



USAID
FROM THE AMERICAN PEOPLE

HONDURAS MICROFINANCE AND BANKING SUPPORT PROGRAM

FINAL REPORT

February 28, 2005

This publication was produced for review by the United States Agency for International Development.
It was prepared by Emerging Markets Group, Ltd.



HONDURAS MICROFINANCE AND BANKING SUPPORT PROGRAM

FINAL REPORT

Submitted by:

Emerging Markets Group, Ltd.

In cooperation with:

Carana Corporation

Weidemann Associates

Submitted to:

USAID

Contract No.:

PCE-I-00-99-0008-00 Task 821

Period of Performance:

May 27, 2003 – February 28, 2005

DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
SUPPORT TO MICROFINANCE INSTITUTIONS IN HONDURAS.....	1
SUPPORT TO THE NATIONAL BANKING COMMISSION	2
ASSISTANCE TO COMMERCIAL BANKS IN MICRO AND SMALL LENDING.....	2
IMPACT OF MICROFINANCE IN HONDURAS.....	3
LESSONS LEARNED	4
PROJECT BACKGROUND	6
RESULT 1: FPVO SUPERVISION ESTABLISHED/INITIATED.....	7
LEVEL OF COMPLETION	8
OUTSTANDING ISSUES AND CONCERNS.....	8
LEVEL OF COMPLETION	9
OUTSTANDING ISSUES AND CONCERNS.....	9
LEVEL OF COMPLETION	10
OUTSTANDING ISSUES AND CONCERNS.....	10
WORKSHOPS	10
STUDY TOURS.....	10
LEVEL OF COMPLETION	11
OUTSTANDING ISSUES AND CONCERNS.....	11
RESULT 2: LEGAL AND REGULATORY FRAMEWORK FOR MICRO AND SMALL BUSINESS LENDING IN THE COMMERCIAL BANKING SECTOR IMPROVED.	12
LEVEL OF COMPLETION	13
OUTSTANDING ISSUES AND CONCERNS.....	13
RESULT 3: INCREASED PARTICIPATION OF TWO COMMERCIAL BANKS (BANCO ATLANTIDA AND BAMER) IN MICRO AND SMALL BUSINESS LENDING.	14
CONSULTATIONS AND TRAINING AT BANCO ATLÁNTIDA AND BAMER.....	14
DESIGN OF AN INNOVATIVE SME LENDING PRODUCT AT BAMER.....	14
LEVEL OF COMPLETION	15
OUTSTANDING ISSUES AND CONCERNS.....	15
RESULT 4: FOUR FPVOS' CAPACITY TO PROVIDE FINANCIAL SERVICES TO THE MICRO AND SMALL ENTERPRISE SECTOR INCREASED AT LOWER COSTS.	16
FUNDACIÓN COVELO	17
HERMANDAD DE HONDURAS	17
WORLD RELIEF HONDURAS	18
ORGANIZACIÓN DE DESARROLLO EMPRESARIAL FEMENINO	18
OUTSTANDING ISSUES AND CONCERNS.....	19
AUDITING MANUAL	19
MANAGEMENT AND FINANCIAL INDICATORS MANUAL FOR FPVOS.....	19
ACCOUNTING MANUAL.....	19
COMPLIANCE / AUTHORIZATION OF REQUIREMENTS BY THE CNBS TO OPERATE AS AN FPVO.....	19
LEVEL OF COMPLETION	19
OUTSTANDING ISSUES AND CONCERNS.....	20
RESULT 5: FOUR FPVOS INFORMATION SYSTEMS UPGRADED.....	21
FUNDACIÓN COVELO	21
HERMANDAD DE HONDURAS	21
WORLD RELIEF HONDURAS	22
ORGANIZACIÓN DE DESARROLLO EMPRESARIAL FEMENINO	22



OUTSTANDING ISSUES AND CONCERNS.....	22
FUNDACIÓN COVELO	23
HERMANDAD DE HONDURAS	23
WORLD RELIEF HONDURAS	24
ORGANIZACIÓN DE DESARROLLO EMPRESARIAL FEMENINO	24
OUTSTANDING ISSUES AND CONCERNS.....	24
RESULT 6: RANGE OF FINANCIAL SERVICES INCREASED.	25
FUNDACIÓN COVELO	25
HERMANDAD DE HONDURAS	25
ORGANIZACIÓN DE DESARROLLO EMPRESARIAL FEMENINO	26
OUTSTANDING ISSUES AND CONCERNS.....	26
RESULT 7: IMPACT ASSESSMENT STUDY OF FPVOS MICRO-FINANCE PROGRAMS COMPLETED.	27
1. THE EXIT SURVEY.....	27
2. THE CLIENT SATISFACTION FOCUS GROUP TOOL	27
3. LOAN, PROFITS AND SAVINGS USE INDIVIDUAL INTERVIEW.....	28
4. THE AIMS EMPOWERMENT INTERVIEW	28
5. THE AIMS IMPACT SURVEY	29
LESSONS LEARNED AND RECOMMENDATIONS.....	29
LESSONS LEARNED	29
RECOMMENDATIONS.....	32
CONTRACT ADMINISTRATION AND PROJECT EXPENDITURES.....	34
1. ADMINISTRATION AND CONTRACTS.....	34
2. PROJECT EXPENDITURES	35
3. DISPOSITION OF PROPERTY	36
APPENDIX A: SUMMARY OF REPORTS: SEPTEMBER 2003 – FEBRUARY 2005	38



EXECUTIVE SUMMARY

Emerging Markets Group, Ltd., in association with Carana Corporation and Weidemann Associates, implemented the Honduras Microfinance and Banking Support Activity from May 27, 2003 through February 28, 2005. The project as a whole aimed at strengthening and mainstreaming selected microfinance institutions in Honduras, building the capacity of Honduras' banking commission to effectively regulate the MF sector, and increasing access to formal finance for the micro and small business sector. The project carried out 4 main streams of activity, as outlined below.

1. *Support to Microfinance Institutions*: the project assisted four Financial Private Voluntary Organizations (FPVOs) as they transitioned from unregulated financial activities to the regulatory control of the National Banking Commission.
2. *Assistance to the National Banking Commission*: the project developed licensing criteria, norms and procedures to better prepare the CNBS for regulating the microfinance sector.
3. *Assistance to Two Commercial Banks*: the team worked hand-in-hand with two private commercial banks in the design and implementation of a small and medium size enterprise (SME) financing program. The project team also analyzed the constraints faced by the commercial banking system in lending to the SME sector and presented a set of recommendations to improve the legal and regulatory environment for SME lending.
4. *Assessment of Impact of MF Programs*: Finally, the project team analyzed the impact of microfinance lending in Honduras, using the methodology developed under a Washington-based USAID-funded project (AIMS-SEEP project).

The project's main results are presented below, and are described in greater depth in the body of this report. Each technical assistance intervention was also documented in separate reports, which are listed as an Appendix. These reports have been provided to USAID/Honduras as well as relevant counterpart institutions.

Support to Microfinance Institutions in Honduras

Support to microfinance institutions in Honduras under this project centered on four principal institutions: Hermandad de Honduras (HDH), Fundación Covelo's microfinance lending subsidiary (Covelo), Organización de Desarrollo Empresarial Femenino (ODEF), and World Relief of Honduras (WRH). The project team worked with the staff of these institutions to improve credit methodologies, simplify the credit review and approval process, develop the marketing function, decentralize operations and improve internal controls and licensing by the CNBS (Result 4). Assistance was also provided to improve management information systems and strategic planning (Result 5), and to develop new loan products (Result 6).

Impact

Microfinance institutions have reported an increase in clients, loan portfolios, and overall sustainability. For example, ODEF has seen a 54% increase in clients over the last two year, closing the 2004 calendar year with 13,310 clients. Covelo increased its client base by 10% during the same period, and ended 2004 with 14,400 clients. Both institutions have shown a significant increase in net loan margins and are now economically sustainable. In January of 2005, both of these institutions also received authorization from the CNBS to operate as fully regulated FPVOs.

The most promising results, however, were shown by Hermandad de Honduras, a small microfinance NGO working in rural Western Honduras. HDH is headquartered in Ocotepeque, but the institution also works in the provinces of Copan, Lempira, La Paz, La Esperanza, Santa Barbara, and Comayagua.



During the two year period from December 2002 to December 2004, HDH increased its client base by 247%, from 2,863 clients to 7,085 clients. HDH has also made the transition to economic sustainability, and it also received authorization to operate as a regulated FPVO in January 2005. During the same two year period and with the assistance of the project, HDH introduced several new lending products. One of the products is a new agricultural lending product, which is now poised to introduce a savings product. More recently HDH signed an agreement with BAMER, under which BAMER will provide HDH with a line of credit for future growth – the first of its kind in Honduras. Finally, HDH is making a significant investment in a new management information system which will allow it to continue growing and offering new financial services within the region.

Support to the National Banking Commission

Support to the National Banking Commission (Comisión Nacional de Banca y Seguros CNBS) was based on an initial diagnostic of the CNBS' needs with regards specifically to the regulation of new Financial Private Voluntary Organizations (FPVOs). Honduras' FPVO Law, passed in February 2004, brought microfinance institutions under the regulatory control of the Commission, thus extending the Commission's responsibilities and reach. Support to the CNBS was therefore intensive, and continued through January 2005. Numerous technical assistance and training interventions were conducted by our resident staff as well as experts from Bolivia and Peru. In total, more than twenty norms, guides and procedures were revised and/or developed for the CNBS to ensure better regulation and supervision of the microfinance sector. Two visits were organized for CNBS staff – one to Peru and one to Bolivia – to visit the microfinance regulatory agency in those countries. Six formal training sessions were carried out for CNBS staff, and a computer program for automating the application receipt and review process was also developed, tested and utilized.

Impact

As of January of 2005, 5 non-profit financial NGOs had been granted a license to operate from the CNBS and the Ministerio de Gobernación. These institutions were Covelo, Hermandad de Honduras, IDH, FAMA, and ODEF. With these licenses, the FPVOs can now accept deposits and introduce a new range of products which they previously had not been able to. This, in turn, will improve financial services available to the microenterprise sector in Honduras.

Assistance to Commercial Banks in Micro and Small Lending

The project helped two commercial banks develop an SME lending program. BAMER and Banco Atlantida were the two banks which indicated interest in the program. Of these, BAMER was the most aggressive in developing and implementing a pilot program for an SME working capital loan

The loan product developed for BAMER has the following major characteristics:

- A loan amount in Lempiras ranging from \$2,700 to \$18,000 which is based on the clients capacity to pay utilizing the analysis methodology implemented for this purpose;
- It is based on personal guarantees;
- Disbursements are made utilizing a credit card;
- The client will be subject to constant supervision and monitoring; and,
- It has been launched with the support of a marketing program designed specifically for this product, and which will be expanded during the roll-out phase in June of 2005.



Impact

BAMER is projecting that by the end of the first year, it will have approximately 1,500 clients, increasing to 9,600 clients at the end of the second year (first full year after the roll-out of the loan product, increasing to over 19,300 clients by the end of the third year. Assuming an average loan balance of about \$2,815 (average disbursement of \$5,630) per loan, the bank estimates that it could be channeling over \$50 million to this sector through this product by the end of the third year.

Our work with BAMER also yielded an unexpected benefit for one FPVO in Honduras, which we believe will soon be extended to other. In February of 2005, BAMER's Credit Committee approved a line of credit for Hermandad de Honduras (HDH) in the amount of Lps. 6,000,000 (approximately \$320,000). This line of credit is the first time a private commercial bank in Honduras has provided funds to a Financial Private Voluntary Organization (FPVO) specializing in microfinance lending. The line of credit will be guaranteed by HDH's own microfinance loan portfolio which was audited and classified by BAMER's own audit team using guidelines issued by the Honduran National Banking and Insurance Commission (Comisión Nacional de Banca y Seguros de Honduras – CNBS).

