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FINAL REPORT

CONTRACT FOR DESIGN OF TECHNICAL ASSISTANCE SYSTEM
FOR
SMALL ENTREPRENEURS

USAID/H Contract No. 522-9106-C-00-3046-00

With
Partnership for Productivity International, Inc.

May 20, 1983

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I. Introduction

Partnership for Productivity International, Inc. (PFI) was hired by USAID/Honduras to assist the Mission to design a system for providing technical assistance to Honduras small entrepreneurs, and develop a plan for implementing the system over a three year period. The contract called for PFI to perform a series of eleven tasks in order to arrive at the system design and implementation plan. The following report details the activities carried out by the contractor, the Technical Assistance System Design, including the implementation plan for the first three years of the project.

The contractor wishes to acknowledge the support and guidance of Eric Zallman, PCR USAID/H and the assistance and orientation provided by Ramón Medina Luna, Consultant to PCR throughout the contractor's work in Honduras. The contractor also wishes to acknowledge the cooperation and support received from USAID/H staff in general and in particular that of Carolina Cueva De Picciotto, whose assistance contributed greatly to the timely completion of the documents called for under the contract.

II. Activities Carried Out by Contractor

The contractor arrived in Honduras on March 14, 1983 to begin work on the contract. Certain basic issues related to the financiera component of the project had not yet been resolved and it was agreed by the consultant that he would participate in activities which were not included under the specific tasks mentioned in the contract. Most of the initial contacts were made through USAID/H and subsequent contacts were made directly by the contractor with assistance from USAID/H support staff. What follows is a review of the activities carried out for each specific task set out in the contractor's scope of work.

A. Assessment of Organizational and Business Practices for Small Enterprises and Determination of TA Needs to meet the Proposed Financiera's Requirements.

Introduction

Item No. 1 called for the contractor to "assess the organizational and business practices of a sample of small enterprises for technical and financial assistance." Then, based upon a review of the eligibility and documentation requirements of the Financiera, Item No. 3 called for the consultant to "determine the kinds of technical assistance that small enterprises will need to enable them to meet the financiera's requirements." Because the assessment and determination of TA needs are so closely interrelated, it is appropriate to combine them here.

In summary, it was found that knowledge and application of basic management practices such as planning, administrative and financial controls, and identification of markets and marketing strategies is not common in small businesses. In small industry low productivity and product quality is common because of inefficient organization of the production process, limited knowledge of alternative technologies and under utilization and/or inappropriate utilization of equipment. Also, lack of financing is a common constraint in the development of small businesses. In other words, there is a need to (1) improve the management skills of small businesspersons in the above mentioned areas, (2) improve technical knowledge and skills in the small businesses, and (3) improve their access to financing.

The following were identified as reasons behind these characteristics and needs. There are few good models of well managed small businesses for the small business person to see and follow. There are common attitudes which severely limit ambition, risk-taking and entrepreneurship. Hondurans are raised to be satisfy their basic needs and leave it at that. They lack the self-confidence needed to actively seek to expand or improve their businesses. And there is a common feeling of inferiority to the products and business skills of other countries. In the area of production, there is little consciousness of the need to improve the quality of products and the way they are produced. There is a shortage of education resources in applied

engineering, and there is little technical information available that is adapted to the needs of small business. The lack of financing stems from the lack of consciousness in the commercial banking sector of the role they could play in business development combined with the lack of acknowledgement by small businesspersons that many of their financial problems are their own fault, resulting from their under or mismanagement of their resources. In addition, the legal status of the businesses and their assets inhibits access to credit.

In order to respond to this situation, we concluded that a flexible combination of management and technical assistance would be needed to enable small businesses to meet the requirements of the financiers.

Methodology

Before setting out to conduct a survey of the organization and business practices of a sample of small enterprises in order to determine their needs for technical financial and assistance, the consultant reviewed literature on similar studies done in Honduras within the past few years and talked with several agencies, PVO and governmental, who are working with small enterprises in various parts of Honduras. (See Appendix A for Listing of Documents Reviewed.) Based upon this review and the consultants own contacts with small enterprises over the last two and a half years working with CDI on the Rural Technologies Project the consultant decided with AID staff that a small sample would be sufficient and that the investigation should focus primarily on the legal status of the enterprises and their assets and secondarily on confirming and interpreting the conclusions arrived at in previous studies about the reality and T.A. needs of small and medium enterprises. Appendix B contains the questionnaire which was used for investigating the legal status of the assets of small and medium businesses. Appendix C, Questionnaire for Investigating TA Needs of Small and Medium Businesses, was used as a guideline for discussion with businesspersons rather than being executed formally.

Characteristics of Honduran Small Enterprises

The following is a list of common characteristics of small businesses and businesspersons which has been culled from various studies and surveys done in Honduras over the past four years.

- Reduced number of employees, up to 19 and have up to L50,000 in Fixed Assets not including land and buildings

Management

- Management and administration centralized in one person - usually the owner
- Manager/owner often directly involved in production, administration and sales
- Do not have a clear idea of their legal obligations
- Think the solution to most of their problems is money
- Generally not affiliated to associations (ANMPI only has 80 active members)

Personnel/worker relations

- Informal organizational structure without job descriptions
- High turnover of personnel
- Not highly skilled and low paid workers as a result of management bias for reducing costs by reducing salaries
- Personnel contracting ignores much of Labor Law
- Management does not seem interested in improving performance of its workers as evidenced by a general lack of concern for worker development and hygiene

Financial

- Accounting, when it is practiced at all, is seldom used as a management tool
- Limited knowledge of sources of finance and how to use them responsibly
- Shortage of working capital and often undercapitalized
- Delays in paying suppliers
- Excessive balance of receivables often resulting from loose control of receivables
- Subject to fines and government sanctions because of non-compliance with laws (labor, tax, business)

Production

- Small-lot raw material purchases
- Inconsistent product quality
- Often underutilization or inappropriate utilization of equipment
- Limited productivity control
- Limited knowledge of technology choices

Commercialization

- Delayed delivery of products/services to clients
- Often have passive marketing strategy
- Limited knowledge of marketing techniques and distribution channels
- Seldom do market study
- Limited if any sales force, owner/manager is often salesperson in addition to being production supervisor and worker, accountant, administrator
- Generally do not have sales policies

Manager/Owner of Small Enterprise - Characteristics

- Generally technically oriented
- Little knowledge of administration
- Generally autocratic and resistant to change
- Not trusting of workers and does not delegate authority
- Supervises directly

- Does not measure results
- Not inclined to associate with other businesses.
- Fear of debt and limited knowledge of sources and uses of finance
- Limited economic viewpoint
- Independent, stubborn, and often is insecure about his authority

(See Appendix D for the list of characteristics of Medium Scale Enterprises in Honduras)

Problems and Technical Assistance Needs of Small Businesses

Most specifically the following problems and needs have been identified in the areas of management, marketing and technical, legal environment and access to credit.

Administrative Knowledge

Knowledge and application of basic management tools such as written accounting systems and inventory controls is not common in small businesses, though people who have survived for several years in these businesses generally have developed, through hard experience, some sort of informal systems. The Michigan State Rural Small Industries Study indicated that only 14% kept written records and only 15% kept bank accounts. However, there were marked regional differences which suggest that following "modern" administrative practices is a manifestation of the phenomena that might be called "business" orientation in contradistinction of the "artisan" orientation which is more prevalent in rural small business than in urban areas. This is supported by the fact that almost two thirds of those who kept no written records perceived no needs for them.⁽¹⁾ Therefore, the small entrepreneur may not have complete knowledge of what his actual assets and liabilities, costs of production or profit margins are. The small entrepreneur has numerous responsibilities, and typically, a limited formal education. Another indicator of management deficiencies is the frequent lack of work plans; in the MSU Study two thirds of the entrepreneurs did not formulate a work plan, 22% formulated plans on a daily basis and only 12% on a weekly longer basis.⁽²⁾ Too often the small entrepreneurs does not realize that he does not know. They say their most pressing needs is for money, but their reasons for why they need it, together with a look at their underutilized assets (usually the most expensive ones) indicates they are not utilizing what they have as productively as they could.

These insufficiencies in management knowledge are less apparent in medium scale businesses and in commercial enterprises. However, it is interesting to note that in the UNAH study to determine TA needs of small and medium enterprise, 55% of the medium size businesses expressed a need for assistance in financial systems and controls.

(1) Kelley JC/Coronado L., "A profile of Rural Small Industries in Selected Areas of Honduras." USAID/Honduras June 1979 Pg. 9.

(2) 1 Bid Pg. 13 Table 70.

Beyond loan-packaging services, Honduran small and medium businesses have needs for direct technical assistance and training in administrative systems and controls and planning. Moreover, at the level of small business there is a need for the type of assistance which will enable the entrepreneur to become more aware of the usefulness of such systems and controls. With this knowledge he will have a basis for planning for expansion and analyzing investment decisions.

Marketing and Technical Knowledge

In order to sell a product you have to make a product that someone wants to buy at the price you want to sell it. The experience to date of various small business assistance programs in Honduras has indicated that the problems of marketing and technical know-how are closely interrelated. Recent studies have shown that although small businesspersons are less inclined to recognize the connection between these two components of their business they and medium entrepreneurs recognize needs for technical assistance in both production and marketing. As in some other developing country markets, in Honduras there is a definite bias towards imported products in part because of the status that is associated with them, but more importantly because of inconsistent or poor quality or, to a lesser extent, because of unreliable supply of products to the market. Small and medium businesses' primary concern in the area of production is increasing their productivity. In one survey 65% of the small and 70% of the medium sized business interviewed indicated a need for technical assistance for improving their production process.⁽³⁾ The observation of advisors working in this sector is that significant productivity gains could be achieved without further mechanization merely by adjusting the plant layout.

Raw materials figure significantly in the problems mentioned by entrepreneurs. In a study of rural small business almost half experienced difficulties in obtaining raw materials (and that was in 1979 before the shortage of foreign exchange developed) with 40% indicating that they could not find decent quality raw materials and 33% indicating that they could not find what they needed.⁽⁴⁾ Many small entrepreneurs do not have the resources to buy raw materials in large quantities and at reduced prices. This combined with inefficient and limited productive capacity limited understanding of product markets and limited awareness of marketing techniques puts the small business person in the worst of situations, paying the most for inputs and often receiving the least for products. A better understanding of sources of supply, distribution channels and product opportunities will enable entrepreneurs to take advantage of improved management and production practices and compete more effectively in the internal and possibly in the export market.

(3) Marín de Pérez RI, et. a. Determinación de Necesidades de Asistencia Técnica de la Pequeña y Mediana Industria en Honduras, UNAH 1981 PG 283.

