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**Municipal Credit Program for Family Sanitation
CHF/HONDURAS**

Quarterly Performance Report

Grantee: Cooperative Housing Foundation
Cooperative Agreement Number: 522-A-00-98-00004-00
Reporting Period: July 1, 2001 to September 30, 2001

A. Background

CHF was awarded a Cooperative Agreement by USAID to carry out a Municipal Credit Program for Family Sanitation in two communities in Honduras: Nacaome and Choloma. The Cooperative Agreement was effective December 12, 1997, and the original Project Assistance Completion Date (PADC) was December 11, 1999. The program will support USAID's objective of assisting local governments in Honduras to provide appropriate sanitation solutions to their constituent populations by maximizing USAID's investments in the installation of sewer systems in the two communities. The program was originally planned to cover a large portion of the demand for sewer hook-ups in Nacaome and a small pilot project in Choloma, and was originally funded with a \$548,677 grant from USAID, a \$104,191 in-kind contribution from the municipalities, and a \$50,000 loan from CHF for loan capital.

This Cooperative Agreement was amended in May of 1999 increasing the program funding by \$200,000 and extending the program to December 31, 2000. This additional funding resulted from a request by CHF Honduras to attend to the more than 1200 families in the Nacaome area who experienced home loss or damage from hurricane Mitch. This additional loan capital was used for home repair and home improvements in Nacaome, Choluteca and San Lorenzo.

In February of 2001, an additional \$50,000 in funding was authorized by USAID for disbursement of loans destined for both sanitation and home improvement in the southern region of Honduras. Another \$50,000 was also approved this quarter and will be invested by CHF Honduras before December 31, 2001.

B. Expected Results:

The goal of the Municipal Credit Program for Family Sanitation is to improve the health condition of households in the municipalities of Nacaome, Choluteca, and San Lorenzo with particular emphasis on children's health.

Specific objectives of the sanitation credit program are as follows:

- Strengthen the institutional capacity of the municipal entities administering the program in the areas of health education, loan monitoring and recovery, financial management and supervision;
- Provide health and sanitation education to all clients and their families;
- Provide access to credit to the targeted populations in order to finance sanitation needs; and
- Help low income households build appropriate sanitation facilities to connect with the recently installed municipal sewer systems.

The Municipal Credit Program for Family Sanitation was originally designed to disburse 558 loans for sewer connections and various types of sanitation units within the first phase of the program of which approximately 470 loans were planned for Nacaome and 88 for Choloma. The original goals have been changed as the decision was made to implement in Choluteca instead of Choloma. It is now estimated that a larger percentage of the sanitation loans will be given in Choluteca. In addition, in May of 2000 CHF obtained approval to enter San Lorenzo to place approximately 100 loans for home improvement and sanitation with an emphasis on home improvement for many families who were affected by the Hurricane. A revolving loan fund will be established that was originally expected to fund a total of 754 loans after two years and over 1,000 loans within six years. The 1,000-loan mark was reached in second quarter 2001 several years ahead of schedule.

The goal of the program amendments which cover home repair and home improvement loans is to provide access to credit and technical assistance so that homes can be repaired and/or improved to ensure a safe and secure home for beneficiaries.

Specific objectives of the home repair/improvement amendment include:

- Provide access to credit to the targeted population in order to finance home repairs and improvements;
- Provide technical assistance to beneficiaries enabling them to identify and resolve their most urgent home repair/improvement problems.

The program amendments will allow an additional 417 families to receive home repair/improvement loans (\$600 average loan size) during the USAID funded phase of the program. A revolving loan fund will be established that will be mixed with the sanitation credit revolving fund. Together, these two program funds will continue to lend money in Nacaome, Choluteca, and San Lorenzo for sanitation and home improvement construction. It is also expected that the program will expand into other USAID priority municipalities when the demand for loans is met in the first three municipalities.

C. Current Core Activities:

Monthly activities continue to focus on loan placement and loan recovery. As of the 30th of September a total of 1,098 loans for sanitation and home improvement had been placed in the cities of Choluteca, Nacaome and San Lorenzo, Honduras. This is 98 loans over the 6-year goal of 1000. All other goals with USAID funding have been met to date except for the commitments with the September 2001 amendment that was just recently signed. CHF should disburse these new loans by the first week in December 2001.

Nacaome picked up the pace during the 3rd quarter of 2001 by placing a total of 29 loans versus 20 and 21 loans for the 1st and 2nd quarters respectively of 2001. Loan placement generally drops during the 3rd quarter with the advent of the rainy season; however, it was a drought that affected loan placement this year. Even though the drought had an impact on the program, it is also becoming obvious that the immediate demand for sanitation loans has been met. Until new sewer systems come on line, it is doubtful that a large number of new loans will be disbursed. Loans for home improvements are always in demand, and repeat customers are becoming an ever increasing portion of the loan portfolio.

Placement rates for all three municipalities dropped from 72 in the 2nd quarter to 56 in the 3rd quarter of 2001. Of these 56 loans, a total of 42 were for home improvement and the other 14 for sanitation. The entire loan placement amount was covered by loan reflows during this quarter and amounted to the equivalent of \$44,793 USD. Although CHF would prefer that the demand be greater, the fact is that the current demand utilizes 100% of the loan reflows returned to CHF each month. In order to attend to a larger demand, CHF would have to seek funding from non-reflow sources.