This line of credit between BAMER and HDH is part of the larger program at BAMER to target the Micro and SME sectors in Honduras – the latter directly through its own newly established SME lending division, which microfinance will be supported through these types of lines of credit.

BAMER's new focus on SME's through its own specialized SME division, and its willingness to support the microenterprise sector through a line of credit with HDH represents an important step in channeling excess liquidity from the formal banking sector to these sectors which have not had adequate access to financial services in the past. BAMER is now considering the possibility of developing similar relationships with other FPVO's in the country which in the medium and long term would reduce the cost of funds to these FPVOs, allowing them to improve the financial terms on their own loans to the ultimate borrowers.

Impact of Microfinance in Honduras

Work in this area was primarily carried out by a resident intern who was closely supervised by senior staff members of this project. It was based on the survey work which Honduran FPVOs had completed over the last three years and which was implemented under the Honduras Microfinance Support Project, a USAID funded project which ran from April 2000 to May of 2003. As part of this work, a total of five reports were prepared, one for each of the FPVOs which participated in this phase of the study with our staff (Hermandad de Honduras, Covelo, ODEF and World Relief of Honduras) and one which summarized the findings across all four FPVOS.

The impact methodology itself is based on five sets of "tools" (methodologies) that were developed under this USAID funded project (AIMS- SEEP Project). These tools were designed to:

- Better understand the processes by which microenterprise services strengthen business and improve the welfare of microentrepreneurs and their households.
- Strengthen the ability of USAID and its partners to assess the results of their microenterprise development programs.

Impact

The impact analysis revealed important findings related to client satisfaction, utilization of loan proceeds and business profits, and perceived impact of these programs on the lives of their clients. Women borrowers also participated in an empowerment interview designed to identify changes in women's self esteem, control over resources, skills, household relationships, and status within their communities.



These studies provided a snapshot into the lives of the thousands of microfinance clients served by these microfinance institutions. They helped document how these loans improve the welfare of these clients in such basic areas as improved nutrition, shelter, education and medical care. These studies also showed how microfinance credits help cushion economic shocks, but don't protect from them altogether, providing greater insight into the lives of these rural and urban families.

Perhaps most revealing were the results of the Empowerment Survey, which yielded very similar results across the four institutions participating in this phase of the study. These results were consistent at all four levels covered in the interview tool – at the individual, household, business and community levels. Women clients across all four institutions stated almost unanimously that they perceived a very positive change in their self-esteem as compared to where they were two years before. At the individual level and at the household levels, the surveys indicated far greater levels of self confidence and participation in decision making. At the business level, these clients all expressed a new sense of self worth and confidence as they became more business savvy and were better equipped to contribute to household income. Finally, at the community level, female clients expressed taking a greater role and interest in community issues, and many had taken leadership roles within their communities, helping identify solutions to community problems.

These impact studies have provided important information on how these loans affect clients, their families and their communities. We anticipate, however, that the real impact lies in the actions taken by FPVOS in light of the results of these studies. The implementation of these tools was the first attempt on the part of these institutions to carry out client research in a systematic way. Using these tools, the four NGOs were able to meet with groups of clients to discuss what clients liked and disliked about their programs. These discussions also allowed clients to make recommendations on how to improve these programs.

Each of these institutions came away from these sessions with concrete ideas on how to better respond to their clients' needs. These have included the introduction of new loan products with greater flexibility, a greater push to decentralize the decision making process, and a drive to install their own payment and disbursement windows. Even little things, such as improving the waiting areas for their clients and offering them some type of refreshment when clients visit the NGO's office all reflect a new – customer driven approach – which will improve service and client satisfaction even more in the future.

Lessons Learned

Long-Term Efforts and Trial Pilot Programs are necessary to build confidence and initiate change: our experience in Honduras, over the course of the initial and follow-on project, has shown that microfinance NGOs, as well as commercial banks and other financial institutions, tend to be conservative in adapting new strategies and actions, such as new technologies, new financial products etc.. A long-haul effort focused on building the project team's credibility in the eyes of these institutions – and building confidence - has proven to be successful in bringing about small-scale and then large-scale organizational change, launching of new products and improving capacity-building.

An Integrated Approach reaps greater benefits: Our experience has shown that an integrated approach, combining work on several fronts, went a great deal further in improving the sustainability of microfinance NGOs in Honduras. The team worked not only on improving the *technical systems* in place but also worked on improving the *environment* in which these systems operate. This included improving the institutions' credit methodologies but also training in strategic planning, organizational development, marketing, internal audit and impact analysis.

The impact analysis served as an important client feedback mechanism: The impact analyses of microfinance in Honduras not only informed USAID of the results in the sector, but also served as an eye-opener for the microfinance NGOs themselves, as they reviewed the feedback and integrated one main lesson – that they need to be more client-facing.



Supervision of the Microfinance sector, if done properly, can reap significant benefits: This project has brought to light that microfinance institutions that enter the regulatory realm on a voluntary basis are much more likely to reap the benefits of supervision than those who don't.

SME lending is an important step to lending to the microfinance sector: Experience in Honduras confirms that commercial banks can be successful in offering services to small and micro enterprises, but they are not going to make the jump to microfinance lending without first being successful in working with small and medium scale (SME) industries.



PROJECT BACKGROUND

The Honduras Microfinance and Banking Support Program, which ran from May 2003 to February 2005, served as a follow-on project to the Microfinance Support Project carried out by CARANA Corporation under subcontract to Bearing Point (PCE-I-00-99-00006-00, Task Order 806). The Microfinance Support Project began in August 1999 and assessed the microfinance environment in Honduras. The end date of the project (May 2003) coincided with the start-up of the Honduras Microfinance and Banking Support Program. The new activity provided continuity to the Mission's support for the Micro, Small and Medium enterprise sectors in Honduras.

The initial Microfinance Support Project provided technical assistance (T.A.) and training to selected microfinance NGOs. It also carried out activities in support of an enabling environment for micro finance lending. The project team provided technical assistance and training activities to seven different microfinance institutions:

- World Relief of Honduras – WRH;
- Fundación Nacional para el Desarrollo de Honduras/FINSOL;
- Organización de Desarrollo Femenino – ODEF;
- Instituto para el Desarrollo de Honduras – IDH;
- Hermandad de Honduras (Hermandad);
- FINCA and;
- Fundación Covelo (retail lending operations).

Assistance to these institutions included, but was not limited to, organizational development, credit operations, marketing, human resources, internal audit and control, information systems, and in impact analysis. The team, in its effort to improve the business environment for microfinance institutions, helped Covelo foundation reorganize and restructure its operations and assisted the CNBS (Comisión Nacional de Banca y Seguros) in the implementation of a new law governing FPVOs in Honduras. The project also assisted with the creation of a Credit Bureau in Honduras, developed a diploma program in Microfinance, and initiated an impact assessment of microfinance activities in Honduras.

At the end of 2002, a number of factors encouraged USAID/Honduras to continue supporting the development of the microfinance sector in the country.

1. For one, the initial project proved to be quite a success, as shown by the strong demand for additional T.A. on the part of Microfinance NGOs;
2. Another important factor was that the new Law governing the sector was scheduled to come into effect in early 2003. This clearly called for additional assistance to ease the implementation, both at the level of the central regulatory agency (CNBS) and at the level of the MF NGOs;
3. Thirdly, USAID was interested in exploring the possibility of helping selected commercial banks establish SME lending facilities.
4. USAID also realized the need to push microfinance services further out into rural areas and the need to design specific products tailored for this sector (i.e. an agricultural loan product)
5. Finally, USAID expressed interest in completing the analysis of the impact analysis which was initiated in 2001 and for which preliminary results had been obtained.



As a result, USAID Honduras designed the follow on project, The Honduras Microfinance and Banking Support Program – which started up in May of 2003 and was finalized in February of 2005. This new project was organized around seven Result Areas which reflected the above concerns: Support to the CNBS in implementing the new law governing the microfinance NGOs, a pilot program with the commercial banking sector to initiate an SME lending program, technical assistance and training to selected microfinance NGOs in a variety of areas (including the development of new products), and continued support in the impact analysis of microfinance activities in Honduras.

RESULT 1: FPVO SUPERVISION ESTABLISHED/INITIATED.

Result 1 focused on strengthening the National Banking Commission (CNBS) and its capacity to better regulate and supervise Financial Private Voluntary Organizations (FPVOs). The emergence of these organizations was enabled thanks to the FPVO Law which went into effect in February 2004. Our work focused on four requirement areas which were stated in the scope of work for this task order, and which are discussed below.

Requirement 1: Assessment of CNBS capabilities to perform FPVO supervision and regulation function, and provide recommendations for a technical assistance plan for implementation during the period of the task order.

Standard: At a minimum:

- Identify CNBS strengths and weaknesses to effectively perform FPVO supervision and regulation function, including organizational structure, supervision methodologies and manuals.
- Develop a technical assistance program to upgrade the CNBS capacity to perform the supervisory and regulatory function included in the FPVO Law. Contractor role in the implementation of the plan is critical to avoid adoption of over regulatory and supervisory practices by the CNBS.

Mr. José Luis Lozano and Mr. José Zapata de la Torre, Superintendent for Banking and Insurance of Peru, conducted the initial assessment of the CNBS and its capacity to effectively perform supervision and regulation of FPVOs. This initial assessment focused on reviewing the specific norms and regulations issued by the CNBS. A follow-up assessment was carried out by Mr. José Luis Lozano and Mr. Efrain Camacho, of the Superintendency in Bolivia, which focused on the process of evaluating and licensing FPVOs applying to operate under the new law governing FPVOs in Honduras.

At the request of the CNBS, the team crafted a rolling work plan format, which was utilized to review the training needs of the CNBS and define scheduling of the technical assistance and training. It was designed to allow the team to adjust technical assistance and training as CNBS needs evolved throughout the term of the project. This format has worked well and has allowed the team to be more responsive to the needs of the Commission over time. The final list of training topics was decided in a planning meeting on February 25.

In January 2005, follow-up work in this area was carried out by Mr. José Zapata de la Torre in November of 2004, and Mr. Efrain Camacho. Mr. Zapata was in Honduras working with the CNBS from November 8th to the 13th. During this visit, Mr. Zapata reviewed progress within the CNBS regarding FPVO supervision. His work then focused on preparing a norm for the CNBS on operations carried out by FPVOs such as factoring, discounting of commercial documents, and acceptance of guarantees and reviewing the norm which had been revised by the CNBS on credit bureaus. Finally, Mr. Zapata also



prepared an excel spreadsheet for CNBS personnel which could be used by their staff to conduct a sensitivity analysis on FPVOs.

Mr. Camacho was in Honduras from January 16th to January 28, 2005. During this time, Mr. Camacho assisted in the CNBS on the development of a Supervision Manual for FPVOs which was based on the manual for the external audit and inspection of FPVOs which had been prepared previously, but which was expanded to include a broader coverage of risks faced by FPVOs such as liquidity risk, legal risks, and risks associated with an FPVOs management information system. Mr. Camacho also worked with CNBS staff to develop a system to monitor the development / business plans submitted by the FPVOs as part of the application process with the CNBS, to finalize the work on the norm on operations carried out by FPVOs (i.e., factoring, discounting of commercial documents, and acceptance of guarantees) which had been prepared by Mr. Zapata but not completed by the CNBS, and to develop a norm on the liquidation of an FPVO in the event of failure. Finally, Mr. Camacho reviewed the FPVO applications submitted to the CNBS by Covelo and the Organización de Desarrollo Empresarial Femenino (ODEF) which included a review of the analysis by CNBS staff and a field visit to both institutions to verify the analysis. This review identified several problems with CNBS' review procedures and as a result Mr. Camacho prepared an action plan for inspection visits to FPVOs to help the CNBS improve this process.

Level of Completion

All work under Requirement 1 was completed by March of 2004, and this work formed the basis of all of the technical assistance and training provided to the CNBS throughout the life of the project.

Outstanding Issues and Concerns

There are no outstanding issues or concerns with regards to this requirement.

Requirement 2: CNBS complementary norms and regulations applicable to FPVO sector refined and/or developed.