(4) OPCIT Kelley Pg. 12

Legal Environment Constraints

The Project Team findings indicate that only the large and some medium scale enterprises are organized in some legal business incorporation form, according to Honduras' Code of Commerce. Those firms which are legally incorporated show the firms own assets, liability and capital structure. Many of the existing, business firms in Honduras adopt the form of Individual Merchant (Comerciante Individual) which is the simplest legal business organization form. However, the Project Team's direct interviews with small and medium size business, uncovered that even those organized as Individual Merchants, do not list assets in the business name but rather carry them in their personal name. More over, it was realized that many businesses, particularly those at the bottom of the scale, usually operate at the minimum permissible legal registration requirement.(5) Such registration is done at the Public Registry of Commerce, at the local town-halls, which involves only the notation of the person's or business' name and the place where the business is conducted.

This legal characteristic of business firms in Honduras limits their access to credit services, since it forces the financial institutions to offer loans on personal rather than business basis. Personal loans from the banks are usually for small amounts and only yearly they have maturities of up to one year. Moreover, it has become apparent that even the public financial institutions that exist in the country are out of reach for most small and even medium scale enterprises, since they require in their loan approval procedures proof of business legal existence, as well as many other financial and economic projections, which only the medium to large firms are able to provide. Therefore, loan packaging assistance will need to include legal advisory services which will assist small businesspersons legally document their business and what they have to offer for collateral.

The Availability and Access to Credit Sources

There is evidence that Small/Medium scale businesses in Honduras need and want greater access to sources of credit. However, the small and medium size firm or entrepreneur, has very limited access to credit from the private and even the public financial institutions. Their access to credit is constrained by a variety of factors, some of the most important of which appear to be:

- a) The inability of small/medium size firms or entrepreneurs to convince bankers of their credit worthiness, which is partially the result of past very poor repayment records on government loan programs.
- b) The banks' own credit policies that emphasize the collateral requirements over the commercial viability of the business.

(5) See Appendix E for Summary of Legal Status of Businesses and their Assets.

- c) The difficulties encountered by the small and medium scale enterprises to meet the formal banking regulations for loan approval - e.g. lack of understanding of loan application procedures, lack of audited financial statements, inability to project cash-flows, etc.,
- d) The loan maturities which are inadequate to enhance the financial soundness of the business;
- e) The excessive delays and documentation requirements involved in obtaining credit from public sources of finance;
- f) The interest rate limits imposed by the Central Bank, that does not make it profitable for banks to lend to most small and medium scale enterprises.
- g) Recently, the apparent desire of the banks to abstain from augmenting their credit exposure under perceived conditions of uncertainty and high business risks.

There are in Honduras 15 private banks and 3 public banks. It is a well known, established practice, that private banks offer credit on a short term basis, up to 1 year, and extend their credit facilities usually to a limited list of selected clients, which are the largest business firms in the country. Those firms have a credit history, are capable of meeting not only the local banks collateral requirements but, also, in many cases, have had direct access to foreign sources of credit to fill their long term and working capital needs. Those firms have also made extensive use of the credits offered by the public financial institutions, and even of the GOH's guarantees to obtain foreign loans.

The small and medium size business, on the other hand, are unable to establish a credit history with those banks. In the best of the cases, they obtain small personal loans, on a short term basis, which are used to finance working capital and even capital investments, and for which mortgaging personal assets is normal. Rural small and medium business is excluded from access to credit by the fact that private banks will only accept urban land and buildings as mortgagable property. When the entrepreneur or the business itself, lack the required mortgagable assets, particularly prevalent among business at the lower part of the scale, their growth is inhibited as they either operate without credit at a low level of production, or resort to corner street lenders, who charge very high interest rates on short term funds. Some of those loans carry an interest rate as high as 7% a month and collections are made even on a daily basis.

The UNAH's study "Analysis of Small and Medium Industries of Honduras - 1981", shows that business in that scale mostly finance their operations with their own funds, which accounts for the low level of production of those units. The figures contained in that study, organized by sources of financing and size of firms, are the following:

Source of Funds	Size of Firms		Average
	Small (%)	Medium (%)	
Own Funds	87.8	80.3	84.1
Supplies	6.0	8.8	7.4
Private Banks	4.2	9.1	6.6
Public Banks	0.3	0.1	0.2
Lenders	0.3	0.4	0.3
Others	<u>1.4</u>	<u>1.3</u>	<u>1.4</u>
TOTAL	100.0	100.0	100.0

B. Review of Eligibility and Documentation Requirements

Item No. 2 called for the contractor to review the eligibility and documentation requirements for loan applications of the Small Business Financiera (SBF).

Methodology:

The contractor spent a considerable amount of time participating with AID staff and the commercial banks' feasibility analyst in a series of interviews of private business persons. These interviews were part of a loan demand survey and were used to solicit ideas about possible loan criteria and test potential user reaction to criteria being considered. The contractor also participated actively in in-house discussion/reviews of eligibility and documentation requirements. The contractor drew up a checklist for eligibility requirements and documentation before the interview process was started.

Thus, rather than review a completed set of requirements, the contractor was incorporated into their development process and many of his comments are reflected therein. The following is an item by item review of the eligibility requirements and it is based on both the contractor's knowledge of the small and medium business sector in Honduras and familiarity with eligibility requirements of similar SME development programs in other countries.

Credit Policies

a. Eligible Borrowers

Normally one would want to define the target population using measurements and definitions which are consistent with other such measurements and definitions in the country. The exception is, of course, when existing parameters are inconsistent in and of themselves or do not accurately reflect the population they are intended to identify. In this instance the SBF's parameters are consistent with, though not identical to, those defined under Decree No. 681 which in 1978 established a special regimen of incentives for the development of the small and medium scale industry and artesanía. The decree definition focuses on fixed assets not including land and buildings; small industry has up to \$25,000 while medium has two divisions one from \$25,001 to \$100,000 and the other (medium large) from \$100,001 to \$200,000.

The financiera on the other hand uses a more encompassing definition, for one reason, because it is defining a business population which includes more than just industries, and for another, because the fixed asset measure of the decree does not look at the overall size of the enterprise. An example of an enterprise which would qualify under the decree but which might be excluded under the financiera criteria is an urban garment manufacturer who has 200 sewing machines plus other equipment totalling L398,000, land and buildings worth L800,000 and inventories and other assets of L300,000. He probably employs at least 300 persons and, because of his land and buildings has assets which qualify to guarantee bank loans (which could also be FONDEI funds), and in the Honduran context is a large enterprise.

The financiera defines small business as having up to \$50,000 in total assets and medium as having from \$50,001 to \$500,000. The separate classification of small and medium is made in order to provide a guideline for fee structures.

b. Eligible Projects

Funding and assistance through this project will be available to industry of any kind, services and commerce, agro-business and perhaps eventually for agriculture production. This criteria acknowledges the integrated and dynamic nature of the small and medium enterprise sector. One of the major problems identified by small and medium businesses is marketing; the lack of effective distribution channels. In part, this reflects the need to strengthen the smaller scale commercial sector which does not adequately serve as a marketing outlet for small business products. The support of the service and commercial sectors is a necessary complement to the support the program is giving to the industrial sector. Small businesses do not have in-house machinery repair capabilities, and also they have limited time and wherewithal to search out sources of raw material supply. So they are dependent on service and commercial enterprises for the smooth functioning of their enterprises. The fact is that these service and commercial enterprises need to improve and expand their capacity to meet the needs of small and medium business, and therefore, need to be included as beneficiaries in this project.

c. Application Process

It has been agreed by the project development team that one difference between this financiera and the private banks is that it will first appraise the value of the project, its viability and potential as a development model, and only after that consider the value of the guarantees which the entrepreneur and the business can provide, while the banks generally look only at the mortgageable urban land and buildings the individual can provide to guarantee the loan.

Project appraisal credit review will necessitate that somehow a credit application form is filled out by the potential borrower and that some form of project proposal and letter of reference is submitted with it. Since the forms and format have not yet been developed, the consultants recommends the following. A Loan Application Form such as the sample presented in Appendix F which requests basic information about the business, the loan request and the legal status of assets that might be used for collateral on the loan. In addition; there is a document control which will facilitate the tracking of loan applications as they are being processed.

The information on the Loan Application Form will be supplemented by a Proposal/Feasibility Study and a letter of reference. The detail of the analysis in this study will correspond to (1) the size of the project, (2) the complexity of the Project. Special attention will be placed on those sections which are deemed to be the most crucial to the success of the project. For example, if a new (to Honduras) and more sophisticated technology is to be

employed in the production process, the efficient operation of which is key to the cost savings of the equipment, then more information about the technology and the business ability to operate, maintain, and repair it should be included in the proposal. The Letter of Reference should be a personal as well as business reference provided by an organization to whom the individual and the business activity is well known, such as FEHCIL, IDH, Chambers of Commerce or ANMPI. Reference should be given not only on the person's honesty and integrity but also on the entrepreneur's demonstrated ability to manage and his (her) level of commitment to the enterprise, in other words what is the likelihood that the person will follow through on what has been started.

The following is an outline of the contents of the Proposal/Feasibility Study.

- i. Summary of Project - what its going to do and what is needed to do it.
- ii. Market study
 - a) Demand
 - b) Competition
 - c) Strategy - channels of distribution, target market, promotion, etc.
- iii. Technical Feasibility
 - a) Production process
 - b) Management and labor available for production process
 - c) Input analysis - availability of necessary raw materials, utilities, labor, management
 - d) Financial Feasibility - cash flow, income statements, propose financing and repayment schedules

Doing project appraisals can be very expensive for a lending institution, especially for smaller loans such as those that small businesses will be requesting. In many instances the entrepreneur will need technical assistance or training before receiving credit. For both these reasons the TA credit system has been designed to have clients arrive with the applications through different channels which can provide needed assistance in loan application packaging as well as in management training and assistance. The following are the recommended procedures for the three suggested channels, through PVOs, through private sector organizations or directly to the financier.

Clients will apply for loans through three different channels. In all cases basic information about the business (if there is an existing business), the key persons involved, and the proposed project to be financed will be solicited. The form in which the client is expected to submit this information will vary depending upon the size and complexity and sophistication of the enterprise and the project to be financed.

Small businesses applications will come to the financieria through three channels. The first is through PVOs and the second is through ANMPI or one of the Chambers of Commerce, and the third is directly to the Financieria.

