

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

Final Performance Report

Grantee: CHF International
Cooperative Agreement Number: 522-A-00-98-00004-00
Reporting Period: December 12, 1997 to March 31, 2002
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A. Background

USAID awarded CHF a Cooperative Agreement 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. CHF designed the program to 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 designed 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.

USAID amended this Cooperative Agreement 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 south of Honduras 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, USAID authorized an additional \$50,000 in funding for both sanitation and home improvement loans in the southern region of Honduras. Another \$50,000 was also approved in third quarter 2001 extending the PADC to December 31, 2001. The total amount obligated for this program was \$848,677. USAID also approved a no-cost extension extending the program for an additional 3 months through March 31, 2002.

B. Expected Results

The main goal of the Municipal Credit Program for Family Sanitation was 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 were as follows:

- X 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;
- X Provide health and sanitation education to all clients and their families;
- X Provide access to credit to the targeted populations in order to finance sanitation needs; and
- X 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 were changed based on the decision to implement in Choluteca instead of Choloma. In addition, in May of 2000 CHF obtained approval to enter San Lorenzo to place home improvement and sanitation loans with an emphasis on home improvement for the many families who were affected by Hurricane Mitch. Based on the original proposal, a revolving loan fund was to have been established funding a total of 754 loans (including reflows) after the initial two year contract was completed and 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 was to provide access to credit and technical assistance so that homes could be repaired and/or improved insuring a safe and secure home for beneficiaries.

Specific objectives of the home repair/improvement amendments include:

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

The program amendments were approved to provide an additional 480 families with loans for home repair/improvement (\$600 average loan size) during the USAID funded phase of the program. A revolving loan fund has been 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 as the demand for loans is met in the first three municipalities.

C. Core Activities

The objectives of this program were met through three main program activities including

loan promotion and disbursement, supervision of home improvements and sanitation works, and health education. These activities in turn had a positive impact on the capacity of each municipality to provide services to their populations and improve the percentage of families that connected to the sewer systems built with USAID financing. Health education and connections to the sewer systems and other types of sanitation facilities improved the health and well being of the beneficiary families. The program also had a positive impact on the community in general reducing the amount of gray water runoff in the streets and decreasing stagnant water, which in turn reduced the number of mosquitoes that cause dengue, malaria and other illnesses.

Municipal Development

The participation of the mayors and their staff varied greatly over the four years of this program. In the beginning in Nacaome, it was difficult to convince the Mayor to participate actively in the program. Once he saw the positive impact of the program on the municipality's income and on his image for supporting the program, his support grew. There were times, however, over the course of his term that his support and involvement varied causing problems with respect to hiring new loan promoters or firing some who were not performing. The same inconsistent support was also encountered in both Choluteca and San Lorenzo. CHF needs to manage the loan program in a consistent and orderly fashion in order to meet loan distribution and repayment goals.

Although the cooperative agreement with USAID has ended, the program continues to support the municipality by encouraging sewer connections and providing loans through the program reflows. The new connections to the municipal sewer and water systems continue to increase municipal income through the one-time connection fees and monthly usage charges, reduce sewage in the streets, and improve the overall environment of the municipality which responds directly to the needs of the general population.

There were also many subtle benefits to this program such as transparency in operations and provision of benefits. When the program originally began, many people assumed they would not be able to participate due to their political affiliations. Others were surprised that their political affiliations or positions within the municipality did not provide them with special consideration. CHF had to deny loans to municipal employees and city council members because they did not meet program requirements. The municipal employees in charge of the program were afraid to deny loans at first, but CHF was insistent that the rules be followed. In the end, the citizens of these municipalities respected the program, for its transparent and fair application of the rules.

During the last semester of the program, CHF negotiated with the outgoing mayors of each municipality to move the Loan Promoters onto the CHF payroll. This was done to ensure that there would be no interruption of program activities during the transition to new mayors in January 2002. Instead of paying the mayors a percentage of the interest generated each month, CHF is now paying a flat fee for the use of the office space and supplies. This arrangement will continue even though the cooperative agreement has been closed.