Standard: At a minimum:

- Based on FPVO Law and supervision best practices, identify requirement for complementary norms/regulations and design accordingly.
- Set of complementary norms/regulations presented to CNBS.

The assessment work described in the previous section defined the norms/regulations which are consultants developed under this contract. These norms and regulations focused on the evaluation, monitoring and licensing of FPVOs under the new law and on the various aspects of FPVO operations. A list of all documents prepared or reviewed under the project is provided below:

- Accounting Manual for FPVOs;
- Manual on financial and managerial indicators for FPVOs;
- Manual for the external audit and inspection of FPVOs;
- Supervision manual for FPVO's (improved / adapted from the manual for the external audit and inspection of FPVOs);
- Norms on the evaluation and classification of the credit portfolio of FPVOs;



- Guide on credit risk management for FPVOs;
- Guide on liquidity administration;
- Guide on capital administration;
- Guide on the administration of investments (valores);
- Guide on the administration of operating risk – internal controls, technological risk;
- Guide on the administration of risk in a holding company;
- Guide on the administration of derivative instruments;
- Guide on the administration of interest rate risk;
- Guide on the administration of exchange rate risk;
- Guide on monitoring the business plans submitted by the FPVOs;
- Norm on liquidity management and minimum liquidity levels (reserves);
- Norm regarding the use of information provided to credit bureaus by the CNBS;
- Norm regarding the use of “Fondos de Administración”;
- Norm on operations carried out by FPVOs (i.e., factoring, discounting of commercial documents, and acceptance of guarantees);
- Norm on the liquidation of an FPVO in the event of a failure;
- Guide on field visits to FPVOs during the application and start-up process;
- Guide on supervising the investments of FPVOs in “Sociedades Financieras”; and,
- Guide on leasing activities carried out by FPVOs.

Level of Completion

As of September 30th, the requirement and standards in this area had been met and exceeded. However the CNBS had requested an additional visit by José Zapata de la Torre (Peru) and/or Efrain Camacho (Bolivia) to assist in a review in additional areas, which was carried out in November 2004 (José Zapata) and January 2005 (Efrain Camacho).

Outstanding Issues and Concerns

There are no outstanding issues or concerns with regards to this requirement.

Requirement 3: CNBS authorization process for FPVOs is automated.

Standard: At a minimum:

- Design integrated program (computerized) for FPVO authorization process.
- Field-test program with leader FPVO.

Design of the software to automate the FPVOs information reception and authorization process began in September 2003 and was finalized and submitted to the CNBS in November of 2003. After receiving



comments, changes were made to the system, and a final version was submitted to the CNBS in January of 2004.

This software was utilized successfully to process the applications of five FPVOs (ODEF, Hermandad de Honduras, Covelo, Instituto de Desarrollo Hondureño, y FAMA).

Level of Completion

As of March 31, 2004, the requirement and standards in this area had been met.

Outstanding Issues and Concerns

There are no outstanding issues or concerns with regards to this requirement.

Requirement 4: CNBS staff responsible for FPVO supervision/regulation trained.

Standard: At a minimum:

- Conduct four workshops in areas of micro-finance credit methodologies and financial products, risk-based supervision, and CAMEL analysis applicable to FPVOs (micro-finance institutions).
- Conduct two study tours (CNBS/FPVO staff) to observe experiences in other countries regarding supervision/regulation methodologies and practices.

Workshops

A total of six training events were held with CNBS staff which exceeded the number called for under this requirement. Given the changing needs of the CNBS, the topics covered by these training events were redefined in 2004, and although this required a greater investment in time and effort, it was compensated by the outcome of these events, which the CNBS considered to be a success. The six training events carried out under this program were:

- Financial Risk Management and Control (Tegucigalpa, January 26 to the 30th, thirty one persons attended);
- Administration, Management and Supervision of Microenterprises (Tegucigalpa, May 11th and 12th, thirty persons attended);
- Quality Control Techniques for External Auditors (Tegucigalpa, June 2nd through the 4th, thirty persons attended);
- Analysis of Financial Indicators for Micro-Finance Institutions for Supervision Purposes (Tegucigalpa, June 29th through July 1st, thirty people attended);
- Challenges of Supervision in the New Capital Framework – Basel II (22nd of July, twelve persons attended); and,
- The Complete Supervision based on Risks (January 28, 2005, twelve persons attended).

Study Tours

The two study tours called for in the standards for this requirement were carried out as planned. The first of the two study tours was carried out successfully in November of 2003. This study tour was coordinated with the banking Superintendency in Peru and gave representatives from the CNBS an



opportunity to better understand their role in the supervision of regulated microfinance institutions. A total of four persons participated in this study tour to Peru.

The second study tour contemplated under this requirement was made to Bolivia where the group was hosted by the Superintendency of Banks and Insurance of Bolivia. This visit enabled the CNBS to become more aware of its own priorities and needs as a supervisory entity with regard to their new responsibilities under the FPVO law. A total of four persons from the CNBS attended this study tour to Bolivia.

Level of Completion

By September 31, 2004, the requirement and standards in this area had been met. However additional training was provided to the CNBS through January of 2005 at their request which exceeded the minimum standards established for this requirement.

Outstanding Issues and Concerns

There are no outstanding issues or concerns with regards to this requirement.



RESULT 2: LEGAL AND REGULATORY FRAMEWORK FOR MICRO AND SMALL BUSINESS LENDING IN THE COMMERCIAL BANKING SECTOR IMPROVED.

For Result 2, the project team worked with the Honduran Banking Association (AHIBA) and the National Banking and Insurance Commission (CNBS) to identify constraints in the existing legal and regulatory framework for micro and small business (SME) lending in the commercial banking sector. Based on the results, the team prepared and implemented an Action Plan for improvement of the existing framework.

Requirement: Action plan designed to improve existing policies, laws, norms and regulations related to micro and small business lending applicable to the commercial banking sector.

Standard: At a minimum:

- In consultations with AHIBA and CNBS identify constraints and/or disincentives within the existing legal and regulatory framework applicable to micro and small business lending in the commercial banking sector.
- In consultations with AHIBA and CNBS identify changes in the legal and regulatory framework necessary to promote an enabling environment to attract commercial banks into micro and small business lending.
- Action plan prepared to modify/improve the legal and regulatory framework for micro and small business lending in the commercial banking sector. Action plan is presented to AHIBA and CNBS.

In September 2004, after extensive work with the CNBS, The Honduran Banking Association (AHIBA), nine commercial banks, the property registry and other related institutions, the team presented an action plan containing projects and solutions to deal with the regulatory and practical difficulties that are hampering the development of SME lending in the country.

The major finding was that, with the exception of reforming bank secrecy laws, major changes in the laws were not required. Reform to secondary regulations and technical assistance would be more appropriate actions at this stage. Thus, in a short time frame and with relatively small investments, major improvements to the SME lending environment can be brought about, which would in turn significantly improve access to credit by small businesses.

The areas where changes can be implemented were addressed in the action plan:

- Project to technify/modernize the Lien Registration System in Honduras (Pledging of assets). This project will significantly improve the workings of the financial market and boost the development of an SME credit market at a very reasonable cost in terms of time and financial resources.
- Project to strengthen the credit bureau system in Honduras, and introduce credit scoring. Our consultants proposed solutions to create an appropriate legal and operational framework that is based on the industry's best practices and includes access for non-financial agents. The major obstacle in this process is a reform of the banking secrecy laws to allow financial and non financial credit histories to be shared with the credit bureaus.
- Drafting of secondary regulations regarding financial leasing, addressing the issue of property of underlying assets and accounting of such. Financial leasing is practically non-existent in Honduras, and not a mechanism to finance SME assets due to unfriendly secondary legislation.
- Project to incorporate Public Bonded Warehouses into the SME credit market.



-
- Project to launch SME factoring and leasing products within existing commercial banks of finance companies.

Of these projects, the lien registration system is possibly the most serious area of concern and the most evident obstacle to the development of an effective credit market throughout the financial sector. At the moment, all searches for mortgages or pledges are done manually, which requires considerable amounts of time and limits the system's reliability. Liens on moveable assets are non-existent, for despite a reasonably adequate legal framework, there simply is no mechanism for registering, reviewing and enforcing such liens. Liens on cars, when financed, for example cannot be registered or enforced, hence endorsements as guarantee of payment are preferred. Nevertheless, a recently passed new law creates a new framework for the workings of public registries. Thus a practical solution could very quickly be reached, by working with the newly created institution, from a technological angle, to create a working lien registry system.

Level of Completion

All tasks under this Task Area were completed in November 2004.

Outstanding Issues and Concerns

There are no outstanding issues or concerns with regards to this requirement.



RESULT 3: INCREASED PARTICIPATION OF TWO COMMERCIAL BANKS (BANCO ATLANTIDA AND BAMER) IN MICRO AND SMALL BUSINESS LENDING.

Requirement: Micro and small business lending methodology and credit manuals of two commercial banks refined, as applicable; and a rural agriculture lending product is design.

Standard: At a minimum:

- Consultations with two commercial banks to review their lending methodology and credit manuals.
- Design and field-test a rural agriculture-lending product for two commercial banks.
- Conduct training to officials of two commercial banks regarding the refined micro and small business lending methodology, credit manuals and for implementation of a rural agriculture lending financial product.

This result area included technical assistance and training program to two Honduran commercial banks, with a view to improving the credit mechanisms available to SMEs.

The start-up of this phase of the project was delayed initially because one of the banks chosen for this work decided not to participate in the project. The project team then undertook the task of identifying and contacting a second bank to participate in this Result Area. After several meetings with the Honduran Banking Association, and individual meetings with a number of commercial banks, two commercial banks were selected and approved: BAMER and Banco Atlántida.

Consultations and Training at Banco Atlántida and BAMER

In March 2004, separate workshops were held for the members of each bank's staff involved in lending to SME's. The workshop entitled "Better Credit Practices for Small Enterprises" enabled participants to learn about the industry's best practices at the developing country level and to share the best practices of the banks themselves. The workshops were used as a basis for drawing up Work Plans, which listed the activities that need to be pursued in order to set up SME Banking Divisions in the Banco Atlántida and BAMER.

The requirement to prepare the document "Implementation of a Credit Unit for Small and Medium-Sized Enterprises (SMEs)" for the two banks was fulfilled. This document describes, among other relevant aspects, the stages for the implementation of SME credit services, credit technology for SMEs, SME credit analysis, the profile of the SME credit officer, and the legal and operational framework of the National Banking and Insurance Commission (CNBS) Risk Center.

Design of an Innovative SME Lending Product at BAMER

After initial training and consultations with bank staff, the project team made significant further progress with one of the two banks, BAMER.

The team, at BAMER's request, then proceeded to develop and launch a pilot SME credit program. In order to launch the pilot, the team developed a small-business lending product that combined many of the best practices of small loan administration developed over the last two decades. By October of 2004 the team had finished designing the specific loan product and was beginning to fully develop the overall credit policies associated with this product, the details of the product itself, as well as the procedures for loan / customer analysis. In November and December 2004, these plans were reviewed, and the pilot project was finalized.



The loan product developed for BAMER has the following major characteristics:

- A loan amount in Lempiras ranging from \$2,700 to \$18,000 which is based on the clients capacity to pay utilizing the analysis methodology implemented for this purpose;
- It is based on personal guarantees;
- Disbursements are made utilizing a credit card;
- The client will be subject to constant supervision and monitoring; and,
- It has been launched with the support of a marketing program designed specifically for this product, and which will be expanded during the roll-out phase in June of 2005.

The loan was developed using a methodology designed to determine free cash flow based on deposits. The project team developed loan handling and administration processes consistent with administering large number of loans and trained a product manager. Information processing needs were described and portfolio reports prepared. The information services section of the bank was tasked with developing the information system. Simplified loan analysis processes were introduced to improve credit decisions and to enhance efficiency, allowing smaller loan clients to be served profitably.