At the start of the program there will be two PVOs qualified/certified to provide assistance to potential clients of the financieria in preparing their applications, in establishing necessary management and production or service controls, and in planning and preparing for the execution of their project. These PVOs will be responsible for screening their clients for the financieria, and they will only send those clients whom they have judged to be well equipped to handle the credit they are requesting from the financieria and the project they are proposing to use it for. As the program develops additional PVOs may be qualified/certified as screening and assistance agents. When an applicant comes to the financieria through the PVO, (s)he will arrive with a complete application package; the financieria application form, the proposal/feasibility study, and the PVO reference letter. The letter will include a brief summary of the clients credit history, the PVOs knowledge of the client and a description of the followup they will provide to the client after the loan is made. Someone from the PVO might want to accompany the client to the financieria to introduce the person and the project as need dictates. However, the client should always be encouraged to deal directly with the financieria staff. This contact is necessary for the financieria to make its own judgement about the client's and the project's creditworthiness, and it also exposes the client to the world of a financial institution.

The two original PVOs will be qualified/certified/incorporated into the assistance and screening system because they meet the following criteria. They have several years experience in working with small businesses, so they have an understanding of their needs. They have staff who are providing management assistance and training directly or indirectly to small businesses. They have experience providing credit to small businesses. They are providing other supportive services to small business such as bulk purchasing of raw materials, which improve the efficiency, productivity or profitability of those firms. They have developed administrative systems and organizational structures which enable them to track the services they are providing and their costs. Additional PVOs to be incorporated in the system will be evaluated according to these same criteria.

ANMPI and another PSO will screen clients in a manner similar to that of the PVOs, by knowing who he is and what his technical, administrative and financial capabilities are. It is difficult to ascertain at this time to what extent ANMPI will be able to develop in-house management and/or technical assistance services. If it does, then it will be able to perform most of the same functions that the PVOs do, with the exception of giving credit. As a minimum, however, ANMPI needs to develop the capability to assist small businesses prepare their applications for credit, refer them to whatever assistance services they are in need of and give accurate references on the honesty integrity and capability of the key individuals involved. These activities are, in fact, a slight expansion upon what a few members of the

Junta Directive of ANMPI are already doing. They also might want to consider a continuous informal form of followup after the loan is made. Visits could be made in the normal course of keeping in touch with their membership and some sort of plan for this should be made during the screening and application process. It is probable that the Camara de Comercio e Industrias de Cortés and the Camara de Comercio e Industrias de Tegucigalpa will be the other PSOs who will screen clients for the financiera.

What happens to the small business entrepreneur who arrives at the financiera without having gone through either of these two channels? A credit officer attends to him and through the process of a conversation ascertains to what degree the person is able to deal directly with the financiera, and which, if either, of the two channels would be most appropriate and could best serve the clients needs. Then the credit officer would either refer the person to ANMPI or one of the PVOs or would actually make the introduction in person, to ensure that client is attended.

Medium enterprise could arrive at the financiera through any of the above mentioned channels, (1) through the PVOs, (2) through ANMPI or another association or chamber, or (3) directly. The medium scale business entrepreneur more often has the knowledge and experience of planning and record keeping that he needs to be able to fill in the application and prepare the project proposal independently. However, there will be cases in which assistance in this is required, and in any case, there will still be a need for personal and business references. Until the financiera establishes its own reference network, it will have to rely on others. For this reason the financiera will encourage potential clients to approach them through a third party who knows them and the programs. The TA System Coordinator will assist in the establishment of working agreements between the financiera and ANMPI and the Chamber of Commerce of Cortés which will define their functions in pre-selecting clients and providing personal and business references for them.

d. Approval Process

This has not yet been decided upon. However, this consultant would suggest the following procedures. The Credit Officer will discuss the project with the client and make his/her own personal assessment of the client and clarify entries on the application. (S)He will review the application and proposal and will make any necessary inquiries to confirm the accuracy of the information given. A visit will be made to the enterprise (wherever feasible) to see the business first hand, to demonstrate to the client a real interest in the enterprise and to confirm assets listed on the application. The Credit Officer will then make a decision on the credit request and submit that together with the application to the manager of the financiera. The manager should initially have authority to approve credits up to \$10,000. As the systems of the financiera prove to be functional then the lending authority of the manager might be raised as high as \$25-50,000. Above these levels a loan committee's approval should be required. The Loan Committee will consist of the manager and two or three members of the financiera board of Directors. It

is expected that this loan committee will not be composed entirely of bankers and will preferably include a private business person. In some instances a representative of the PVO or private sector organization who channeled the loan application and who knows the borrower will be requested to present the proposal to the loan committee. The decision by the loan committee should be unanimous, if one of its members does not approve of the loan then the loan is not approved.

Obviously, the financieria will have to arrive at its own efficient but prudent loan approval process. It can be a very worthwhile education for Board members to see the kinds of smaller credits the financieria is making, at least in the early stages of the project.

e. Lending Regulations

1) Amount - a maximum has been set of \$500,000 or up to 80% of total assets whichever is less. This is appropriate once the financieria is well established. But from the beginning there should be one other criteria for limiting the amount; no loan or loans to a single borrower should exceed 80% of the capital of the financieria (paid-in capital plus retained earnings). Overtime this percentage should be reduced to at most 50%. The justification for this is that no single loan should have the potential for bankrupting the financieria. This means that if initial paid in capital is \$250,000, then the maximum loan limit would be \$200,000. no lower limit has been set, but overtime the financieria will probably decide that there is a level below which they do not make money. They should be encouraged to look for ways to lower their costs such that they can lend small amounts.

2) Term - a maximum of 3 years for working capital with up to one year grace period and a maximum of 7 years for fixed asset investments with up to two years grace period has been decided upon, and these seem appropriate given the kinds of projects it appears that the financieria will be financing. It will be important for the financieria staff to tailor the repayment terms to what is realistic for the enterprise and the borrower. It is too easy to think in terms of equal monthly payments because in most businesses in Honduras revenues fluctuate significantly during different months of the year.

One other policy which the financieria will have to decide upon (though not right away) is under what conditions it will refinance, or adjust the terms of one of its loans. The success of smaller businesses is often very dependent on the health of the owner/manager; if (s)he is ill for two weeks it has an immediate impact on the business. At this level there is no way to avoid this dilemma, and this should not inhibit the financieria from lending to these enterprises (except in cases in which the key person's ill health clearly makes the project non-viable). It merely means that the financieria should be prepared to respond constructively to whatever situation should arise of this nature.

3) Interest Rate - It was to have been 6-7% over the average cost of funds, but no less than 2% over the maximum commercial bank rate adjustable on a yearly basis on loans with a term of more than one year. The 6-7% over the cost of funds is minimal, and ability of the financiera to effectively manage a loan portfolio which has over half its loans to small businesses who are spread out across the country will depend heavily on the ability of the PVOs and private sector organizations to screen, assist and follow up financiera clients. For a more accurate measure of the charges for the supervised credit one needs to include the 10% interest differential that will be taken out at the Central Bank to fund a portion of the T.A. system. Added to that is the grant funding which will be channelled into the T.A. system which is equivalent to about 5% of the loans that will be made during the grant disbursement. This brings the total to 21% for loan supervision and administration which, given the average size of the loans, should be sufficient. This 21% does not include the fees the borrower will pay directly for T.A. services which, when added, will probably bring the total to around 25% which is reasonable for a small and medium scale enterprise development program.

4) Proposed Uses of Credit - it has been decided that financiera loans can be used for operating costs, raw materials, professional services, leasehold improvements, machinery and equipment and spareparts, and under carefully controlled conditions, buildings. It was decided not to finance any purchases of land as that is an unproductive asset (except in agriculture) and to finance vehicles only in exceptional cases. Too often small businesses have borrowed money to purchase vehicles which are both uneconomical and unnecessary for the business.

5) Collateral/Guarantees - 100% of loan amount with collateral that can be legally documented at 80% of market value has been decided on. This policy should be reviewed from time to time to ensure that by it alone viable small enterprise activities are not being excluded from financing. Commercial banks in Honduras generally require 200% or more in and they generally only accept urban land and buildings as collateral. There are a few exceptions to this; in particular, Banco de el Ahorro has provided small amounts of finance to well known customers against sight drafts. The financiera will accept whatever can be legally documented as collateral. Below is a list of assets and what would be required in relation to each for it to qualify as collateral on an SBF loan.

<u>Asset</u>	<u>Qualification</u>
1.- Land	Formalized title, clear of any liens.
2.- Building	Proof of ownership, assessed value, clear of any liens.
3.- Equipment	Proof of ownership, assessed value, clear of any liens.
4.- Inventories-finished goods, in process, and raw materials	Formal assignment of chattel mortgage.
5.- Receivables	Stamped sight drafts of purchaser with recourse to borrower.
6.- Sales Contracts	Legally executed contracts.
7.- Patents (?) or other assets which have some <u>market</u> value trademarks, copywrites, stocks, bonds, etc.	To be determined depending on nature of asset.
8.- Time Deposits	Assignment of same.

6) Restrictions - It has been decided that the financiera will not finance any housing mortgages or purchases, equity purchases of borrowers nor refinance any other legal institutions loans with AID funds. Also the financiera will make no equity investments. Further thought will need to be given on restrictions on disbursement of dividends and sale or redemption of shareholdings.

7) Documentation Requirements - These are covered above in the Application Process section.

C. Assessment of PVO's to Provide TA to Small Enterprises

Task No. 4 in the scope of work called for an assessment of the interest, drive and capability of PVOs in Honduras that could provide the kinds of technical assistance needed by small enterprises to enable them to meet the financieras requirements.

Task No. 5 in the scope of work calls for the Contractor to "propose to USAID/H a preliminary list of the organizations that could most effectively provide" technical assistance services that small enterprises will need to enable them to meet the Small Business Financiera's loan application requirements. It also states that "one or more of the organizations shall have the capability to provide services outside of the urban areas of

Tegucigalpa and San Pedro Sula." The following is the review of six potential service organizations, briefly presents the services they might provide, the extent to which they can provide them and the pros and cons of including them in the TA System related to the Small Business Financiera, and finally, recommends the three organizations which can most effectively provide needed services.

The following summary of the SSE technical assistance needs assessment will introduce the topic of the service organizations. In order to be eligible for a loan from the SBF a SSE has to be able to document its past performance, its present financial condition and its future prospects. In addition, the entrepreneur needs to provide certain documentation for assets which will be used as collateral on the loan. In order to satisfy these requirements the entrepreneur would need to apply various basic management tools such as record keeping, P & L and cash flow analysis, and market, production and financial projections. That is just to make the application. The SBF would also want to be sure that the entrepreneur has the skills required to produce or provide services and control the production and quality of products or services and at a price which can compete in their intended market. This implies the identification of technologies and acquisition of skills to apply those technologies.