Health Education

The program required that at least one adult member of each beneficiary family (sanitation loans only) participate in a short course on the relationship between health and hygiene, prevention of communicable diseases, proper maintenance of a sanitation facility and the treatment of water for human consumption. The local health center doctors conducted these courses on a volunteer basis, and the beneficiaries were very interested in learning more. There was always a great deal of participation by the beneficiaries, and the doctor in Nacaome joked that he had to kick the beneficiaries out after the course was over because many wanted to stay and learn more.

In addition to offering the health course to the beneficiaries, CHF also coordinated with several of the local schools to provide the same health education in the schools. CHF also arranged to have a local company donate small bars of soap to provide to each student. The bar of soap, along with literature about health education and the CHF program, were distributed to the children with the hope that each child would share with his/her family the message of the importance of good sanitation and hygiene.

See Annex A for a copy of the brochure provided. This brochure was previously designed by CHF in coordination with UNICEF.

Loan Promotion

CHF originally promoted the program in all neighborhoods that had access to the sewer systems - systems that had either been financed by USAID or other donors. During the first couple of years of the program, CHF gave priority to sewer connections but still attended to requests for loans for sanitation facilities such as septic tanks. CHF did this to ensure that funds were available to connect the largest number of families possible to the municipal sewer systems. It is interesting to note that there was a huge demand for septic tanks in areas where the sewer systems did not pass. This demand in some cases was greater than the demand for sewer connections perhaps due to the larger population without access to the sewer line.

Once the majority of the demand for sewer hookups was met, CHF began to disburse loans depending on the demand without a preference for sewer connections. Almost any type of home improvement from cement floors to new secure roofs and room additions has a positive impact on the health and well being of a family.

In order to reach the lower income families, CHF promoted smaller loans for progressive home improvements. A family could connect to the sewer system and build a flush toilet first, and then take out a second and subsequent loans(s) for the showers, water basin improvement, etc. CHF also worked with each beneficiary providing cost-saving ideas such as sharing existing walls and placing the doors flush against a corner to save on framing.

Construction of Sanitation Facilities and Home Improvements

Each beneficiary family decides on its home improvement priorities, but CHF promotes the connection to the sewer system if that benefit is available and has not been taken advantage of yet. The CHF Construction Supervisor also works with each client to help to estimate the

cost of the new construction and suggest design ideas. A third party contractor employed by the beneficiary, however, prepares the formal design and cost quote. This is done to avoid conflicts of interest and to ensure that the beneficiary takes responsibility for the work to be done.

Once the beneficiary has a budget for the new construction, CHF reviews the budget, focusing on the cost of materials, cost of labor and quantity of materials. CHF also reviews the proposed beneficiary counterpart and the source of the counterpart. Only works that can be completed with the first loan are approved. For example, CHF does not lend to build four walls and a floor if there is no money to complete the roof.

CHF did require that each beneficiary attend a construction workshop. These workshops were designed to educate the beneficiary about the do's and don'ts of hiring construction contractors, buying materials and supervising construction. CHF also shared several cost-saving suggestions in the workshops. Taking into consideration the value of the beneficiary's time, CHF later summarized the workshop into a one-page brochure that is given out to each new beneficiary in lieu of giving a workshop.

CHF makes two loan disbursements. The first disbursement is made upon signing the contract, and the second one is made once the beneficiary has purchased the needed materials and has started building. This is done to ensure that the beneficiary makes the proposed home improvement and that the loan funds are not diverted to meet other cash needs that could result in repayment problems.

In all, CHF makes a minimum of 3 construction supervision visits. One visit is to review the proposed budget and project sketch, the second is to approve the second disbursement after the materials are purchased, and the third is to supervise the completion of the work. If the work is not completed, CHF continues to follow up as many times as needed.