In order to launch the pilot, a short extension of the project was granted, and on February 9, 2005 the pilot was officially initiated in the town of Progreso. The team fully trained the product manager as well as eight loan officers from Progreso and San Pedro Sula, where the pilot will run. As part of the training, sales visits were conducted by bank officers accompanied by team members. After approximately nine weeks the pilot will be finalized and the bank will be in a position to launch the product nationwide.

Three years following introduction of the product, and assuming an average disbursement of \$5,630 per loan, the bank estimates that there will be 19,330 borrowers with an outstanding loan portfolio of \$US 51 million. The quantifiable impact (credit lines opened, total portfolio and income) of this result will prove that small business can be serviced profitably by commercial institutions, and BAMER will most likely become a model institution for others in the region.

Level of Completion

All work under this requirement was completed by February 28, 2005.

Outstanding Issues and Concerns

There are no outstanding issues or concerns with regards to this requirement.



RESULT 4: FOUR FPVOS' CAPACITY TO PROVIDE FINANCIAL SERVICES TO THE MICRO AND SMALL ENTERPRISE SECTOR INCREASED AT LOWER COSTS.

The work in Result area 4 focused on four principal institutions: Covelo's Microfinance Lending Arm, Hermandad de Honduras, Organización de Desarrollo Empresarial Femenino and World Relief of Honduras.

The minimum standards for this Result area were met by September 30, 2004. Additional support to Fundación Covelo and Hermandad de Honduras was provided through December 2004 and January 2005 respectively. Consequently, much of what is reported in this section of the report reflects work that was completed by, and reported on, in the progress report dated September 30, 2004.

Requirement 1: Credit methodologies, simplification of credit review and approval process, market development and decentralization strategies refined, and internal controls upgraded.

Standard: At a minimum:

- Four Workshops/Seminars conducted with 4 FPVOs' staff to roll-out refined credit methodologies, simplification of credit review and approval process, internal control manual, market development and decentralization strategies, respectively.
- All of the above are field-tested.
- Field offices staff assisted in implementing refined credit methodologies, simplification of credit review and approval process, internal controls, and market development strategies.

Our work with the four FPVOs has concentrated on the following areas:

- The ongoing work to simplify the credit process;
- Modifications to the incentives models that are intended to boost productivity;
- Constant support in the institutional decentralization process; and,
- Improving marketing activities.

Of these initiatives, the one that will possibly have the greatest impact in the long term in all four institutions is the decentralization program. The objective was to increase operational efficiency through greater autonomy in the loan approval and disbursement process and to provide greater levels of autonomy at the branch levels.

In conjunction with the decentralization process, additional training and improvements were made to internal control processes and audit systems. Extensive support was also provided to simplify the institutions' credit processes. Finally, the incentives system for loan officers was improved upon. These activities have contributed to further increase productivity in each institution's credit operations.

In the marketing area, our support focused on product development and on their related promotion campaigns with a view to contributing to the continued growth of the customer portfolio in each of these FPVOs. Support was also provided to each of the four FPVOs in the further development of their Strategic Marketing Plans. These Plans were designed to help each of these institutions achieve greater market expansion in the short, medium and long term.

The standard for this result area specifically stated that the consultants carry out four Workshops/Seminars with each of the four FPVOs identified in the terms of reference to roll-out refined



credit methodologies, simplification of credit review and approval process, internal control manual, market development and decentralization strategies, respectively. It is important to note, however, that in addition to the formal training sessions that are listed in the standard and that were carried out with each FPVOs as described below, our consultants provided hundreds of hours of on-the-job training in each of the institutions. It is our experience, which was reinforced again in the implementation of this work, that this type of on-the-job training is much more effective in transmitting information.

Fundación Coveló

As required under the contract, all standards have been met or exceeded. The following training sessions were carried out, and all work has been field tested and the institution has been assisted in the implementation of the recommendations made through the project:

- Decentralization process (Tegucigalpa, March 19th, twelve persons attended);
- Marketing – Activities and Roles (Tegucigalpa, March 5th, five persons attended);
- Decentralization and Autonomy (Tegucigalpa, May 20th, 9 persons attended);
- Internal Controls and the Credit Process – Part I (Tegucigalpa, June 4th, 25 persons attended);
- Work Plans for Internal Audits (Tegucigalpa, March 4th, 6 persons attended);
- Implementation of the Accounting Manual and Financial Indicators (Tegucigalpa, June 1, 10 persons attended);
- Internal Controls and the Credit Process – Part I (San Pedro Sula, June 7th, 23 persons attended); and,
- Payments and Interest Rate Calculations under ACSA (Tegucigalpa, June 25th, 12 persons attended).

LEVEL OF COMPLETION – FUNDACIÓN COVELO

Although the minimum standards for Fundación Coveló was met by September 30, 2004, additional support for the decentralization process, the implementation of the MIS system and improving internal auditing and control functions continued through December of 2004. All work was finalized by December of 2004.

Hermandad de Honduras

As required under the contract, all standards have been met or exceeded. The following training sessions were carried out, and all work has been field tested and the institution has been assisted in the implementation of the recommendations made through the project:

- Strategic Planning within the MIS Function (San Marcos, February 27th, 16 persons attended);
- Decentralization of the Payment System (San Marcos, February 27th, 16 persons attended);
- Implementation of the Accounting Manual and Financial Indicators (Tegucigalpa, June 1, 10 persons attended);
- Internal Control and the Audit Function (San Marcos, February 27, 16 persons attended);
- Role and Responsibilities of the Board of Directors in the Internal Audit Function (San Marcos, June 14th, 22 persons attended);
- Decentralization of the Credit Approval System (San Marcos, May 6th, 16 persons attended); and,
- Planning and the Marketing Function (San Marcos, June 14th, 6 persons attended).



LEVEL OF COMPLETION – HERMANDAD DE HONDURAS

Although the minimum standards for Hermandad de Honduras was met by September 30, 2004, the project provided additional support for the decentralization process, the purchase of a new management information system, and to improve the effectiveness of the Supervisory Board through December of 2004. Specific note should be taken of the work that was carried out by the consulting team to arrange a private financing deal for Hermandad by BAMER. This loan from BAMER to Hermandad de Honduras will provide Hermandad with a line of credit of Lps. 6,000,000 (approximately \$315,000) and was approved in February of 2005. It will mark the first time in Honduras that the private banking system will fund an FPVO and should lead to additional funding for the microfinance sector in Honduras in the future. All work with Hermandad de Honduras was finalized by January of 2005.

World Relief Honduras

As required under the contract, all standards have been met or exceeded for World Relief of Honduras. The following training sessions were carried out, and all work has been field tested and the institution has been assisted in the implementation of the recommendations made through the project:

- Workshop on Quality of Service (Tegucigalpa, March 8th, 22 persons attended);
- Improving the Decentralization Process (Tegucigalpa, March 7th, 16 persons attended);
- Workshop on the Internal Audit and Control Function (Tegucigalpa, March 5th, 24 persons attended); and,
- Implementation of the Accounting Manual and Financial Indicators (Tegucigalpa, June 1, 2004).

LEVEL OF COMPLETION – WORLD RELIEF HONDURAS

The work with World Relief of Honduras with regards to this requirement was completed in June 2004, although additional assistance was provided through December of 2004.

Organización de Desarrollo Empresarial Femenino

Work sessions with ODEF were limited to specific areas where ODEF's management requested assistance as per written instructions from ODEF. Only two formal training sessions were carried out with ODEF, and additional training sessions were turned down by them. All work has been field tested and the institution has been assisted in the implementation of the recommendations made through the project:

- Decentralization of Disbursements and Payments (San Pedro Sula, February 20th, 14 persons attended);
- Analysis of the Guarantee Fund and Savings Functions (San Pedro Sula, May 12th, 18 persons attended); and,
- Implementation of the Accounting Manual and Financial Indicators (Tegucigalpa, June 1, 2004);

LEVEL OF COMPLETION – ORGANIZACIÓN DE DESARROLLO EMPRESARIAL FEMENINO

The work with ODEF with regards to this requirement was completed in June 2004, although additional assistance was provided to ODEF through December of 2004 in support of their application process to the CNBS to operate as a regulated FPVO.



Outstanding Issues and Concerns

There are no outstanding issues or concerns with regards to this requirement.

Requirement 2: Accounting Manual and Micro-finance Indicators (Best Practices for Honduras) Audit Manual and other relevant norms issued by the CNBS implemented by 4 FPVOs.

Standard: At a minimum:

- Status reports regarding compliance with CNBS requirements under the FPVO Law presented to 4 FPVOs,
- 4 FPVOs assisted in implementation of accounting manual and adoption of micro-finance indicators issued by the CNBS.

Auditing Manual

Our staff initiated development of this manual by supporting the CNBS in its drafting of the Supervision Manual, which now forms part of the legal norms approved by the CNBS and is published on its website. Using this and other technical documents as a base, our staff then drafted an Internal Auditing Manual, which has been issued to each of the FPVOs and to the CNBS for implementation and supervision.

Management and Financial Indicators Manual for FPVOs

Our staff assisted the CNBS in drafting a Financial Indicators Manual, which now forms part of the legal norms approved by the CNBS and is published on its website. The guidelines established in this manual and are being implemented.

Accounting Manual

Our staff supported the CNBS in developing an Accounting Manual for FPVOs. Using this and other technical documents on the subject, our staff also developed an FPVO Accounting Manual in March-April 2004. This document has been provided to each of the institutions and to the CNBS for implementation and supervision. This document forms part of the legal norms approved by the CNBS and is published on its website.

Compliance / Authorization of Requirements by the CNBS to Operate as an FPVO

As of January of 2005, the CNBS and the Ministerio de Gobernación issued an authorization to operate as an FPVO to five NGOs in Honduras. These are: Covelo, Hermandad de Honduras, IDH, FAMA, and ODEF. World Relief of Honduras has decided to wait one year before revisiting the decision to apply to the CNBS to operate as a regulated FPVO.

Level of Completion

As required under the contract, all standards have been met or exceeded in this area.



Outstanding Issues and Concerns

The Board of Directors of World Relief Honduras made the decision not to apply for a license as a regulated financial NGO at this time. It is their desire to see how the process works for the other institutions that have been granted authorization to operate as an FPVO before they make a decision to do the same themselves.



RESULT 5: FOUR FPVOS INFORMATION SYSTEMS UPGRADED.

This result recognized the importance of updating the management information systems of the FPVOs as part of the overall process to assist FPVOs in decentralization, simplifying their credit procedures and improving their internal control systems.

Deliverables for Result 5 also included a review and assessment of the strategic plans of four microfinance institutions (FPVOs). This objective was designed to ensure that strategies exist for attaining profitability and financial and economic self-sufficiency with participation of board members and key FPVO staff.

All work in this result area was completed by and reported on in the Progress Report dated September 30, 2004. Additional work, however, was carried out supporting Covelo and Hermandad de Honduras in the implementation of improved MIS systems. Consequently much of the information presented below has only changed slightly since the progress report presented as of September 30, 2004.

Requirement 1: Strategic Plans for 4 FPVOs reviewed and updated to make current.

Standard: At a minimum:

- 4 strategic plans assessed and updated to include strategies for attaining profitability and financial and economic self-sufficiency with participation of board members and key FPVO staff.
- Four workshops conducted (one with each FPVO) to disseminate strategic plans among staff.

Fundación Covelo

Between December 2003 and February 2004, work was conducted on the strategic plan of Grupo Microfinanciero Covelo, with emphasis on the strategic plan of Microfinanciera Covelo. Our staff carried out this work with the management of Grupo Microfinanciero Covelo and with some representatives of the Boards of Directors of the Group's different entities. In January 2004, an initial document was prepared for Microfinanciera Covelo indicating some of our concerns and proposing various solutions or alternatives. In February 2004, our staff made a presentation to the Board of Directors of Microfinanciera Covelo and updated the report presented in January 2004. The Board of Directors of Microfinanciera Covelo accepted most of our recommendations and launched discussions on some of them with the Covelo holding company.