Various surveys/investigations of the SB sector in Honduras have pointed out deficiencies in the management and technical skills in SSEs, specifically in the areas of record keeping, planning, marketing and market analysis, management and production controls, and rationalization of the productive process in the case of industry. The lack of separation between the business and family finances has contributed significantly to the undercapitalization of SSE. Credit is often seen as the solution to cash shortage when in fact, its availability might only exacerbate the degeneration of the financial condition of the enterprise.

So the technical assistance needs of SSE in Honduras are:

1. Training and/or management assistance in management tools which will give the entrepreneur (and the credit officer of the SBF) an overview of the performance of the business.
2. Training and/or management assistance in business planning including market analysis, production or service and financial projections (income and expenses and cash flow, including loan repayment).
3. Technical information from internal and external sources about available machinery, production processes, raw materials, product quality control, etc.
4. Legal assistance in formalizing or documenting business assets.
5. A mechanism for continuously reassessing the needs of SSE as the economic, legal and political environment in Honduras changes.

Another form of assistance that is needed but which does not necessarily fall under the rubric of T.A. is a system of personal and business references. Often times a person is refused credit because he or she is not known to the lender or by someone the lender knows and trusts.

Proposed Organizations

a. Federación Hondureña de Cooperativas Industriales, Limitada (FEHCIL)

Is in its fourth year of operations and has grown very rapidly in the number of people they are working with, in the range of services they provide, in their budget and in the resources they have to draw upon. 1982 budget \$212,500; 1983 Projected \$412,500.

Services to SSE include: Credit, non-formal management training, management assistance, technical information and training, cooperative accounting services, legal assistance, bulk purchasing of raw materials, marketing of finished products and cooperative development. Most of their services focus specifically on developing industrial cooperatives and their objective is to have the small businesses eventually join together into a single medium or large scale manufacturing operation. However, they do provide technical and management training to cooperative members in accounting, planning and production in their individual enterprises.

FEHCIL has three service departments: education, projects and finance and commercialization. Their operations are run out of two offices; the main office in Tegucigalpa and one in San Pedro Sula which services the north region (Cortés, Santa Barbara, Copán, Atlantida and Ocotepeque). They have provided services in 10 departments. They have 9 professional staff and 25 support staff and at present have one US Peace Corps advisor in commercialization. Many of their professional staff have been promoted from within the FEHCIL network as they have gained practical experience in the cooperatives or in FEHCIL and have demonstrated capacity and willingness.

FEHCIL is interested in drawing on the financial and technical resources of the SME financiera project. As they reach the limits of their own credit resources they want to refinance or discount the raw materials purchase notes or machinery purchase notes of cooperatives or pre-cooperatives. FEHCIL would continue to provide accounting services, planning assistance, technical training and followup. At present these services are partially subsidized by grant funding and by other revenues. FEHCIL recognizes the need to strengthen the activities of the cooperatives member businesses and with outside assistance, would be willing to dedicate some resources to those efforts.

FEHCIL offers an efficient channel for the financiera to provide credit to smaller enterprises and is perhaps the only channel through which the financiera will be able to reach to the level of small productive workshops.

b. Instituto de Desarrollo Hondureno (IDH)

Is in its fifth year of operation. It has recently gone through a reassessment of its activities and is laying the groundwork for improving and expanding its operations. They recently signed a loan/grant agreement with IDB which will add \$400,000 to their loan funds and provide them with \$50,000 of technical assistance (from ASEPARE) over the next two years. 1982 budget \$63,000; 1983 budget \$75,000 (not including IDB T.A. package of \$30,000).

Services to SSE include: Credit, motivational and management training, management assistance, legal information, marketing assistance and community development awareness training. Their services focus on expanding existing enterprises and improving management capabilities. Their marketing assistance consists of finding buyers for their clients products, mostly in the Tegucigalpa market.

IDH presently has 4 promoters and 1 PCV who are providing assistance or follow-up to 150 small businesses in Francisco Morazan, Cortes, Olancho, Comayagua, Yoro, Choluteca and Atlántida. The promoters are based in Tegucigalpa and the PCV is based in Siguatepeque. They will be employing two more promoters within the next month and are considering placing one or more of them in field offices in Olancho and/or San Pedro Sula. There are presently two agronomists from ASEPARE who work full time for IDH on agriculture and agro-business credits. In addition, ASEPARE has provided a person half time to assist IDH in formalizing and documenting its financial accounting and management control systems. These ASEPARE advisors are being paid for out of IDB technical assistance funds and will be working with IDH for the next 18 months.

IDH feels that it works most effectively with businesses with total assets under L50,000 and would like to keep its average loans down to L10,000 in order to be able to reach as many businesses as possible with their limited funds (\$375,000 and \$400,000 IDB). They would like to graduate clients who have been responsible and competent in handling IDH credit and managing their business and refer them to the financiera when their credit needs exceed L30,000. They already have several clients who are ready to take this step. IDH would have to expand their staff and upgrade the promoters management assistance capabilities in order to be able to provide follow-up and assistance to their graduated clients. However, it makes sense from both the financiera's and IDH's viewpoints to do that.

IDH would already have established a close, working relationship the client, and they would know the business well. Thus, the time and effort it takes to establish a good working relationship would be saved if IDH continued providing assistance and follow-up to the client. On the other hand, having the experience of working with growing businesses IDH would be able to better anticipate the problems that accompany growth, and thus better serve business further down the scale, their own clients.

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To date IDH has set aside a small portion of the interest on loans (3%) to defray costs of management assistance; it is not enough. They charge a token fee (L20) for the introductory seminar which covers about half the costs. They have relied on grant funding to cover the difference. They have been hesitant to charge fees for management assistance, but recognize the need to consider a fee system.

c. Aseores para el Desarrollo (ASEPADE)

Is completing its sixth year of operations. It has grown steadily and now counts 16 professional staff who are providing a range of services to people's and development organizations (both private and public) and campesion and minority groups.

Services to SSE includes: credit, group formation, management training (direct and indirect), management assistance (indirect), organization development (indirect), studies, legal information and assistance, motivational and consciencizing training. The main emphasis of their services is on organizational development of institutions serving small and micro enterprises, both commercial and productive. They perform socio-economic studies to better identify the target population and the actual supply and demand of services in given areas. They train top management of development organizations to be more resourceful and systematic. They have developed management systems including policies, procedures and forms for credit, commercialization and inventory controls. Their services are oriented towards collaborative efforts of SSE, for practical reasons as well as to provoke social commitment and avoid unconstructive individualism.

ASEPADE has three operating units: Credit, which runs a small credit program and advises others; Organizational Development; and Consulting, which provides specific consulting services to small business development organizations on contract. All these units operate out of Tegucigalpa and provide services wherever in Honduras they are needed. ASEPADE has also provided training services to a PVO in Panamá (Tecnología Apropriada de Panamá).

Through their consulting and organizational development services ASEPADE has become familiar with many different small and micro business development programs and through their membership in FOPRIDE, a consortium of local PVOs, has contact with other private organizations which might later be incorporated into the TA system. From conversations with the president of ASEPADE it appears that they have a pretty good idea of the assistance needs of SSE and are active in looking for and developing practical mechanisms for servicing those needs. They seem to have a better understading of the implications of the legal framework pertaining to SSE than other PVOs who were interviewed. The fact that they have three lawyers on their staff might have something to do with that. ASEPADE is an organization which could be involved in providing training, investigation and legal advisory services to organizations in the TA System who are directly providing services to SSE. It will probably be appropriate to have them work in conjunction with TA brought in from outside of Honduras in order to institutionalize that TA capability in Honduras.

d. Camara de Comercio e Industria de Tegucigalpa

Is in its thirty seventh year of operation, has 532 members, the majority of which are medium scale businesses and commercial. However, there are small scale and industrial and service businesses who are members. The Tegucigalpa Chamber is more oriented towards representing the commercial sector rather than the private sector as a whole than is the Camara de Comercio e Industria de Cortés. The Tegucigalpa Chamber has developed a solid income base from membership quotas and prudent investments. 1982 budget \$195,982.

Services to S&ME include: legal services, technical economic and management information library, biweekly bulletins, monthly magazine, seminars on technologies, management and the economy, product certification, business reference, letters of introduction, market information, legal registration (La Constancia), facilities for meetings, activity coordination, representation of private sector to GOH and foreign investors, and management advice. Their services can be summarized in four categories: 1) information (library, bulletins, magazine, seminars, sector studies); 2) advisory (legal, management, seminars); 3) reference representation to GOH product certification, business reference, letter of introduction, lobbying; 4) Facilities/coordination (meeting room, activity coordination, space leasing). The Tegucigalpa chamber is particularly interested in expanding their management advisory services. They have one person who works part-time with members discussing management problems they are encountering and looking for possible solutions. They admit that this is not a service that small businesses come to them for. They claim that the majority of requests for this type of assistance come from medium scale enterprises.

Their membership is limited to Tegucigalpa and thus the services they provide are, on the whole, likewise restricted. However, they do have links to other chambers and associations through their participation in the National Chamber of Commerce and COHEP. They acknowledge that neither of these organizations is effectively integrating the efforts of the various private sector organizations in Honduras.

The Tegucigalpa Chamber has recently paid off the mortgage on their office building. This should mean that they will have additional funds available to support expanded advisory services. It would seem appropriate to consider directing funds and TA to them in order to encourage the development of advisory services which better meet the needs of medium scale enterprises and which can be responsible to the needs of smaller enterprises who find their way to seeking such assistance from the chamber.

e. Camara de Comercio e Industria de Cortés

It has existed for over 20 years, claims to have served in Cortés Yoro, Santa Barbara, and part of Atlántida, and has, as of December 1982 527 members of whom 206 are commercial enterprises, 177 industries, 54 services, 11 banks, 45 "professionals", 7 farmers or cattlemen and 27 assorted members in Puerto Cortés. The Cortés Chamber is more oriented towards representing the private sector as a whole than the Tegucigalpa chamber, perhaps because their president is an industrialist. The Cortés Chamber has a solid income base from members quotas and charges for services. 1982 budget \$163,509.

Services to S&ME include: legal services, legal registration, management assistance, sector studies, information library, monthly magazine, seminars/courses on technologies, management, economy and Central American regional integration, business reference and letters of introduction, product certification, photocopying and mimeographing, coordination/sponsoring of activities (i.e. trade fairs), support to higher education (institutional and individual scholarships), arbitration, and representation to GOH. They have five professional staff including an economic advisor, a legal advisor, a public relations specialist, a journalist and the general manager of the Chamber. Their services are geared more towards medium scale enterprises, but are available to all members.

