its 2nd tier lending facility. ANDI's funds will be leveraged, since the PVOs will finance 30% of each loan from their own resources. During the first year of operation, the PVOs will disburse about L4.3 million, of which ANDI will finance L3.0 million. By year three, the entire L9.6 million managed by ANDI will have been drawn down, yielding a composite portfolio of almost L13.9 million (L9.7 millions financed by USAID and L4.2 million financed by the PVOs). The loan fund will have a spread of 17% which is equal to the Central Banks of Honduras rediscount rate. Total income is calculated by multiplying the fresh monies received during the year and dividing it into two, since the portfolio is not disbursed up-front. The old portfolio of the previous year however is assumed fully disbursed and earn the full 17% spread. The operating expenses of ANDI have been projected taken into account its direct cost, overhead and other management expenses reflected in attachment 3. We have also assumed that operating expenses will increase at a yearly rate of 8%. In addition, we have estimated that we will have a default rate of 5% of the portfolio every year. Under these assumptions, the loan fund will have an operating loss of approximately L321,000 during year one. This will be covered by the loans fund capital the next year. From then on, all profits will be reinvested producing a return of 17%. By the tenth year of operation the composite portfolio will be 1 L16.2 million of which L11.4 will be ANDI's outstanding loans to the PVOs.