LEVEL OF COMPLETION – FUNDACIÓN COVELO

Work under this requirement for this institution was completed in February 2004

Hermandad de Honduras

Between February and April 2004, our staff assisted Hermandad de Honduras in formulating its updated Strategic Plan. This process began in early February with a workshop on Governance (The Role and Responsibility of the Board of Directors in a Regulated Environment). Following this activity, our staff also began to offer support in developing economic and financial projections for HDH, as well as action plans by areas, taking as a reference point the strategic actions identified in the analysis of the Institutional Strategic Plan. Finally, support was provided in: i) the formulation of the Institutional



Strategic Plan 2004-2008, ii) the development of budgetary analysis and productivity reports by agency for the purposes of the monthly performance review, and iii) familiarizing the Board of Directors with these tools.

LEVEL OF COMPLETION – HERMANDAD DE HONDURAS

Work under this requirement for Hermandad de Honduras was completed in May 2004.

World Relief Honduras

Between December 2003 and February 2004, CARANA personnel worked on the World Relief Honduras (WRH) strategic plan. Meetings were held with the management of WRH and eventually with members of its Board of Directors. In February 2004, CARANA personnel gave a presentation to the WRH Board of Directors in which it outlined our concerns and recommendations.

In March 2004, our staff, in coordination with the Executive Board, organized a work seminar to review a “strengths and weaknesses” analysis that served as the basis for their Strategic Plan, with a view to updating the variables involved in the process. Our staff also assisted WRH executives in analyzing their strategic plan, and in a subsequent meeting with executives and middle management to obtain feedback on the process.

LEVEL OF COMPLETION - WORLD RELIEF HONDURAS

Work under this requirement for WRH was completed in March 2004.

Organización de Desarrollo Empresarial Femenino

In an e-mail dated December 15, 2003, the General Manager of ODEF informed our staff that they did not wish to receive assistance in developing or reviewing their strategic plan. As a result, our staff used the time that had been scheduled to support ODEF in this area to expand on strategic planning assistance activities with the other institutions discussed above.

LEVEL OF COMPLETION – ORGANIZACIÓN DE DESARROLLO EMPRESARIAL FEMENINO

N/A.

Outstanding Issues and Concerns

There are no outstanding issues or concerns at this time for this requirement under this result area.

Requirement 2: FPVOs’ capacities for use of Management Information Systems (MIS) increased.

Standard: At a minimum:

Based on previous assessments and definition of MIS needs, 4 FPVOs assisted in developing and introducing improved MIS systems.



Fundación Covelo

Between November 2003 and June 2004, our staff provided assistance to Covelo in order to: i) reinforce the decision to acquire a new system, ii) maintain the required efficiency levels for using the current system prior to the transition to the new system, and iii) decentralize operations. Specifically our support helped to:

- Reinforce the decision to acquire MicroBanker Windows from FAO-GTZ MicroBanker. The Covelo Foundation is currently studying how to personalize the system, and to this end, they have: i) hired a team of systems specialists to plan and execute the project, ii) initiated the testing process, in the main office, using the demo version of the system, and iii) in parallel to all this, started scheduling the initial changes to the system.
- Make the decision to: i) strengthen the logical structure, ii) raise the security levels, and iii) implement the ACSA system controls. Covelo is currently working on this activity and have assembled a project team of the main users in the different areas involved in the processes deemed critical.
- Move forward with the implementation of the payment system with the BANCATLAN, the online service of Banco Atlántida, through which customers' statements are updated via the Internet.
- Obtain support in the form of cooperation through AECI-BCIE to equip agencies and set up internal communication networks that facilitate access to information and improve the quality of customer services.

In September of 2004, Covelo contracted directly with Hugo Velarde, the MIS specialist who we used throughout the life of this project, to assist them directly in developing MIS solutions and preparing the base for an eventual transition to the MicroBanker system.

LEVEL OF COMPLETION- FUNDACIÓN COVELO

All work in this area was completed by September of 2004.

Hermanidad de Honduras

Between September 2003 and February 2004, our staff provided assistance in order to: i) reinforce the decision to acquire a new system, ii) maintain the required efficiency levels for using the current system during the time needed for the transition to the new system, and iii) decentralize operations. Specifically our support helped to:

- Reinforce the decision to acquire new software. In this process, support was provided in order to evaluate a number of alternatives, including the latest version of SIEM (software currently used by HDH) and the ABANKS software for microfinance institutions. Ongoing support was offered by our staff through January of 2005, when a final decision was ratified by the Board of Directors of HDH to acquire the ABANKS software, a system based on an Oracle platform offered by ASI Consulting.
- Make the decision to strengthen: i) the security levels and ii) implement measures to control the current SIEM system (DOS version). Hermanidad de Honduras is currently working on this activity and the Systems Unit manager is executing a work plan, developed with our support, in order to strengthen the current system until it is replaced. In order to fully achieve this, a project team comprising the main users of the different areas involved in the process has been assembled.
- Implement a payment system so that payments made in banks can be posted in a decentralized manner. Once this system is activated, each branches' portfolio information will updated daily,



which means that the branches have more accurate information on their customers' payment status. This process is critical for calculating and controlling institutional default ratios.

LEVEL OF COMPLETION- HERMANDAD DE HONDURAS

All work related to this institution in this area was completed

World Relief Honduras

Between September 2003 and May 2004, CARANA personnel provided assistance in the following two areas:

- Activate the ICP (connection system) process to individualize customers. The SIEM system offers this option and allows credits to be managed individually, in both solidarity groups and in village banks. The head of the Systems Unit at Hermandad de Honduras was responsible for setting up the operational process to implement this control with the assistance of our staff.
- Implement a system for the administration and control of village banks. Since the institution's loan portfolio is concentrated in this market niche, we provided key support for the design and development of a system characterized mainly by the systematization of the lending process in village banks, which will help to control the situation regarding customers' payment status. This work was necessary since the SIEM system currently used by WRH does not facilitate this process.

LEVEL OF COMPLETION- WORLD RELIEF OF HONDURAS

All work related to this institution in this area was completed by September 2004.

Organización de Desarrollo Empresarial Femenino

In an e-mail dated December 15, 2003, the General Manager of the ODEF informed CARANA that support was required only in the areas of marketing and in the operational process for decentralization, thereby eliminating the possibility of continuing to work in the information technology area. As a result our staff used the time that had been scheduled for this support to ODEF to work on providing additional assistance activities to the other three institutions listed above.

LEVEL OF COMPLETION- ORGANIZACIÓN DE DESARROLLO EMPRESARIAL FEMENINO

N/A

Outstanding Issues and Concerns

There are no outstanding issues or concerns at this time for this requirement under this result area.



RESULT 6: RANGE OF FINANCIAL SERVICES INCREASED.

Requirement: New micro-finance products developed.

Standard: At a minimum:

- Based on existing needs assessment of FPVOs, develop, field-test and recommend at least 3 new financial products, including a rural agriculture lending financial product.
- Conduct four workshops (one with each FPVO) to train credit officers and other key staff on implementing (promote/sell) the new financial products.

For Result 6, the project sought to develop new microfinance products, including a rural agricultural lending financial product. As discussed below, workshops were conducted at each institution to train credit officers and other key staff on the implementation of these new financial products.

Fundación Covelo

Work in this area began in October of 2003 with the technical assistance provided to Covelo's management in the design and launching of new financial products for SMEs, transportation, agriculture and housing sectors. In 2004, additional work was done on this product to specialize the product in each of the three areas. For example, in the transportation area, Covelo worked with different taxi / public transportation groups to develop a lease purchase option for this sector. In the agricultural area, the product was tied in with the FINTRAC technical assistance project¹ and USAID's DCA Guarantee program, and this has resulted in 76 new credits as of the date of this report. Additional assistance was provided to Covelo in the development of a credit card based lending product with Credomatic and leading commercial suppliers. A training session was carried out on November 12, 2003 and additional follow up was provided during the first six months of 2004.

LEVEL OF COMPLETION – FUNDACIÓN COVELO

All work in this area for Fundación Covelo was completed by June of 2004 although additional assistance was carried out in specializing certain products as described above through December of 2004..

Hermandad de Honduras

Work on the development of new loan products with Hermandad was carried out during the first six months of 2004. Assistance was provided in the design of credit products for housing and consumer loans for SMEs. Additional support was provided to HDH in analyzing the types of savings products they should develop. The work culminated in a training program carried out in San Marcos for HDH staff on May 15th, 2004.

In the agricultural area, Hermandad had traditionally provided loans to this sector (only coffee), however their experience had been so negative, that in 2000 Hermandad made the decision to diversify away from this sector. In early 2004 our consultants began working with Hermandad on the development of a new agricultural product, and this work intensified during the second half of 2004 and into January of 2005. By September of 2004 this agricultural product was being successfully tested. Our consultants also worked to have Hermandad coordinate with FINTRAC's customers as well, thus leveraging the results of

¹ A USAID financed agricultural technical assistance project.



this important USAID financed technical assistance project. As of January of 2005, Hermandad had booked 74 new loans using this new product.

LEVEL OF COMPLETION – HERMANDAD DE HONDURAS

All work in this area for this institution was completed in February of 2005.

Organización de Desarrollo Empresarial Femenino

Work with ODEF in this area was carried out during May and June of 2004. Assistance was provided to ODEF in the design of a “Fondo de Garantía de Clientes” and in the design on a saving product. This latter project is currently being implemented as a result of its recent authorization by the CNBS to operate as a regulated FPVO. A training session was provided for ODEF on this subject on May 13, 2004.

LEVEL OF COMPLETION – ODEF

All work in this area for this institution was completed in June of 2004.

Outstanding Issues and Concerns

There are no outstanding issues or concerns related to this result area.



RESULT 7: IMPACT ASSESSMENT STUDY OF FPVOS MICRO-FINANCE PROGRAMS COMPLETED.

Requirement: Based on existing work, assist the Covelo Foundation in completing a micro-finance impact assessment study utilizing the USAID AIMS (Assessing the Impact of Micro-enterprise Services) Assessment Tools and Methodology.

Standard: At a minimum:

The micro-finance impact assessment study shall focus on a number of issues including identifying how loans have been used by the borrowers, and identifying and measuring the impact of the loans on incomes and employment of borrowers, their businesses and their families. The study shall also address gender-related issues among the micro and small entrepreneurs directly and indirectly served.

The resident intern in this area, Mr. Greg Bates, working closely with CARANA project manager Carlos Torres and Weidemann Associates project manager Arvin Bunker, carried out a thorough analysis of the survey work which the FPVOS had completed over the last three years. A total of five reports were prepared, one for each of the FPVOS (Hermandad de Honduras, Covelo, ODEF and World Relief of Honduras) and one which summarized the findings across all four FPVOS, and released to USAID and each of the respective institutions.

The impact methodology itself is based on five sets of "tools" (methodologies) that were developed under this USAID funded project (AIMS- SEEP Project). These tools were designed to:

- "Better understand the processes by which microenterprise services strengthen business and improve the welfare of microentrepreneurs and their households."
- "Strengthen the ability of USAID and its partners to assess the results of their microenterprise development programs."

A summary of the results of each of the five tools utilized by microfinance institutions is provided below.

1. The Exit Survey

The objective of the Exit Survey is to determine why clients leave a program, when they leave the program, what clients think about the program's strengths and weaknesses, and what they perceive the program's impact to be. In Honduras, the Exit Survey revealed many similarities among the ex-clients of all four NGOs. For example, the decision maker to leave the program was primarily the borrower, and the reasons for leaving primarily had to do with group problems or the NGOs credit policies. The same was true for how ex-clients used their loans (purchase of merchandise to re-sell, the purchase of tools for the business, the expansion of the existing business, and the utilization of funds to begin a new business.

The surveys also found that for the most part, these ex-clients would be willing to come back to the program if they needed loans in the future, were willing to recommend their program to others, and for the most part were satisfied with their participation in the loan program offered by their institution.