They feel that they could play a role in the TA system by screening clients for the financiera and by providing management assistance both before and after a business has received a loan. They would need one additional staff member for this to be done effectively. The person would need to have at least five years experience in management as well as knowing credit analysis. They also offered to have the financiera representative in San Pedro Sula located in their offices.

Given the other services (legal, information, photocopying, etc.) which the Cortés chamber offers and given the less formal, though not unprofessional, atmosphere of their offices it would seem appropriate to consider directing financial resources and TA to them in order to develop their in-house capability to provide advisory services to smaller enterprises. They could serve as an effective selection and support service to the financiera.

f. Asociación Nacional de Mediana y Pequeños Industriales (ANMPI)

ANMPI was formed in 1972 and became ANMPI in 1978. There are 80 active members (though there is mention of 810 affiliates) of whom 26% are artisans, 66% are small industrias and 8% are medium scale and of whom about a third are in Francisco Morazan, a third in Cortés and a third scattered in the other departments of Honduras. ANMPI does not have a well established funding base; the receipts of monthly quotas from members does not even cover the rent of their office and meeting space.

Services include: legal information, management assistance, credit source information and assistance, representation to the GOH and the public and business/personal reference to credit sources. ANMPI's paid staff is limited to a secretary and messenger, and most of the above services are provided by the President of ANMPI, and to a lesser extent by other Board members on a voluntary and informal basis. There is little acknowledgement on either the members part or on the part of the people actually providing the services that ANMPI is providing services to member and non-member small businesses.

ANMPI has accepted the services of six students working through the UNAH Centro de Estudios y Trabajo (CETAE). They will spend 4-6 months working as management advisors to ANMPI members (see following CETAE description) beginning in July 1983.

It is clear that if ANMPI is to fulfill its institutional functions it will need assistance and financial support. Because it is (1) a national organization (2) the only representative body for small business and (3) has accumulated knowledge of the needs and characteristics of small business, it would seem appropriate that an attempt be made to incorporate them into the TA system over time. They obviously are not in a position to provide effective management or technical assistance services to small businesses now or in the near future. However, they represent a network which with minimal TA could provide very useful personal and business reference services to the financiera. Also, it will be appropriate for the TA system to provide support for one staff person who would be responsible for pre-selecting clients, assisting them in meeting the legal and documentation requirements of the financiera and in improving their management system, and making periodic followup visits to those ANMPI members who have received credit from the financiera, providing them with on-the-spot management assistance as it is needed.

g. Centro de Estudios y Trabajo y Asistencia a la Empresa (CETAE)

Is an outgrowth of the UNAH faculties of Economics and Business Administration. The Centro de Estudios y Trabajos has been in existence for five years and is a program through which students in the faculties of economics, business administration and accounting could do practical investigations and use them to satisfy their Licenciatura thesis requirement and graduates could gain practical experience while serving the community. The Asistencia a la Empresa takes that idea one step further and is attempting to get students to assist directly small and medium scale enterprises as a practical internship.

A group of 6-8 students is planning to work with IDH on their methodologies for providing management assistance to their clients. IDH recognizes that there is room for improvement in their advisory services, and they do not want to deprive the students the opportunity of acquiring practical experience which IDH could at the same time benefit from. This is somewhat like the blind leading the blind. The students are on the most part employed by the government; how much experience they have in private enterprise is questionable. IDH was also not clear what preparation the students had besides their university courses for analyzing small and medium scale enterprise needs and suggesting procedures for responding to those needs. What is known is that there had been no intention of using CDI Small Business Field Agent training materials (which were paid for by A.I.D. and which have proven to be at least somewhat useful). CETAE coordinators have been made aware of the need to (1) be selective in the students allowed to participate in these activities, and (2) develop a course to prepare the students for being advisors.

Another group of six students have reached a preliminary agreement with ANMPI to serve as management advisors to ANMPI members. All of them have completed their course work in the Faculty of Business Administration, and their specializations include administration, planning, accounting, personnel

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administration, and office management. Their intention is to work for about four months and write a thesis based on their experience. Juan Rafael Cruz López and the ANMPI board would like them to commit to serving clients for a period of six months so that there is sufficient period in which to see some of the results of their assistance efforts, develop interest in such services in the membership of ANMPI and promote ANMPI as provider of services. Their work with ANMPI will start on May 1, 1983.

The point is that CETAE is out beating the bushes to get involved in management assistance services to small and medium scale enterprises. They are basing their services on what they have learned in their courses at UNAH, or so it seems from other projects that they have been involved in and written theses on. The effectiveness of services is questionable and this could have a negative impact on the receptivity of small and medium businesses to management assistance.

Organizers of CETAE are interested in being included in the TA system. They recognize that they will need some assistance in selecting and preparing students to be small business advisors. Because the organizers have jobs in the private or public sector (i.e. Nery Chinchilla of Fortín, Lagos & Asoc. and Leony YuWay of CDI) they already have a broad network of contacts which could be very useful in integrating the TA system.

h. U.S. Peace Corps (P.C.)

Has 20 volunteers with business background who are providing management assistance planning, breakeven analysis, market studies, accounting, equipment selection, plant layout to cooperatives or small businesses through various PVOs including IDH and FEHCIL. Eighteen new volunteers will be completing their training in July 1983 and will be placed with PVOs and directly with cooperatives. There are amongst these volunteers several who have extensive backgrounds in engineering or management of in specific industries or businesses. The Program Manager for all these volunteers has offered to lend volunteers to the T.A. System on an on-call basis when there is a particular case which their experience would enable them to provide specialized assistance. The T.A. System Coordinator will want to collaborate with Peace Corps in the placement of volunteers.

Summary

The contractor proposed to USAID/H that FEHCIL and IDH are the PVOs in Honduras that could most effectively provide the kinds of technical assistance that small businesses will need in order to be able to manage credit offered by the financiera. He also proposed that the Chamber of Commerce and Industry of is the private sector organization that could at present most effectively provide services to medium scale enterprises and that with assistance and over time they might develop to serve smaller businesses, complementing the services of IDH and FEHCIL.

In addition, the contractor proposed that ANMPI be incorporated into the TA system as much as possible given its limited institutional capabilities. This will require organizational development assistance to ANMPI in addition to the support for service development.

The contractor also suggested that ASEPADE be included as the key local private organization for training local TA providers and assisting in the organizational development of TA service providers.

These recommendations were based on an assessment of the organizations, their current activities, their interest in participating in the TA system, and their recognition of their own needs for assistance, and they were made recognizing that without exception all of these organizations will need some form of outside TA in order to bring their services up to an appropriate standard. USAID/H concurred with the recommendations of the contractor.

Additional Organizations Considered

University of San Pedro Sula - USPS

This private university is in its sixth year of operation and has schools of Business Administration, Journalism, Agriculture, Banking, Law, Architecture and Educational Sciences. In addition, they offer short courses in practical subjects for working people without schooling requirements for university level education. They will be beginning the process of trying to develop course materials on small business management subjects over the next year. They might become a useful training resource in the second or third year of the project. They have 12 fulltime professors and 90 other technical specialists on call to give courses. Annual Budget of L250,000.

UNAH - School of Economics and Business Administration

They are in process of developing masters programs in Economics, Administration and Accounting. They are also developing new careers in areas such as External Commercialization (Export Promotion) and Public Administration. They want to make what they are teaching more practical, and through CETAE they are doing a number of different studies to determine needs of small and medium scale businesses. They are doing 300-400 question diagnoses of important industries in Honduras (wood working, textiles, food processing) to see what in them works, and what does not, and how the university can better prepare people to manage and work in that level of business. They want to create an intern program through which students in their final six months of studies would provide TA to small businesses. The students would write up the cases and they would serve as feedback to the university and as materials for classes.

University of José Cecilio del Valle - UJCV

Tried to contact this private university in Tegucigalpa on several occasions, left messages and was unable to reach them. According to the materials they presented at the retreat on management training they are not at present offering specific services in management training.

Gerentes y Empresarios Asociados de Honduras - GEMAH

Is only two years old and to date has focused its efforts on organizing management training courses. The Executive Director works part-time and there are two secretaries and two messengers. Their objectives are to: 1) procure the best training for their members; 2) strengthen and develop free enterprise in Honduras; 3) contribute to management and business development by applying new administrative techniques; and 4) incorporate the maximum number of entrepreneurs and managers in GEMAH. They are not active in specific activities related to small and medium scale enterprises but their membership includes people from a few small and many medium scale businesses. They have general ideas of what they want to do, but they have not decided on any particular focus or approach. The AMA will be sending someone in May 1983 to assist them in their organizational development.

They have been arranging monthly talks or seminars and publishing monthly informative bulletins on topics such as business insurance, prevention of accidents in the workplace, and what a manager should know about accounting. Their financial resources are limited to their members monthly quotas. Their greatest resource has undoubtedly not been fully tapped; that resource is the experience and expertise of their members who come from all sizes of business and levels of management.

This group could develop into a useful resource for the TA System but they will have to make some decisions on how they define themselves and put plans into action before it will be possible to know how to incorporate them in the TA system.

Honduran-American Chamber of Commerce - HAM-CHAM

Provides information services for businesses interested in exporting to or importing from the U.S. Also serves as a local contact point for potential U.S. investors. Information includes legal, market, new business opportunities and business contacts.

HAM-CHAM is a relatively new organization and has been going through some internal adjustments that have not strengthened the organization. Their services complement management assistance, and their resources are limited. Therefore, it does not appear appropriate to include them in the TA System at this time, though contact should be maintained.

The following PVOs were considered but were not actively investigated for the reasons given.

Instituto de Federaciones de Cooperativas - IFC

Management and cooperative development training services mostly at level of federations and thus do not reach level of enterprise.

Fundación Hondureño de Desarrollo - FUNADESA

Ineffectively provided credit and management assistance to small business in the past. It is presently inactive.

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Comité Evangélico de Desarrollo Nacional - CEDEN

Focus on group formation and artesan activities and more recently on refugee assistance; therefore, not serving target group of financiera.

Save the Children Foundation - FEDEJCO

Working in group formation and community activities including small credits in marginal communities. Have little experience or staff capability to assist in management of economic activities.

Asociación San José Obrero - ASJO

Located in Choluteca. Focus is on agricultural technical training with little management training. They have experimented projects which might be of interest when financiera program has better outreach.