CHF is working hard to make the Municipal Credit Program a sustainable program for the long term. CHF/Honduras used the sophisticated Waterfield Model for Micro-finance institutions to determine the factors needed for sustainability with current loan placement and interest rates. The model indicated that a higher interest rate was needed in order to make this Program sustainable as well as an increase in the average loan portfolio balance maintained by CHF. Based on this analysis, CHF raised interest rates in the south to 36%. Unfortunately, after approximately three months of promotion, CHF determined that the 36% rate had squelched demand and the rate was subsequently dropped back to 30%. (It is interesting to note that CHF maintains a 36% interest rate in other areas of Honduras with other programs, and that 36% is the going rate among other credit NGOs.) Placement rates have risen in Nacaome since the interest rate change; however, Choluteca has continued with a lower placement rate. It seems the drought continues to affect demand in this city.

In early September, CHF Tegucigalpa-based personnel met with all the mayors from the three participating municipalities individually to discuss the progress and future of the Program in their cities. All three mayors reiterated their interest in the continuing

implementation of the Program in their municipalities. The mayor in Choluteca expressed interest in helping citizens connect to a new water system and the mayor in San Lorenzo promised to look for several candidates to fill the promoter's position currently vacant in his municipality. The mayor of Nacaome also encouraged continued loan placement in the neighborhood of Agua Fria and wherever possible, within the urban center.

NACAOME

As mentioned above, the loan placement picked up slightly during the final months of the 3rd quarter due to CHF's entrance into the Agua Fria neighborhood located 30 minutes west of the city's center. In the month of September alone, 11 loans were placed in Agua Fria.

The mayor of Nacaome continues to express his strong support for the Program and provides important advice to CHF regarding the most promising locations for future loan placement. Mayor Tadeo Flores suggested the Agua Fria neighborhood on repeated occasions and this has proven to be sound advice.

Loan promoter Maria Irene Sanchez continues to function as local construction supervisor in Nacaome in addition to her credit responsibilities. This is exciting news to CHF as the Construction Supervisor position has historically been held by a male colleague. She is supported by the Tegucigalpa based Credit Official, Pedro Villatoro, and Program Supervisor, Julian Rodriguez. Tegucigalpa based Construction Supervisor, Aristides Moncada, resigned from his position due to health reasons in August. CHF has since hired Miguel Funez, who not only brings construction knowledge to the position, but also 17 years of loan recovery experience.

CHOLUTECA

~~The team in Choluteca placed a total of 27 loans in the 3rd quarter of 2001. The majority of these loans (17) were for home improvement, and 10 loans were for sanitation. A total of 445 loans (\$311,192 USD) were placed as of September 30th in Choluteca. The Mayor of Choluteca, in a recent meeting with CHF, indicated that a new water system is scheduled to come on line in the near future and that he wanted the Municipal Credit Program to provide financing to those individuals requiring assistance to connect to the system. He estimates that more than 1,800 families could be interested in the program.~~

The mayor, at CHF's request, fired Loan Promoter Carlos Agripino due to the fact that Mr. Agripino was spending his time on political issues and dedicating little time to his responsibilities with the CHF program. The dynamics of the team suffered as a result of Mr. Agripino's poor job performance and have greatly improved since his departure.

SAN LORENZO

CHF/Honduras has continued to make the effort to collaborate with the Municipal office in San Lorenzo. The bulk of these efforts have been directed at finding a replacement for

former loan promoter Cristo Lopez. Several meetings have been held with the Mayor to fill this vacancy as soon as possible, but as of early October 2001, nothing had been settled. The mayor and CHF had conducted interviews, and a candidate was selected; unfortunately, the candidate rejected the position due to the fieldwork requirement. CHF finally took the initiative to hire Raul Lozano, who had worked for the CHF Starter Home project in Choluteca, to function as a temporary loan officer paid for by CHF. CHF would like the mayor to hire Raul on a permanent basis, but because Raul resides just on the other side of the municipal line between San Lorenzo and Choluteca, the mayor has rejected the idea.

CHF/Honduras has decided to resume loan placement in San Lorenzo even though the mayor has not hired a new Loan Promoter. CHF will continue working with Raul Lozano and is currently exploring the possibility of opening a separate CHF office in San Lorenzo.

The lack of loan placement in San Lorenzo since March has had a negative impact on the program. More than \$10,000 has been lost in potential interest revenue, and an increase in loan arrears has also threatened the program's continued success. CHF has made every effort to work with the mayor in San Lorenzo, but it has reached the point where the relationship has proven too costly and is affecting not only the program assets, but also more importantly, the potential beneficiaries that live in this Municipality.