2. The Client Satisfaction Focus Group Tool

The objective of the client satisfaction tool is to identify areas where the client is satisfied and dissatisfied with the program. The tool seeks to identify areas where the program should change to better meet clients' needs. The implementation of the Client Satisfaction Focus Group Tool marks the first time that these institutions carry out client research in a systematic way. Using this tool, the four NGOs was able



to meet with groups of clients to discuss what clients liked and disliked about their programs, and allowed clients the opportunity to make specific suggestions to improve the program.

Backed by these focus group findings, as well as the findings from some of the other tools described in this section, each of the institutions came away from these sessions with concrete ideas for specific changes to better respond to their clients' needs. These have included the introduction of new loan products with greater flexibility, a greater push to decentralize the decision making process, and a drive to install their own payment and disbursement windows. Even little things, such as improving the waiting areas for their clients and offering them some type of refreshment when clients visit the NGO's office all reflect a new – customer driven approach – which will improve service and client satisfaction even more in the future.

3. Loan, Profits and Savings Use Individual Interview

The objective of this tool is to demonstrate how micro-enterprises use financial resources to carry out their economic strategies for their businesses and their households. Findings in Honduras showed that clients largely invested their loans and reinvested their businesses' profits into their businesses. They do so because they view their businesses as a source of financial stability and a key to an improved standard of living. Clients feel they know their businesses and what they require to generate greater profits. Over time, however, clients are more apt to use loan proceeds and profits for non-business items as the business grows and becomes more stable.

Almost all clients save above and beyond what their institutions requires them to do. These clients largely choose commercial banks for their perceived security and accessibility. This finding represents a tremendous opportunity to all of these institutions should they decide to become much more aggressive in capturing savings in the future.

Finally, it was clear through these interviews that clients have choices. While a portion of the clients interviewed stated that they would not have undertaken the businesses for which they solicited funding, the majority stated that they would have turned to another institution or alternate source of funding. This was particularly true of clients that lived in areas that were serviced by multiple microfinance lending institutions.

4. The AIMS Empowerment Interview

The objective of this tool is to identify changes in women's self esteem, control over resources, skills, household relationships, and status within their communities. The application of the empowerment interview tool in Honduras yielded very similar results for the four institutions. These results were consistent at all four levels covered in the interview tool – at the individual, household, business and community levels.

Clients across all four institutions stated almost unanimously that they perceived a very positive change in their self-esteem as compared to where they were two years before. At the individual level and at the household levels, the surveys indicate far greater levels of self confidence and participation in decision making than previously. At the business level, these clients all expressed a new sense of self worth and confidence in their abilities as businesswomen and in their ability to contribute to the household with additional resources from their business. At the community level, clients expressed taking a greater role and interest in community issues, and many had taken leadership roles within their communities, helping to find solutions to community problems.



5. The AIMS Impact Survey

Only two institutions provided us with the data for this survey – Hermandad de Honduras and World Relief of Honduras. That fact, plus the differences in results among the two institutions makes it difficult to consolidate the findings for this section. While in some areas, the findings were consistent, in other areas, the sample groups from the two groups yielded very different results, suggesting that program differences, geographic focus, and other factors contribute to different findings on impact among these two institutions.

Areas where the results among the institutions were consistent had to do with business practices – mature clients tended to exhibit better business practices than newer clients; savings – mature clients are more likely to have savings accounts; and, food – mature clients were more likely to have access to better food quality and quantities than newer clients, although both groups face food shortages and hunger at some time.

Areas where results where only one institution was able to show “impact” were household assets – mature clients had more assets than newer clients; housing repairs – mature clients were more apt to have undertaken a major repair or improvement over the last year than newer clients; and, household decision making – mature clients were more apt to make decisions on their own or with their partner without consulting third parties than newer clients.

LESSONS LEARNED AND RECOMMENDATIONS

Lessons Learned

The project offers some lessons learned in working with microfinance NGOs as well as with commercial banks interested in micro or small and medium enterprise lending. Major lessons learned are discussed below:

1. LONG-TERM EFFORTS AND TRIAL PILOT PROGRAMS ARE NECESSARY TO BUILD CONFIDENCE AND INITIATE CHANGE

Microfinance NGOs, as other financial institutions, tend to be conservative in adapting new strategies and actions. Consequently, while Microfinance NGOs in Honduras were eager to learn new strategies and techniques, they were very reluctant to implement these new strategies or techniques without an extensive internal review process followed by field trials. Over time, however, some of the microfinance institutions that received assistance under the project did implement some of the changes recommended to them, and in these cases, the Microfinance NGOs began to experience the benefits of these recommendations. Once this occurred, the Microfinance NGOs were more eager to work on implementing additional recommendations and the absorption capacity of these NGOs increased dramatically.

Some of the same microfinance consultants involved in the Honduras Microfinance and Banking Support Program were also providing assistance under the first Microfinance Support Project and the current project was able to benefit from the credibility established during the term of the initial contract. Consequently, in the approximately two year timeframe of the current project far greater results were achieved than in the first two years of the previous Microfinance Support Project.

This pattern of hesitancy to change operating procedures and strategies without extensive review and trials was the reason that the project focused on the development and implementing of successful pilot projects. Successful pilot programs lead to increased credibility of the technical assistance program and make the implementation of new strategies and techniques easier in the long run. Unfortunately, the experience in Honduras showed that even getting Microfinance NGOs to implement pilot programs



during initial phases of the project before consultant credibility had been established was slower than expected.

Future technical assistance programs should look for other ways to establish credibility of the technical assistance effort early. One action that would have helped this would have been to take Microfinance NGOs to other countries to see how others operate once the initial diagnostic work had been carried out on them and recommendations were being made. This would have allowed the Microfinance NGOs to see the recommendations being implemented by others and might have helped to speed up the decision to implement pilot programs, and eventually roll-out the recommendations throughout the institution. This did not occur in either the initial or follow-on projects, but is something we would recommend in future projects.

As it turns out, however, when USAID/Honduras made the decision to implement a follow-on project to the first Microfinance Support Project. By 2003, after approximately three years of technical assistance under the first project, Microfinance NGOs had already experienced some important successes as a result of the technical assistance being provided and were ready to implement additional recommendations without significant delays.

While the above discussion focuses on the Microfinance NGOs in Honduras, the same would be true for the component of the project which focused on introducing SME lending techniques to two commercial banks in Honduras. A great deal of time was spent during the first year of the project winning the buy-in of commercial banks to implement the recommended pilot programs. Had representatives from these commercial banks been able to see an SME lending program in another country, they might have been more willing to implement the pilot programs in Honduras sooner, leaving more time to work on the pilot program phase of the project.

2. AN INTEGRATED APPROACH TO ASSISTING MICROFINANCE NGOS WORKS BETTER

From the beginning, the consultants recommended an integrated approach to the microfinance technical assistance program in Honduras. With an integrated approach, the consultants were able to change the behavior of the whole institution, leaving behind a much stronger, sustainable institution with the capacity to grow and acquire additional funds required for that growth. In Honduras, the Microfinance and Banking Support Program focused on improving the credit operations of Microfinance NGOs by working to introduce new credit methodologies as well as simplifying and streamlining the credit process. The project, however, went a bit further in its approach to capacity-building. The project also provided technical assistance and training in other important areas such as strategic planning and organizational development – including specific assistance at the Board of Directors level, marketing, human resources, internal audit and control, information systems, and in impact analysis.

Assistance in all of these areas has enabled microfinance NGOs with high arrears rates and very little strategic thinking to become much more viable financial institutions. They are now able to offer new products and services, operate more efficiently and access market funds to pursue their growth pattern. The strategy of providing complete assistance to these institutions has yielded long term sustainable microfinance activities in Honduras, and might be a good basis for the design of technical assistance activities elsewhere.

3. IMPACT ANALYSIS SERVED AS IMPORTANT CLIENT FEEDBACK MECHANISMS

Impact Analysis of Microfinance activities in Honduras were initiated in 2001 and completed under the current project. These activities were introduced to assist USAID and the Microfinance institutions themselves better understand the processes by which microenterprise services strengthen business and improve the welfare of microentrepreneurs and their households. The results of these impact analysis activities were impressive, and are discussed in detail in section XXX of this report. What was not



anticipated, however, was the impact that this analysis activity would have on the NGOs themselves, and in how they see their clients.

The impact analysis surveys marked the first time that these NGOs carried out any type of serious market research on their clients. As anticipated, these surveys helped the NGOs learn more about their clients, their businesses and their welfare – all useful information in justifying their activities. However, through these surveys, management and the Board of Directors of these NGOs also received valuable feedback on what clients liked and didn't like about their programs and products as well as what kind of services they would like to receive in the future. This has resulted in NGOs developing new products, or modifying existing products and operations to improve client satisfaction and loyalty.

The byproduct of the impact analysis work carried out under the project was the development of a client driven mentality within the NGOs that yielded a dramatic change in behavior on the part of the management of these institutions. To the best of our knowledge, very few microfinance technical assistance programs have focused on developing a greater client awareness as a catalyst to improve microfinance services, however this has been clearly the case in Honduras. Consequently, we would strongly recommend that future microfinance technical assistance program carried out by USAID in different regions of the world should include at least some of the client satisfaction tools which were implemented under the Honduras Microfinance and Banking Support Program over the last two years.

4. SUPERVISION OF THE MICROFINANCE SECTOR, IF DONE PROPERLY, CAN REAP SIGNIFICANT BENEFITS

There has been an ongoing debate within the microfinance community on the relative importance of introducing a regulatory function to oversee the operations of Microfinance NGOs as was the case in Honduras. The main concern is that banking supervision tends to become an additional burden (overregulation) on the Microfinance NGO community with little benefit to the strength of the microfinance sector in the country. The Honduras project offers two interesting lessons learned in this area.

First, there is no doubt that without the technical assistance and training provided to the CNBS (Comisión Nacional de Banca y Seguros) through the existing project, the CNBS in Honduras would have reverted to overregulation of the sector with little or no benefit. As a result of the technical assistance and training provided to the CNBS, we believe that this problem was averted.

Secondly, the focus on providing a regulatory environment that promotes sound microfinance institutions on a voluntary basis has been positive. By making the program voluntary, institutions that choose to be regulated make the decision themselves to meet higher standards (i.e. improved internal audit and control systems) in order to be able to offer products and services that they otherwise would not be able to. This means that institutions can move to become regulated when they are ready to, and as a result have a much more positive experience entering a regulated environment.

5. SME LENDING IS AN IMPORTANT STEP TO LENDING TO THE MICROENTERPRISE SECTOR

The original scope of work asked that the contractor work with two commercial banks to introduce micro and small business lending practices through the development of a pilot program. Unfortunately, this decision was made without an understanding that commercial banks in Honduras have very limited experience with small business banking and hardly any with microfinance lending. Furthermore, commercial banks perceived these market segments as too risky to be served in a profitable manner. As a result, identifying two commercial banks to work under this project very difficult, and resulted in some significant delays.

Experience elsewhere has shown that commercial banks can be successful in offering services to small and micro enterprises, but they are not going to make the jump to microfinance lending without first being



successful in working with small and medium scale (SME) industries. The experience in Honduras under this project adds further evidence to this finding that commercial banks can move towards offering services to smaller enterprises, but they are not likely to jump directly into microfinance lending.

When approached on the concept of microfinance, commercial banks in Honduras were extremely hesitant to take part in this project. However when commercial banks were approached on the possibility of developing an SME lending capability, they became much more interested. This was particularly true after they were presented with information on the size of the market as well as the fact that this market represented a new growth opportunity for the bank. They were also able to see that to a limited extent they already had some SME clients in their portfolio, but the credit methodology that was being applied to these SME clients was not optimal.

In the end, two commercial banks did participate in this project and both took steps to implement a small and medium scale financial pilot. However in planning future projects of this nature, it is important to note that commercial banks are much more likely to move “down” the client base rather than jump into microfinance lending without first being successful at SME lending. The same is true for microfinance institutions wishing to increase the size of their clients and individual loans.