Centro de Educación Vocacional Evangélico Reformado - CEVER

Focus on agricultural training and non-traditional crop production. Have had some success in increasing small farmers incomes in one region of Comayagua, but have demonstrated insufficient appreciation of business planning practices. Are actively involved with Rural Technologies Project and have their hands full. Might be considered to participate in agrobusiness development assistance but would apparently need considerable TA to upgrade staff and managements skills in market analysis, production planning, etc.

Federación Hondurena de Mujeres Campesinas - FEHMUC

Working with women's groups on micro-enterprise activities and they have their own credit resources for this. Management training has been provided by ASEPADE.

In addition several private, profit making firms who provide services to medium and to a lesser extent small businesses were interviewed. It was concluded from these contacts that there is a role for the kinds of services these organizations provide in the TA system and that their services would contribute to businesses' ability to meet the financiera's loan application and documentation requirements. In summary their services include:

- accounting and bookkeeping
- auditing
- accounting system design and implementation assistance
- inventory control system design and implementation assistance
- other management control systems design and implementation assistance
- feasibility studies
- budgeting and financial planning assistance
- management training courses
- research surveys
- consultant information bank

Below is a review of the organizations interviewed.

Fortin, Lagos y Asociados S. de R.L. de C.V.

Has ten years experience in auditing, accounting and consulting. They also have done research, feasibility studies, and training. They have 10 associates who are specialized as follows: 3 accountants, 1 lawyer with an MBA, 3 economist with MBAs, 1 industrial engineer with an MBA, and 1 accountant with an MBA. They are affiliated with Deloitte, Haskins & Sells, one of the Big Eight accounting firms headquartered in the U.S.

80% of their clients are small or medium scale businesses with the majority being in Tegucigalpa. 40% of their business is consulting services, while 35% is auditing and accounting and 25% is training services. Their rough estimate for designing and setting up an accounting system in a small business, including training staff in its use, is \$1,250. They think this could be reduced substantially by working with a homogenous group of businesses and by using students (on a selective basis).

They are interested in participating in the TA system in anyway we will let them.

Mendieta y Asociados, S.A.

Has nine years experience in auditing, consulting in finance, accounting and technical areas and more recently has developed and budgeting and control service. Their professional staff includes: 1 industrial engineer, 2 economists, 1 MBA, 1 finance specialist and 18 accountants (14 in Tegucigalpa and 4 in San Pedro Sula). They are affiliated with Arthur Young & Company, another one of the Big Eight accounting firms headquartered in the U.S.

25% of their clients are small businesses, 40% are medium, 30% are government agencies or semi-autonomous agencies and slightly more than half of the total are in Tegucigalpa. 70% of their business is auditing and accounting, while 29% is consulting and 1% is the budgeting and control service they have recently started.

Their rough estimate for setting up an accounting system is \$900 for a small business.

They are very interested in participating in the TA system and think that an ongoing consulting relationship with a business is appropriate. Their activities would include developing management controls and following up on their use, quarterly financial statement services, accounting assistance and budgeting and planning reviews.

Morales, Palao, William y Asociados

Have ten years experience in auditing, accounting and financial consulting services. They have also done feasibility studies and other management consulting. They are affiliated with Arthur, Anderson & Company of the U.S. They have 140 clients spread all accross Honduras; about 55% are small or medium businesses. 8% of their business is in auditing and accounting services and 20% in consulting services. They seem to be more narrowly oriented towards the financial and accounting aspects of a business than the other firms mentioned above.

They are mounting a computerized accounting system service for small businesses (using a Wang Computer). They already have 12 clients and they envision a minimum cost of L300-400/month for this service. The service would not eliminate the need for record keeping in the business but could provide more analysis of the data. They think this service might be useful to financiera clients.

M.A. Reyes y Asociados - Grupo de Ejecutivos Modernos (GEM)

These two private, profit oriented businesses are owned and run by one man and his wife out the same office. M.A. Reyes y Asociados is a public accounting and financial consulting firm while GEM runs management training courses. They have been in business for six years. 30% of their clients are small businesses, 30% are medium and 40% are large businesses, and most of their clients are in and around San Pedro Sula. Two thirds of their time is spend on accounting, auditing and financial consulting and a third is spent on setting up training courses.

They feel that administrative services such as accounting together with advisory services such as financial consulting can play a very important role in the healthy growth of a small or medium size business. They would be interested in assisting businesses before and after they have received credit from the financiera.

The first three of these private, profit-oriented firms, Fortin Lagos, Mendieta and Morales, Palao, are representative of the more sophisticated accounting, financial advisory and management consulting firms in Honduras. There are perhaps three or four other local firms who are comparable. M.A. Reyes is one of perhaps one hundred or more small accounting, auditing, financial advising firms in Honduras which generally operate in and around the city in which they are physically located. Both types of firms represent resources upon which clients of the financiera can call for certain kinds of assistance. The cost of their services is not necessarily higher than similar services provided through PVOs, though this is something that will need to be monitored continuously by the coordinator and other participants in the TA system. Many small and medium sized businesses are using their services and paying for them, and there is certainly no reason to change that relationship. What will be worthwhile experimenting with is how their services might be extended further, to businesses who might need them but are not using them, and how their management assistance services could be adapted to serve effectively the needs and personalities of smaller businesses. This experimentation probably would not begin before the latter part of the first phase of the project or the early part of the second phase. It might be worthwhile to allocate some of the TA system resources to this experiment because it has the potential for benefitting all parties. Quality services would reach more small businesses. Services would be self financing. PVOs could learn from the profit oriented companies labor saving techniques and vice versa. PVOs could be relieved of providing services which they are not best suited to provide and channel more of their resources to those activities in which they are the most effective.

D. Assessment of Institutions to Serve as T.A. System Coordinator

Task No. 7 of AID/H's contract with PFP/I called for the contractor to "assess the interest, drive and capability of no less than three institutions to serve in the role of system "coordinator" of the TA System of the Small and Medium Enterprise Development Project. Task No. 8 called for the contractor to "propose the organization best qualified and most interested in serving as system" coordinator. This memo will summarize (1) the functions of the coordinator as envisioned within the TA System design as presently conceived, (2) the preferred characteristics of the individual and the organization which would house the coordinator, (3) an assessment of each of four potential coordinator organizations and (4) proposed coordinator and coordinator organization.

1. Coordinator Function

Background

At present in Honduras there are as many as 20 private organizations plus half a dozen government agencies that provide various forms of assistance (credit, management, technical, training) to small and medium scale businesses including industry, service and commerce (see Appendix G - Existing Assistance Resources in Honduras). Many of the organizations are new within the last 3-4 years. Many of the activities in older organizations related to small and medium enterprise are relatively new, within the last 3-4 years. Many of the activities in older organizations related to small and medium enterprise are relatively new, within the last two years. This indicates an increasing consciousness of the importance of the small and medium scale enterprise in the economic and social well-being of the country. The process that each institution has followed of building new activities on the base of its other activities indicates recognition of the needs of this sector. The proliferation of private sector activities indicates two other trends: one, an emerging confidence in the private sector in its role as an engine of national development; and two, a recognition that these might be more efficient and effective ways to accelerate private sector development than through government programs.

Coordinator Functions

The coordinator is the common link between all the organizations in the TA System as well as with the financiera and will arrange technical assistance to those organizations as it is needed, especially during the startup phase. The coordinator will act as a special implementation unit for project activities. It will receive requests for assistance from the TA System organizations and the financiera for themselves or for their clients. The Coordinator will provide assistance in program design and management and will conduct annual evaluations of the participating assistance organizations to assess the effectiveness of their services, their organization development and the progress towards covering their costs. The coordinator will provide training to assistance organizations field staff and management staff in areas

affecting project development. It is expected that these efforts will be supported by off-shore technical assistance. As part of the training the coordinator will develop a series of seminars/workshops which will bring management, and/or field staff of assistance organizations and the financiers together to review experiences, coordinate activities and acquire knowledge about new developments in their field. In addition, the coordinator will control the flow of project generated financial resources to service providers.

The following is a more detailed list of the functions of the coordinator:

- 1) Inventory of T.A. resources: human; system & infrastructure; materials & methods; financial. In Honduras, Central America and elsewhere. Know requirements and procedures for obtaining external assistance.
- 2) Develop evaluation and monitoring system; feedback system on T.A. needs and services.
- 3) Ongoing identification of T.A. needs of S&ME thru feedback system.
- 4) Identify T.A. needed to develop T.A. providers and financiers and sources of such T.A.
- 5) Establish agreements with T.A. resources in Honduras
 - Define services to be provided
 - Define procedures for requesting services
 - Define procedures for providing services and followup
 - Define evaluation & monitoring process/responsibilities
 - Define payment guidelines and procedures
 - Define reporting requirements
 - Draft agreement; clear with A.I.D.; sign agreement.
- 6) Control payment system for T.A. services funded from interest differential at Central Bank.
- 7) Coordinator with Peace Corps placement of volunteers in T.A. System organizations.
- 8) Solicit and contract external T.A.: write scope of work; solicit proposals; coordinate review; negotiate and finalize contracts.
- 9) Coordinate delivery of external T.A. services.
- 10) Develop and coordinate series of seminars for in-service training of T.A. system and financiers personnel.
- 11) Administer evaluation and monitoring system in coordination with financiers.

- 12) Write quarterly; semi-annual; annual reports on T.A. system making recommendations on any necessary structural or technical changes in system and any other improvements. Quarterly report will include summary review of services provided cost of services.

The coordinator's functions are more of supportive than leading or managing, and for that reason the title coordinator was chosen over System Manager.

2. Characteristics of Coordinator

The same principle stated above for the TA System was applied for the function of Coordinator: use already existing organizations and resources if possible. Based upon the above-indicated coordinator functions it was decided that the organization housing the coordinator would have as many as possible of the following characteristics. First, it would be knowledgeable of the particular needs of small business or at least have experience in needs assessment. Second, it would be aware of the programs and services presently available to small business in the various parts of Honduras (urban and rural). Third, the organization or its individual staff members would have had exposure to a wide variety of the many small business assistance and development programs in existence in other countries in Central and South America and elsewhere. This was felt necessary in order to accelerate the service selection and improvement process by taking advantage of the lessons already learned in similar programs. Fourth, it would have knowledge of and experience with financial institutions and small business finance. Since the coordinator will have certain responsibilities for linking the TA System with the financiera, the coordinator should be able to communicate easily in the financiera's own language. Part of the problem of linking TA and credit has been one of communicating different viewpoints of small businesses needs such that appropriate packages of TA and credit are provided according to need. The coordinator needs to be able to see, the situation from three sides, first the TA System, second, the financiera's and the third being the small business person's. Fifth, it would need to have had experience coordinating the activities of two or more organizations since usually the financiera and at least one if not more TA organizations would be working with a client, and the training seminars will often involve staff from several different organizations. Sixth, it would need to have experience in program and/or service evaluation. This is not something that one can assume an organization knows how to do if it has the other experience called for, and it is important that the coordinator be able to assist the TA System organizations and the financiera assess their effectiveness, efficiency and impact. Seventh, it would be preferable that the organization itself not be providing any assistance services, besides the coordination itself, including the actual training so as to avoid possible conflicts of interest in the allocation of program resources. Eighth, it would be preferable that the coordinator function not be important as a means of promoting the organization and its own activities since it would detract from its function of developing others' activities and institutions. And finally, it would need to have administrative system which meets A.I.D. standards, so that it can adequately track the use of the TA System financial resources, both the grant and the interest portion.