D. Current Buy-Ins

None

E. Current Sub-Contracting Activities

None

F. Performance

The following table summarizes the quantifiable goals and results of the program including all program amendments:

Indicator	Goal	Results	% Achieved
No. of Sanitation Loans	558	458	82%
No. of Home Improvement Loans	480	879	183%
Amount of Sanitation Loans	\$267,000	\$351,388.83	132%
Amount of Home Improvement Loans	\$294,000	\$590,432.36	201%
No. Municipalities Served	3	3	100%
Persons Trained	896	3,353	374%
Months of Employment Generated	1,326	2,006	151%
Total Counterpart Generated	\$213,248	\$564,376	265%

One can see from the table above that all objectives of the program were met or exceeded. *Please see Appendix B for a detailed breakdown of the loans per municipality and distribution between sanitation and home improvement loans.*

Loans Disbursed

The combined goals for both the number and amount of loans disbursed were exceeded, and CHF continues to disburse approximately 40 new loans a month totaling an average of \$38,000. The specific goal for sanitation loans was not met even though the amount disbursed was 132% more than proposed. This was due to the increase in material costs during the 4 years of the program.

The loan goals were exceeded in part due to the longer timeframe that the program ran which allowed new loans from reflows to be counted towards the program goals. Although the extension of time improved the reported results, it is important to note that CHF predicted that 1,000 loans would be disbursed in 6 years - a goal that was met in only three. In addition, all intermediate goals for program extensions were met in the originally predicted timeframe.

The demand for additional loans was also met by CHF through a redistribution of CHF loan funds. That is to say that CHF met loan demand with funds from other CHF/Honduras loan programs.

Counterpart

CHF had an initial counterpart commitment of \$50,000 in loan funds, and the municipalities were expected to contribute \$104,191 in in-kind contribution. Subsequent amendments increased the total counterpart to approximately \$213,248. This number is approximated as each addendum stated a different counterpart contribution percentage, but the actual numbers in the addendums do not match. CHF therefore took the highest number in each addendum as the counterpart requirement. To date, CHF and the municipalities, in the form of CHF loan capital, in-kind contributions, program reflows and materials and equipment, have provided \$564,376 in counterpart. The counterpart contribution clearly exceeds the expectations of the program surpassing the overall goal by 265%.

Please see Appendixes C and D for the details of counterpart provided by CHF and the municipalities.

Health Impact

In March 2001, CHF employed local consultants to conduct an impact study on the health benefits of the program as they related to the sanitation loans and the health education provided through the program. The study indicated that 100% of the families interviewed had used the loans funds for the intended purpose. 60% of the beneficiaries had shown improvements in their family's health and 96% had shown a positive change in attitude with respect to sanitation and hygiene practices.

In observing the living conditions of the beneficiaries in comparison to the non-beneficiary population interviewed, there were notable differences in the cleanliness of the inside and outside of the homes, the clothes worn, and the physical appearance of the people interviewed. Unfortunately, the poor living conditions of some can have a negative impact on others. Such is the case when gray and black waters are allowed to flow and stagnate in roads and walkways. At the same time, it was observed that once some families had improved their living conditions, many families from the same neighborhood followed along. In some cases they did so due to the insistence of their neighbors.

100% of the beneficiaries interviewed could clearly state the benefits that the program provided them.

The number of people trained was surpassed by 374% due to the interest in the topic of health and sanitation, and due to the workshops that were held in the schools – an activity that had a very positive impact, and was not contemplated in the original proposal.

Municipal Development

The strengthening of the municipalities has been an ongoing process that showed positive results from the very beginning especially with respect to increased municipal income. That said, the biggest challenge of the program was working through the municipal offices. It was a constant challenge to convince the mayors to manage the program in an expedient and non-partial manner. This challenge was met head on and the results have proven beneficial to all involved.

In all three municipalities, the mayors have acknowledged the benefits of the program including generating employment (2,006 months), increased level of services offered by the municipality and increased municipal income.

G. Statement of Work

The statement of work changed to include loan disbursements in Nacaome and San Lorenzo and home improvement loans.