Recommendations

Future assistance in Honduras to assist Micro, Small and Medium scale industries is recommended in four major areas. These are:

- Assistance to the new, regulated Microfinance NGOs (FPVOs);
- Assistance to Financial NGOs that have not received formal assistance under the previous USAID Microfinance Support Projects;
- Assistance to the National Banking Commission (CNBS) in the supervision of Formal FPVOs and in the Supervision of the Commercial Banking System as it relates to SME lending; and,
- Assistance to commercial banks in expanding SME lending.

Each of these is briefly discussed below.

1. ASSISTANCE TO THE NEW – REGULATED FPVOs

In January of this year, the CNBS and the Ministerio de Gobernación issued an authorization to five financial NGOs to operate as regulated financial institutions (FPVOs). While this represents an important step in the strengthening of the microfinance sector, it is also important to remember that this is still a relatively new area in Honduras and several unanticipated problems could occur in the future, both for these initial five institutions as well as for the others that will follow.

We strongly recommend that work in this area should continue into the future, focusing on:

- Loan supervision at the operating level;
- CNBS compliance issues;
- Operating control systems;
- Strengthening internal audit;
- Back office and operations (in house tellers, processing, etc.)
- Corporate governance / institutional strengthening; and,



- New product development with an emphasis on the rural sector (both credit and savings products).

2. ASSISTANCE TO FINANCIAL NGOs THAT DID NOT RECEIVE FORMAL ASSISTANCE, THAT RECEIVED LIMITED ASSISTANCE, OR THAT COULD USE ADDITIONAL ASSISTANCE THAN THAT RECEIVED UNDER THE PREVIOUS USAID MICROFINANCE SUPPORT PROJECTS.

This group of NGOs includes WRH, Finca, FAMA, FUNED, FUNDAMICRO among others. The focus of this work should be to strengthen existing institutions, perhaps focusing on those willing to expand services within the rural sector, rather than in creating new institutions.

Work in this area would focus on hands-on technical assistance and training in:

- Simplification of credit procedures;
- Decentralization;
- New products;
- Loan supervision;
- Internal controls;
- Improved information systems;
- Marketing – market research (understanding the client); and,
- Institutional strengthening / governance.

3. ASSISTANCE TO THE NATIONAL BANKING COMMISSION IN THE SUPERVISION OF FORMAL FPVOS AND IN THE SUPERVISION OF THE COMMERCIAL BANKING SYSTEM AS IT RELATES TO SME LENDING.

The CNBS has limited experience regulating the microfinance sector and it is important to continue to provide assistance so that it doesn't fall back on over or excessive regulation as has happened in other countries. Additional support is also required to assist the CNBS to better carry out its new responsibilities with regards to the FPVOS. Assistance in this area would include continued support in the development and/or revision of norms and procedures to improve and streamline the process and additional support as requested by the CNBS.

The new financial system law, the new CNBS law and the new Central Bank law which were passed in October of 2004 (with World Bank support) will also bring new changes and opportunities in Micro and SME lending. For the first time the new laws differentiate between requirements for traditional commercial banking and Micro and SME lending (recognizes differences in these loans, the guarantees utilized, etc.). As a result, the CNBS will need to re-write existing norms and procedures for the commercial banking system in order to take advantage of these new laws to further stimulate micro lending, and particularly SME lending by commercial banks. Not providing assistance in this process may result in a missed opportunity to stimulate greater commercial bank participation in these important sectors. The new laws will also further the need for reforms / improvements in the "Registro de Propiedad" to allow for the registration of new types of assets permitted under the new laws.

4. ASSISTANCE TO COMMERCIAL BANKS IN EXPANDING SME LENDING

Liquidity in the banking sector, strong competition for traditional clients, an untapped SME market with great potential, the impact of CAFTA on the SME sector, and the new legal environment all suggest that there is a tremendous opportunity for commercial banks in Honduras within the SME market. Interest in SME lending has been expressed by BANHCAFE, Atlantida, Promerica, BAC Honduras (Credomatic), FINSOL (a financiera) as well as BAMER which is already moving aggressively in this area with assistance provided under the existing project. The positive experience by BAMER in the pilot program



developed under current project suggests that there is a great opportunity here, however these banks do not know how to successfully address this sector, and require new methodologies and procedures if they are going to be successful in targeting this market.

Assistance in this area will be required in:

- The development of new products with special attention to the rural sector;
- Credit methodology;
- Loan supervision;
- Operating controls; and,
- CNBS compliance issues.

CONTRACT ADMINISTRATION AND PROJECT EXPENDITURES

1. Administration and Contracts

The administration of the task order was headed by Emerging Markets Group's home office team, in close collaboration with Carana's Project Manager for the activity. Carana provided direct support managing the long-term advisory team, as well as fielding short-term technical personnel from other parts of Latin American (namely Peru and Bolivia). EMG, in collaboration with Weidemann Associates, handled the bulk of expatriate short-term technical personnel.

The project encountered one minor challenge associated with fielding short-term technical assistance both from the United States and Latin American countries to Honduras. In one instance early on in the project, one STTA traveled to Honduras without adequate prior planning on site. The project team subsequently designed planning procedures to ensure both adequate planning on site prior to travel and to ensure travel authorizations were requested 10 days before planned date of travel.

The task order underwent 4 different contract modifications. Two of these modifications extended the period of performance of the contract. The project was initially set to end on September 30, 2004 but was subsequently extended to December 31, 2004 and then January 28, 2005. The project team, in collaboration with USAID, decided to use remaining funds under the task order to better meet the requirements of Result 3 (Assistance to 2 commercial banks in developing SME lending products). The contract modifications also brought revisions to the Level of Effort allotted to Long-Term and Short-Term technical assistance, in order to address the changing needs of the project's counterpart institutions.

Details of each contract modification are provided below:

1st Contract Modification (January 30, 2004)

The purposes of this modification were to:

- a. Revise the Statement of Work and Delivery Schedule: this contract modification extended the deadline for completion of Results 1, 2 and 3 to June 30, 2004 and slightly modified the scope of work under Result 1, 3 and 4.
- b. Identify new key personnel and revise the level of effort: Monica Shinn (25.593 days), Carter Garber (35 days), Jose Mantilla (40 days) and Miguel Arango (10 days) were added to the task order.



-
- c. Provide funds in the amount of \$1,204,936.72 to fully fund the task order.

2nd Contract Modification (August 3, 2004)

The purposes of this modification were to:

- a. Extend the period of performance without increasing the ceiling price, through December 31, 2004.
- b. Extend the delivery date of Results 3 and 6 to December 31, 2004
- c. Revise workdays ordered, namely decreasing the time allotted to Emerging Markets Group home office staff (Monica Shinn and Veronica Gilbert), concentrating the number of workdays ordered for 3 key short-term technical assistance (Jose Mantilla, Arvin Bunker and James Hochschwender), and deleting certain positions named in the original contract (Commercial Banking Specialist, Level 1, Electronic Information Management Specialist, Level I and Attorney, Level I).

3rd Contract Modification (December 27, 2004)

The purposes of this modification were to:

- a. Extend the period of performance without increasing the ceiling price, through February 28, 2005
- b. Extend the delivery date of Result 3
- c. Revise Workdays ordered: namely by increasing LOE for the Chief of Party (Jose Luis Lozano), Administrative Assistant (Sylvie Lopez), TCN Short-Term Technical Assistance (Efrain Camacho) and Expat Short-Term Technical Assistance (Jose Mantilla and Arvin Bunker)

4th Contract Modification (February 28, 2005)

The purpose of this modification was to:

- 1. Review Section A.11 Workdays Ordered to reflect shift of funds in labor categories without increasing the ceiling price;
- 2. Incorporate the USAID disability policy – Acquisition (December 2004)
- 3. Change contractor name from Deloitte Touche Tohmatsu Emerging Markets, Ltd. to Emerging Markets Group, Ltd.

2. Project Expenditures

As of April 11, 2005, total project expenditures were estimated at \$1,740,613, or 96.4% of the task order's total budget. Details of project expenditures are provided in the table below.



PCE-I-00-99-00008-00
Task Order No. 821

	Budget	Total Estimated Expenditures	Accruals through February 2005	CTD Billed (Invoice 17)	Budget Remaining (\$)	Budget Remaining (%)
For Work Days Ordered	\$1,150,595.7	\$1,133,944.9	\$73,555.5	\$1,060,389.4	\$16,650.9	1.4%
For Other Direct Costs & G & A	\$654,341.0	\$606,668.4	\$26,897.9	\$579,770.5	\$47,672.6	7.3%
Subtotal Project Cost	\$1,804,936.7	\$1,740,613.2	\$100,453.4	\$1,640,159.9	\$64,323.5	3.6%
Amount Obligated	\$1,804,936.7					
% Billed	96.4%					

** Please note that *Accruals through February 2005* include amounts incurred by our subcontractors, Carana Corporation and Weidemann Associates which have not yet been billed to USAID. We anticipate that a minor amount in excess of the total reported under Accruals will be billed within the next two billing cycles (representing final project expenses)

3. Disposition of Property

Pursuant to AIDAR 752.245-71 Title to and Care of Property (APR 1984), USAID approved disposition of equipment purchased under the subject task order.



APPENDICES



APPENDIX A: SUMMARY OF REPORTS: SEPTEMBER 2003 – FEBRUARY 2005

INSTITUTION	TOPIC	DATE	CONSULTANTS
GENERALES	Informe de la Consultoría: Medición de Impacto Proyecto de Apoyo a la Microempresa PAM	December 2003	Elvis Alva José Luis Lozano
CNBS	Informe de Consultoría: Diseño del Módulo de Captura de las Solicitudes de Autorización para OPDF's Comisión Nacional de Bancos y Seguros	September 2003	Hugo Velarde Elvis Alva José Luis Lozano
	Informe de la Consultoría realizada en la Comisión Nacional de Banca y Seguros – “Evaluación de la Regulación y su aplicación para las Organizaciones Privadas de Desarrollo Financiero (OPDF) en Honduras”	November 2003	José Zapata José Luis Lozano
	Informe de Consultoría: Diseño y Desarrollo Módulo de Captura de Información Solicitud de Autorización a OPDF's Comisión Nacional de Bancos y Seguros	December 2003	Hugo Velarde Elvis Alva José Luis Lozano
COVELO	Informe de la Consultoría de Negocios realizada en Fundación Microfinanciera Covelo	September 2003	Henry Cardona Elvis Alva José Luis Lozano
	Informe de la Consultoría de Auditoría realizada en Fundación Microfinanciera Covelo	September 2003	Mario Miranda Elvis Alva José Luis Lozano
	Informe de Consultorías realizadas: Análisis y Diagnóstico al sistema Informativo MBWIN	Septiembre 2003	Hugo Velarde Elvis Alva José Luis Lozano
	Informe de Consultoría Descentralización de Operaciones Agencias Fundación Microfinanciera Covelo	November 2003	Elvis Alva José Luis Lozano
	Informe de la Consultoría de Auditoría realizada en COVELO.	November 2003	Mario Miranda Elvis Alva José Luis Lozano
HERMANDAD DE HONDURAS	Informe de la Consultoría de Auditoría realizada en Hermandad de Honduras	September 2003	Mario Miranda Elvis Alva José Luis Lozano
	Informe de la Consultoría en Marketing realizada en Hermandad de Honduras	September 2003	Luis Ludeñas Elvis Alva José Luis Lozano
	Informe de la Consultoría de Negocios realizada en Hermandad de Honduras	September 2003	Henry Cardona Elvis Alva José Luis Lozano