It is worthwhile when thinking about the coordinator organization to think about the characteristics of person who will be the coordinator, since so much will depend on the person, him or herself, for the effective realization of the coordinator functions. Very briefly these characteristics can be described as follows: First, the person must be objective and mature because many different alternatives are to be considered and many people/organizations will be looking to draw upon program resources. Second, the person should have had direct exposure to at least some of the better models of small business assistance programs in the region as well as in Honduras. Third, the person should have background/experience in business management, and finance as well as in program management and training, all of these preferably related to small business. Fourth, the person should be gregarious and have good communication skills since so much will depend on sharing of information. Fifth, the person should be secure and not overly self-ambitious in order to inspire confidence and trust in the parties being worked with that their and small business' best interests are being served.

3. Assessment of Potential Coordinator Organizations

The methodology employed in this assessment was a combination of interviews, informal conversation, reference checks and analysis in relation to the above listed characteristics of the coordinator. The interviews followed the guideline presented in Attachment C and focussed on the organization's knowledge of and experience in the field of small business development in Honduras, experience in coordinating and evaluating other organizations activities, orientation towards the financing of TA services and ideas about TA System and its coordination. The informal conversations were with members organization staff and/or Boards of Directors while the reference checks were with PVOs, A.I.D. staff and small business owners.

Each of the following assessments will give a brief background on the organization and list the advantages and disadvantages of housing the coordinator in that particular organization. One of the organizations does not yet exist, the financiera itself, but it is considered to be of sufficient interest that it has been included.

Instituto Centroamericano de Administración de Empresas (INCAE)

The original INCAE was established in Managua, Nicaragua in 1967 with assistance from Harvard University to provide the only masters level management training available in Central America.

To a great extent it was a transplant of the Harvard Business School's case study approach to management training and many of the materials used were merely translations of materials used at Harvard. Over the years INCAE has grown and now sponsors several different management training programs in addition to a masters program. It has opened a campus in Costa Rica and has representative offices in Panama, El Salvador, Guatemala and Honduras, Ecuador, Chile, Colombia and Bolivia.

The representative office was opened in Honduras about a year ago and is just now in the process of incorporating locally. Its functions to date have been to promote and coordinate INCAE sponsored seminars, conferences and courses. Instructors are brought in from INCAE in Nicaragua and Costa Rica. The INCAE office here consists of an Executive Director, a secretary and a messenger in Tegucigalpa and secretary in San Pedro, and their annual budget is \$55,000, not including programs.

INCAE's activities have historically been oriented towards the top management of medium and large scale enterprises. Institutionally they have limited knowledge of small business management development needs and they have limited experience in training small business managers/owners. In addition, they have little exposure to and few links with small business management training programs. Thus, institutionally they do not meet the criteria of knowing the sector and what has been and is being done to assist it. However, INCAE International has recently started a Program of Consulting and Training of Small and Medium Industry (PAMI) through which they are expanding their training curriculum. This program combines in-plant assistance and training seminars and has not yet been started in Honduras. A related activity in which INCAE International and INCAE Honduras have become involved is the ROCAP sponsored project to strengthen private sector organizations. In Honduras they will work primarily through COHEP and the Cortés Chamber of Commerce, though it is their intention to work directly with private sector organizations such as ANDI, ANMPI and the Tegucigalpa Chamber wherever possible. The focus is on organizational development and their goal is to forge an overall private sector development plan in the context of Honduran economy and society and communicate it to the GOH and other interested parties. Another related program which is in the final stage of negotiations is a World Bank funded program to train FONDEI credit officers and borrowers (medium and small businesses) in project feasibility analysis.

INCAE/Honduras has several advantages over other potential coordinator organizations. They have proven ability in promoting and coordinating management training courses and seminars. They have been able to bring in qualified and effective course instructors and seminar leaders from outside of Honduras through the INCAE network. They are a politically neutral party. They already have an office in San Pedro Sula as well as in Tegucigalpa. They are not well known and are not as yet associated with a particular group. They have worked with cooperatives and government agencies as well as with private business. They are an active and energetic initiator of activities. And finally they already have a project costing accounting system.

The disadvantages of INCAE/Honduras are several. They lack experience in small business and generally don't speak their language. They are very closely tied to INCAE International and there could be pressure or a tendency to be less than objective in assigning TA contracts (if INCAE International was more qualified in small business assistance this would not be as much of a disadvantage). INCAE/Honduras is in the process of expanding its own presence and activities and there could be a conflict of priorities between what is in

the best interest of the TA System and INCAE. If INCAE becomes actively involved in providing services to small and medium scale businesses through its PAMI program there would be the potential for a conflict of interest. And finally, INCAE's highly promotional front, in particular of the INCAE headquarters staff could put off or overwhelm TA System assistance organizations. However, the coordinator function will need to be kept separate from INCAE International so that their aggressiveness will not interfere in the TA System development process. On the balance, INCAE is the strongest candidate of existing organizations.

Asesores para el Desarrollo - ASEPADE

Is completing its sixth year of operations. It has grown steadily and now has 16 professional staff who are providing a range of services to PVOs, government agencies and campesino and women's groups. The main emphasis of their activities is on organizational development of institutions serving small and micro enterprises. They have done needs assessments, management system development including credit, PVO management training and motivational training of lower economic income groups. They have links to many other PVO's through their membership in FOPRIDE (Federación de Organizaciones Privadas de Desarrollo) a consortium of ten PVO's, and have provided assistance to several member organizations as well as others working with small enterprises such as FEHCIL, UNC, FEHMUC and IDH. They have had some contact with small business development organizations outside of Honduras and have even provided TA to one of them (Tecnología Apropriada de Panamá). However, their knowledge of the wide variety of existing programs outside of Honduras is still limited. Their services are oriented towards collaborative efforts among small businesses, for practical reasons as well as to provoke social commitment and avoid unconstructive individualism.

From conversations with the President of ASEPADE it appears that they have a pretty good idea of the assistance needs of SSE and are active in looking for and developing practical mechanisms for servicing those needs. They seem to have an understanding of the legal issues pertaining to SSE which probably is the result of having three lawyers on their staff. They also have a project costing accounting system.

Given all of the above it would appear that ASEPADE would be a better candidate than INCAE to be the coordinator organization, and in certain respects it is. However, there are several drawbacks to ASEPADE. First, they are more oriented to being a social development organization than a business development organization. That isn't all bad, but it does have implications when one considers who they will be working with, in particular, the financiera and the private sector organizations. There is little point in naming a coordinating organization which is going to be promoting its own version of what should be done. ASEPADE has a strong and publicly very visible leader, Juan Ramón Martínez. He regularly contributes editorials to national papers. He is seen as a spokesman for the underprivileged. Again, there is nothing wrong in that in and of itself. However, for the coordinator function it poses two dangers. First, that the program could become

unwittingly politicized and in the process have its purposes distorted, at least in the public eye. Second, it is the opinion of this consultant that the coordinator function is mostly supportive rather than leading and ASEPADA is a "leading" organization. The personality of the organization is a strong one; it is to break new ground and conceive of ways to work towards a new social order. This is apparent in their promotional materials. It would be natural for ASEPADA as coordinator to set a tenor for the entire TA system which could end up excluding some of the very organizations which would benefit all the most if they were included.

There is a role for ASEPADA in the TA System, but it is the assessment of this consultant and others with whom he has consulted that it is not as the coordinator.

Asociación Nacional de Medianos y Pequeños Industriales (ANMPI)

Has been in existence for over ten years and is the only national body which specifically represents the concerns and interests of small industry and service organizations. It includes medium size industry in its membership but there are other organizations whose representation includes them, ANDI and the Chambers of Commerce and Industry. After more than ten years ANMPI has still been unable to develop a solid foundation upon which to build their organization though they have a leader who is well recognized for his activism.

However, to make the TA System more user responsive the Coordinator function should be in ANMPI. It is an advocacy organization and has intimate knowledge of the needs of small business. Through their members they have had contact with most of the small business assistance programs in Honduras. Their knowledge of such programs outside of Honduras is limited. ANMPI has worked directly with small businesses informally providing legal and technical information, management assistance, personal and business references and credit application assistance.

ANMPI can grow and mature as an organization with small doses of assistance, and there are several compelling reasons why it should be considered to house the coordinator. For one, it has a built-in mechanism for assessing small and medium enterprises assistance needs; its members. This same mechanism will provide feedback on the services being provided. The fact that these services are being provided by private sector organizations should minimize the potential politicization of the role of the coordinator of the TA System. Thus, we could consider having the Coordinator in INCAE for two or three years and then, depending on how quickly ANMPI develops, transfer that function into this representative body.

There is an alternative approach to putting the coordinator function into ANMPI after it has developed organizationally; put it in from the beginning. The presence of the Coordinator in ANMPI would accelerate the institutional development by improving its image and giving it an identifiable function to perform. This would catalyze a membership drive and service

- 2) That the agreement be entirely between INCAE/Honduras and no provision be included for overhead, royalties, etc. to INCAE International.
- 3) That an outside advisor be brought in to establish the coordinator function and that person will have primary authority over the allocation of the TA System grant funds and Central Bank interest differential (see discussion below of proposed coordinator.)
- 4) That INCAE International will not be contracted to provide services to the TA System, neither as advisors nor as trainers.
- 5) There would be a Honduran counterpart coordinator (to be selected and hired by the outside advisor in conjunction with INCAE), a secretary and accounting services to be contracted or shared with INCAE.
- 6) Existing office space would be shared and expenses shared accordingly.

Proposed Coordinator

Several people mentioned in conversations with them about who might be an appropriate person to be the coordinator that it was unlikely that we would find a Honduran who would meet the qualifications listed above in item 2. In particular, they were doubtful that there were many Hondurans who had exposure to many of the different kinds of small business assistance programs in Central and South America and the Caribbean. In other instances, they were not optimistic about finding a Honduran who would be objective, not inclined to curry favor with some and ignore others, and who would really play a supportive role rather than trying to expand his or her own turf and trying to be the leader of the band. Some came right out and said that we would have to bring someone in from outside of Honduras. Most agreed that would be necessary at least for a time.