SUMMARY AMOUNTS for The Municipal Credit Program in the three participating municipalities for the third quarter of 2001:

Credit:

Number of loans disbursed this quarter: 56	Cumulative: 1098
Amount of loans disbursed this quarter: \$44,793.15	Cumulative: \$750,220.38

Sanitation facilities constructed this quarter: 14
 Sanitation units, bathrooms, wash facility with septic tank: 4
 Sanitation units, bathrooms, wash facility, connection to sewer: 6
 Sanitation units, bathrooms, wash facility: 4
 Elevated water storage tank: 0

Home Improvements: 42

Construction and Employment Generated:

Number of person months employment generated: 84	Cumulative: 1,642
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Health and Sanitation Education:

Health and Sanitation workshops held this quarter: 35	Cumulative: 293
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Participants in health and sanitation education this quarter: 394	Cumulative: 3,631
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Municipal Development:

The reduction of personnel in the **Nacaome** office in April of 2001 has had no negative effect on the Program performance in this Municipality. Loan Promoter/Construction Supervisor Maria Irene has quickly learned her new responsibilities with the Program and the team managed to place more loans in the 3rd quarter of 2001 than any other quarter this year. Maria Irene is currently learning to ride the motorcycle that has been assigned to Nacaome and expects to be able to increase loan placement and recovery once she can ride the motorcycle proficiently. The fact that CHF was able to convince the mayor to maintain a staff just large enough to manage the program efficiently is considered a success.

The mayor in Nacaome continues to pledge his unswerving support for the project, and for the most part follows through with his promises. During a recent meeting in September 2001 between the Municipality and CHF, the mayor expressed his willingness to monitor and encourage more fieldwork on behalf of the CHF staff. The phenomenon of comfortable office work with limited visits to the field is perhaps not unique to the southern region of Honduras, but is alive and well as a modus operandi in Nacaome.

CHF has found it necessary to emphasize to the Program staff in all three municipalities that the bulk of their work is outside of the office. The influence of close by government employees that draw a steady paycheck based on revenue makes it harder to convince CHF municipal-based staff that their income is directly based on their performance. Recent staff cuts have helped to make this point to existing staff, but CHF felt it necessary to call on the mayor in Nacaome to reiterate this point.

The Municipality of Nacaome received 12,566 Lps. of income from interest and commissions in the months of July and August of 2001 or the equivalent of \$813 USD. This amount will rise once the September figures are calculated due to a relatively large loan placement during this month.

Loan placement rates dropped during this quarter, which has affected the income levels for the Municipality in **Choluteca**. The municipality received 22,666 Lps. during the months of July and August or the equivalent of \$1,466 USD and will receive an additional amount for September raising this amount further. The increase will be limited for the month of September due to poor placement levels where only four (4) loans were placed in all of Choluteca.

The mayor in Choluteca has asked CHF to participate in the effort to connect some 3,000 citizens to a recently installed sewer system in his municipality. He predicts that approximately 1,800 of these individuals may be interested in taking a loan to connect to the system and many might be interested in building a sanitation unit for the family as well.

With the advent of this new project, placement levels could soar in Choluteca.

As a result of the lack of loan placement during the 3rd quarter of 2001, income dropped to 8,682 Lps. for the municipality of **San Lorenzo** during July and August of 2001. This is still a gain for the municipality since it has not had any direct labor costs since March when the Loan Promoter left his position. As mentioned before, CHF is seriously considering dropping this particular municipality and working independently to ensure Program success in San Lorenzo. This could turn out to be a temporary measure as mayoral elections are scheduled for the end of November, and the current mayor is not running for re-election.

San Lorenzo is a good example of the mercurial reception that the program has received from the mayors. When the program first started, the mayor was extremely happy and loved the additional income that the program produced. Once CHF objected to some of the mayor's choices for program staff, due to the fact that the candidates were qualified by their relationship with the mayor, and not their knowledge of the tasks at hand, the relationship was strained. Further, the Loan Promoter, Cristo Lopez, who stole several thousands of dollars from the program, is intimately involved with the mayor's niece.

D. Current Buy-Ins

None

E. Current Sub-Contracting Activities

None

F. Performance

All quantifiable goals for the program have been met including the number of loans to be disbursed and counterpart contribution. The number of people who have received health and sanitation education has passed the 3,000 mark, a number much greater than originally projected.

The strengthening of the municipalities is an on going process that has shown positive results to date. That said, the biggest challenge of the program is working through the municipal offices. It is a constant challenge to convince the mayors to manage the program in an expedient and non-partial manner. The loan promoter position in San Lorenzo, for example, has been vacant since March of this year. CHF finally had to step in and fill the position with its own employee so as to curtail the negative impact on the late payment rate and negative impact caused by zero loan placements.

Despite CHF efforts to achieve Program sustainability with an increase in the interest rate, the Program has recently begun to de-capitalize itself. CHF/Honduras is working to correct this situation from various fronts: interest rates, cost per loan and average outstanding loan portfolio balance. The interest rate must be able to cover operational and financial costs. That said, the rate must be one that is acceptable to the markets in which we work. The current 30% interest rate is acceptable if we achieve a lower cost per loan, and increase the loan portfolio size thus distributing fixed costs over a larger income base. CHF is working to reduce program costs and to identify additional sources of funding to inject more capital into the program.

G. Statement of Work

The statement of work has not changed.