INSTITUTION	TOPIC	DATE	CONSULTANTS
	Informe de Consultorías realizadas: Análisis y Diagnóstico a los Sistemas de Información SIEM en Hermandad de Honduras	September 2003	Hugo Velarde Elvis Alva José Luis Lozano
	Informe de Consultoría: Plan de Reducción de la Morosidad Hermandad de Honduras	November 2003	Elvis Alva José Luis Lozano
	Informe de Consultoría: Mercadeo – Campañas de Promoción Hermandad de Honduras	November 2003	Elvis Alva José Luis Lozano
	Informe de la Consultoría de Auditoría realizada en Hermandad de Honduras	November 2003	Mario Miranda E. Alva, J.L. Lozano
ODEF	Informe de la Consultoría de Negocios realizada en ODEF	November 2003	Henry Cardona Elvis Alva José Luis Lozano
	Informe de la Consultoría de Marketing realizada en ODEF.	November 2003	Luis Ludeñas Elvis Alva José Luis Lozano
	Informe de la Consultoría de Auditoría realizada en ODEF.	November 2003	Mario MirandaXXElvis Alva José Luis Lozano
WORLD RELIEF DE HONDURAS	Informe de la Consultoría de Marketing realizada en World Relief de Honduras	September 2003	Luis Ludeñas Elvis Alva José Luis Lozano
	Informe de la Consultoría de Auditoría realizada en World Relief de Honduras	September 2003	Mario Miranda Elvis Alva José Luis Lozano
	Informe de la Consultoría de Negocios realizada en World Relief de Honduras	September 2003	Henry Cardona Elvis Alva José Luis Lozano
	Informe de Consultorías realizadas: Análisis y Diagnóstico a los Sistemas de Información SIEM en World Relief de Honduras	September 2003	Hugo Velarde Elvis Alva José Luis Lozano
AHIBA / CNBS	Honduras Microfinance and Banking Support Activity Project. Result 2. Trip Report. February 16-28, 2004.	February 2004	Marc de Sousa- Shields James Hochschwender Arvin Bunker Jose Luis Lozano
	Honduras Microfinance and Banking Support Activity Project. Result 3. Trip Report. February 17-27, 2004.	February 2004	José Mantilla Jose Luis Lozano



INSTITUTION	TOPIC	DATE	CONSULTANTS
	Honduras Microfinance and Banking Support Activity Project. Result 2. Trip Report. April 9 -30, 2004. (Español e Inglés)	April 2004	Marc de Sousa- Shields James Hochschwender Arvin Bunker Jose Luis Lozano
	Informe de Consultorías realizadas: Desarrollo de un Plan de Acción de Sistemas para la Transformación a OPDF	May 2004	Elvis Alva Jose Luis Lozano
	Informe Marco Legal y Regulatorio para los Créditos a la Pequeña Empresa en el Sector de la Banca Comercial, realizado por José Mantilla durante abril del 2004.	April 2004	José Mantilla Jose Luis Lozano
Banco Atlántida	Informe de Asistencia Operativa en Banco Atlántida. Elaboración Diagnostico de Proceso y Procedimientos Crediticios Banca PYME. Febrero – Marzo, 2004	Mars 2004	Marc de Sousa- Shields James Hochschwender Arvin Bunker Jose Luis Lozano
	Lineamientos “Procesos de Implementación de una División de Créditos PYMES”	September 2004	Elvis Alva Jose Luis Lozano
	Informe de Consultoría “Implementación de la Unidad de Crédito para la Pequeña y Mediana Empresa – PYME	September 2004	Elvis Alva Jose Luis Lozano
BAMER	Informe de Asistencia Operativa en Banco Mercantil (BAMER). Elaboración Diagnostico de Proceso y Procedimientos Crediticios Banca PYME. Febrero – Marzo, 2004	Mars 2004	Marc de Sousa- Shields James Hochschwender Arvin Bunker Jose Luis Lozano
	Lineamientos “Procesos de Implementación de una División de Créditos PYMES”	September 2004	Elvis Alva Jose Luis Lozano
	Informe de Consultoría “Lineamientos para Implementación de la División de Crédito a la Pequeña y Mediana Empresa – PYME	September 2004	Elvis Alva José Luis Lozano
CNBS	Seminario de Gestión y Control de Riesgos Financieros para Funcionarios de la CNBS	February 2004	Miguel Arango Jose Luis Lozano
	Informe de Consultoría: Manual de Auditoría Interna OPDF y Seguimiento a la implementación de Manual de Inspecciones y Auditoría Externa CNBS	February 2004	Elvis Alva Jose Luis Lozano
	Informe de Consultoría realizada en la CNBS.- “Evaluación del Sistema de Monitoreo, Normativa de Carácter General Diagnóstico – Recomendaciones y Otorgamiento de Licencias para las OPD en Honduras”.	April 2004	Efraín Camacho Jose Luis Lozano
	Informe de consultoría: Manual de contabilidad Organizaciones Privadas de Desarrollo Financiero y Seguimiento a la Implementación de Manual Contable CNBS.	May 2004	Elvis Alva Jose Luis Lozano
	Informe del Evento de Capacitación: Administración, Gestión y Supervisión de Microempresas ofrecido para la CNBS	May 2004	Henry Cardona Jose Luis Lozano



INSTITUTION	TOPIC	DATE	CONSULTANTS
CNBS	Evento de Capacitación para la CNBS de Honduras.- “Técnicas de Control de Calidad de Auditores Externos”	June 2004	Mario Miranda Jose Luis Lozano
	Informe del Evento de Capacitación – “Análisis de indicadores Financieros a Instituciones de Microfinanzas para fines de supervisión”	July 2004	Elvis Alva Jose Luis Lozano
	Informe “Apoyo en la Evaluación de Solicitudes de Licencias para las Organizaciones Privadas de Desarrollo Financiero.- OPDF’s y Revisión de Normativa Prudencial en Honduras	July 2004	Efraín Camacho José Luis Lozano
COVELO	Informe de la Consultoría de Informática realizada en Fundación Microfinanciera Covelo: Descentralización Controles Informáticos para Fundación Covelo Holding	February 2004	Hugo Velarde Jose Luis Lozano
	Informe de la Consultoría en Auditoría realizada en Fundación Microfinanciera Covelo	February 2004	Mario Miranda Jose Luis Lozano
	Informe de la Consultoría de Negocios realizada en Fundación Microfinanciera Covelo	Mars 2004	Henry Cardona Jose Luis Lozano
	Informe de la Consultoría de Marketing realizada en Fundación Microfinanciera Covelo	Mars 2004	Luis Ludeñas Jose Luis Lozano
	Informe de la Consultoría de Negocios realizada en Fundación Microfinanciera Covelo	June 2004	Henry Cardona Jose Luis Lozano
	Informe de la Consultoría en Auditoría realizada en Fundación Microfinanciera Covelo	June 2004	Mario Miranda Jose Luis Lozano
	Análisis de la Aplicación de las Herramientas AIMS en la Fundación Covelo (Español e Inglés)	June 2004	Gregory Bates Jose Luis Lozano
	Informe de Consultorías realizadas en Fundación Microfinanciera Covelo.- Formas de Pago y Cálculo de Intereses en el Sistema Informático “ACSA”	June 2004	Hugo Velarde Jose Luis Lozano
HERMANDAD DE HONDURAS	Informe de la Consultoría de Auditoría realizada en Hermandad de Honduras	February 2004	Mario Miranda Jose Luis Lozano
	Informe de la Consultoría de Informática realizada en Hermandad de Honduras: Desarrollo del Plan Estratégico del Sistema Informático	Mars 2004	Hugo Velarde Jose Luis Lozano
	Informe de la Consultoría de Negocios realizada en Hermandad de Honduras	Mars 2004	Henry Cardona Jose Luis Lozano
	Informe de la Consultoría de Negocios realizada en Hermandad de Honduras	May 2004	Henry Cardona Jose Luis Lozano
	Informe de la Consultoría de Auditoría realizada en Hermandad de Honduras	June 2004	Mario Miranda Jose Luis Lozano



INSTITUTION	TOPIC	DATE	CONSULTANTS
	Informe de la Consultoría de Marketing realizada en Hermandad de Honduras	June 2004	Luis Ludeñas Jose Luis Lozano
	Análisis de la Aplicación de las Herramientas AIMS en Hermandad de Honduras (Español e Inglés)	June 2004	Gregory Bates Jose Luis Lozano
ODEF	Informe de la Consultoría de Negocios realizada en ODEF	February 2004	Henry Cardona Jose Luis Lozano
	Informe de la Consultoría de Marketing realizada en ODEF.	June 2004	Luis Ludeñas Jose Luis Lozano
	Análisis de la Aplicación de las Herramientas AIMS en ODEF (Español e Inglés)	June 2004	Gregory Bates Jose Luis Lozano
WORLD RELIEF DE HONDURAS	Informe de la Consultoría de Auditoría realizada en World Relief de Honduras	February 2004	Mario Miranda Jose Luis Lozano
	Informe de la Consultoría de Marketing realizada en World Relief de Honduras	Mars 2004	Luis Ludeñas Jose Luis Lozano
	Informe de la Consultoría de Negocios realizada en World Relief de Honduras	Mars 2004	Henry Cardona Jose Luis Lozano
	Informe del curso Taller Servicio de Calidad impartido para WRH	April 2004	Luis Ludeñas Jose Luis Lozano
	Análisis de la Aplicación de las Herramientas AIMS en WRH (Español e Inglés)	June 2004	Gregory Bates Jose Luis Lozano
USAID	Análisis de Aplicación de las Herramientas AIMS en Cuatro Instituciones de Microfinanzas en Honduras	October 2004	Greg Bates José Luis Lozano
USAID	Honduras Microfinance and Banking Support Program. Field Report: October 4-15, 2004. Resultado 2, Resultado 3	November 2004	Arvin Bunker José Mantilla José Luis Lozano
USAID	Honduras Microfinance and Banking support Activity Project. Result 3. Increases participation of two commercial banks in small business lending. Trip Report November 8-16 2004	November 2004	Arvin Bunker José Mantilla José Luis Lozano
USAID	Honduras Microfinance and Banking support Activity Project. Result 3. Increases participation of two	November 2004	Arvin Bunker



INSTITUTION	TOPIC	DATE	CONSULTANTS
	commercial banks in small business lending. Trip Report November 29 – December 11, 04		José Mantilla José Luis Lozano
Banco Atlántida	Lineamientos “Procesos de Implementación de una División de Créditos PYMES”	September 2004	Elvis Alva José Luis Lozano
Banco Atlántida	Informe de Consultoría “Implementación de la Unidad de Crédito para la Pequeña y Mediana Empresa – PYME	October 2004	Elvis Alva José Luis Lozano
BAMER	Lineamientos “Procesos de Implementación de una División de Créditos PYMES”	September 2004	Elvis Alva José Luis Lozano
BAMER	Informe de Consultoría “Lineamientos para Implementación de la División de Crédito a la Pequeña y Mediana Empresa – PYME	October 2004	Elvis Alva José Luis Lozano
CNBS	Informe de la Consultoría realizada en la CNBS, “Elaboración / Revisión de Normativas y Supervisión Extra – Situ”	November 2004	José Zapata José Luis Lozano
COVELO	Informe de consultoría “Acciones de Fortalecimiento Operacional Organización Privada de Desarrollo Fundación Microfinanciera José Maria Covelo	July-December 2004	Elvis Alva José Luis Lozano
HERMANDAD DE HONDURAS	Informe de consultoría “Acciones de Fortalecimiento Operacional Organización Privada de Desarrollo Hermandad de Honduras	July December 2004	Elvis Alva José Luis Lozano
WORLD RELIEF DE HONDURAS	Informe de consultoría “Acciones de Fortalecimiento Operacional Organización Privada de Desarrollo World Relief De Honduras	July-December 2004	Elvis Alva José Luis Lozano
CNBS	Informe de la Consultoría realizada en la CNBS, “Elaboración / Revisión de Normativas y Supervisión Extra – Situ”	January 2005	Efraín Camacho José Luis Lozano
BAMER	Informe Final de Consultoría “Lineamientos para Implementación de la División de Crédito a la Pequeña y Mediana Empresa – PYME	February 2005	Arvin Bunker José Mantilla José Luis Lozano
USAID	Informe Final de Consultoría “Lineamientos para Implementación de la División de Crédito a la Pequeña y Mediana Empresa – PYME	February 2005	Arvin Bunker José Mantilla José Luis Lozano