Before recommending who should be the coordinator it is appropriate to have an overview of the key functions this person will have and the characteristics needed to effectively perform those functions. The effectiveness of the entire TA System and the developmental attitude of the financiera staff will depend heavily on the coordinator; one cannot overemphasize this point. The coordinator will set the tone for all of the assistance being provided in this program. The program is meant to support and enhance the effort of PVO's, private sector organizations and others who are assisting small and medium scale enterprises to improve their performance and viability. The approaches which have been found to be most effective in small business development assistance have been those in which the assistance builds upon the experience of the business person and which at no point gives tools (management or technical) which the business person is not in a position to immediately apply. This implies a lot of tailoring of services to the particular needs of the person and the business.

The assistance provided through the coordinator will need to function in much the same way. The organizations providing services should always be in control of those services, leading them, defining and redefining them based on their experience, not implementing something prescribed by someone else. The implications of all this for the coordinator are that it needs to be someone who can stimulate others creative juices, who has the background to be able to help them avoid blind alleys (methods that have been already tried and proven to be ineffective such as what has happened with the INFOP Advisory Service) and to find a way out if they are in one, who is familiar with training technologies and who already knows of resources that can be called on to assist in developing what is needed in the TA System, and who can bring people of different experiences and viewpoints together in an environment in which they can share and analyze common concerns (i.e. why are loans not being paid back).

At this point in time one person in particular comes to the mind of the contractor, Peter Frazer. He has the combination of background, experience and personality which would serve well the needs of the coordinator function. He has extensive experience in Latin America with small business. Through his work on the PISCES Study he was exposed to many different approaches to small business development. Through his work with Peace Corps he became familiar with training techniques and had first hand experience managing a small business development program. He is gregarious and easily likeable and has the kind of personality with which most people are comfortable. He is flexible and can adapt his presentation to fit the audience. He has some business background and extensive experience in program evaluation.

The Honduran counterpart should, of course, have similar qualifications. Background and experience in business management is important. So too is background and/or experience in training, and again, the personality of the person will be key.

E. Planning Assistance to Coordinator Institution and TA Providers

Items No. 6 and No. 9 in the scope of work called for the consultant to assist each assistance organization approved by USAID/H and the institution selected as system coordinator to develop a workable plan for carrying out their functions within the overall T.A. System. Due to delays in receiving the necessary commitments from banks who will invest in the financiera, the consultant was able to work with the selected organizations only on a tentative basis so that USAID/H would not run the danger of appearing to commit resources before it definitely had a project. The consultant worked primarily with IDH, ANMPI and FEHCIL, discussing with them (1) what they would do if they were to participate in this project, (2) what assistance they would need in order to be able to provide the required standard of services, and (3) the contents of the work plan that they would need to prepare in order to participate in the T.A. System. As far as they have been completed they are included in implementation under the following section of the Technical Assistance System. The cost estimate called for in Item No. 11 of the scope of work is included in the Financial Plan of the following section.

The assessment of personnel and technical assistance needs called for in Item No. 10 of the cope of work is also covered in the following section. Below is a preliminary summary of the technical assistance needs of each of the initial four T.A. providers. Further definition of these needs is needed; and should come out of the assistance on their workplans.

FEHCIL

- 1) General upgrading of promoter management assistance skills and training of new promoters.
- 2) Travel/Study of programs which develop cooperative workshops and cooperative enterprises.
- 3) Upgrade commercialization skills.
- 4) Improve cost efficiency of accounting services.

IDH

- 1) General upgrading of promoter management assistance skills and training of new promoters.
- 2) Upgrade service feedback system.
- 3) Establish links with technical training and assistance resources.
- 4) Upgrade and formalize management systems (ASEPADE is already providing some assistance for this).

Cortés Chamber of Commerce

- 1) Training of promoters to screen and assist clients for financiera.
- 2) Information system for small business.
- 3) Training courses/seminars for small business.
- 4) Establish legal assistance for small business.

ANMPI

- 1) Organizational development assistance, development plan and strategies.
- 2) Training of promoter to screen and assist clients for financiera.
- 3) Establish procedures for business and personal reference.

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- 4) System basic information for small business.
- 5) Management systems for controlling costs and services.
- 6) Legal assistance for small business.
- 7) Training courses.

III. TECHNICAL ASSISTANCE SYSTEM

The scope of work call for the contractor to include in this report the following summary of the T.A. System following the guidelines for Project Papers.

A. Goal and Purpose

The goal of the TA System will be to increase the volume of business (sales and/or production) and employment in small and medium enterprises. Goal achievement will be measured by increased production, employment and profitability of enterprises assisted.

The purpose of the TA System is to improve and enhance the management and technical skills in small and medium enterprises by providing an accessible, responsible network of services (management assistance and training, technical assistance, and legal and other information) as needed by the enterprise. These services will complement and support the lending and other financial services of the financiera. The accessibility of technical assistance will be assured by developing a system which is designed to constantly evaluate the needs of small and medium businesses and provide the kinds of assistance they need through the institutions best able to provide it.

B. Project Activities - Technical Assistance for Small Entrepreneurs

At the outset, some, or perhaps most, of the SBF's initial clients will be entrepreneurs who normally receive credit from banks, but who have projects for which they cannot obtain suitable financing due to short terms, high collateral demands or other requirements of the banks. As their new enterprises become profitable, they will return to their former sources of credit, which will be cheaper than FINSA. Thus, the future clients of the SBF will increasingly come from entrepreneurs who have not received bank credit previously. Many of these future clients will need assistance to enable them to meet the SBF's requirements. Through the project, a system will be developed for identifying these entrepreneurs and providing technical assistance to them. The system designed for providing assistance to small entrepreneurs will focus mainly on helping them to meet the SBF's requirements, and secondarily on improving other aspects of their businesses.

1. Conceptual Model for the System

When fully developed the system will have the following characteristics. Entrepreneurs may voluntarily request assistance from one or more easily accessible organizations or be referred to those organizations by FINSA. If the organization, after assessing the client's potential as an entrepreneur, believe he can be helped by outside assistance, they will provide such assistance or arrange for it to be provided by another organization having greater expertise in the client's area of need. In addition to helping the client develop his project and financing application, courses and direct technical assistance will be provided as needed in simple

bookkeeping systems, asset management, product design, production, sales, business management and labor relations. Clients who are able to pay for such services will be expected to do so. For clients who are successful in obtaining financing, follow-up will be provided to ensure that loans funds are being properly used and additional assistance needs are diagnosed and attended. The organizations providing assistance will be selected, trained, funded and evaluated by a system coordinator.

Given the history of institution development efforts here, evolution is eminently more sensible than the creation of one or more new institutions. Therefore, under the project, the system will start out with a small number of institutions who are now successfully providing services needed by small businesses and will be developed by the system coordinator into a more complete system over time. The use of existing organizational resources and services is the quickest and most efficient way to operationalize the services. Given the nature of the local private organizations and the Honduran context in which interinstitutional cooperation is only paid lip service and seldom effectively put in practice, the system will have a phased development with a lot of effort spent working to improve the effectiveness of the services to small business while strengthening individual organizations and building stable working relationships between organizations. The focus of the TA System is more on small business and less on medium business because from interviews, observations and comments of others it is apparent that medium scale businesses generally already have basic management and accounting controls and systems, which better enable them to meet the requirements of the finance company than the smaller businesses.

2. The Business Assistance System

The Honduran branch of the Central American Business Administration Institute (INCAE) will be the system coordinator. INCAE/Honduras has now received its separate legal charter. It will continuously assess the management, information, and technical assistance needs of small and medium businesses, finance the assistance activities of the institutions its qualifies as service providers, continuously evaluate the effectiveness of those institutions and increase resources for the most effective operations, qualify new organizations to participate in the system, train the personnel of and ensure coordination among all service providing agencies.

Based on their present capability in dealing with small businesses, business assistance services will be provided at the outset through a network which includes two existing management assistance organizations, and two existing information assistance organization. As other organizations increase their capability to provide a fuller complement of services, they will be qualified by INCAE for project funding. More organizations may be added during project implementation. The System Coordinator will provide organizations with assistance to help them develop their service delivery capabilities in line with their interests and the needs of small businesses.

The initial management assistance organizations will be the Honduran Development Institute (IDH) and the Honduran Federation of Industrial Cooperatives (FEHCIL). These are two former OPG recipients of AID that appear to be maturing rapidly into well managed institutions with real expertise in small business development. IDH will work with individual small businesses, and FEHCIL with cooperatives. As these organizations also provide direct financing for their clients, they will in turn send successful, graduating clients to FINSA. Additional management assistance organizations will be added during implementation of the project. The most likely organizations to be qualified during implementation are: Development Advisers (ASEPADE), the Tegucigalpa Chamber of Commerce and two technical assistance programs of the National Autonomous University of Honduras (UNAH). A target for the end of the project will be the development of a total of four well qualified management assistance organizations participating in the program. Peace Corps volunteers are now working with IDH and FEHCIL and will be added to the other institutions as they are qualified by INCAE to participate in the system.

The management assistance organizations will provide small business borrowers with needed assistance in loan analysis, proposal preparation, legal documentation of assets to be offered as collateral and in basic management and operations including identifying markets and appropriate marketing techniques. If they cannot help resolve any specific problem, they may request specialized help from other organizations such as the International Executive Service Corps (IESC), the Honduran Professional Formation Institute (INFOP), the Autonomous Industrial Development Center (CDI), The Central Bank's Industrial Information Center (CIIBANTRAL), or private technical consulting firms paid for by TA System funds in whole or in part, depending on the financial capacity of the firm and the entrepreneur.

The two information assistance agencies at the outset will be the Cortés Chamber of Commerce and the National Association of Small and Medium Industries. The information assistance organizations will provide legal, technical, economic, market and management information which will complement the direct management and technical assistance and the training. They will also serve as screening agents for the financier. They will do this by assisting entrepreneurs review and package their projects. This assistance will include legal assistance, project analysis, completing loan application forms, business and personal reference checks through their membership networks, and basic management assistance. In addition, they will provide follow up management assistance as needed to member businesses after they have received a loan. The development of these services will serve to promote the organizations providing them which will in turn expand their information base and solidify their institutional base. This expansion will enable them to better serve their primary purpose of representing the small and medium scale business and private sector. One key function they will serve for this project is providing information on assistance needs of small business and feedback on services trying to respond to previously identified needs.

The above direct services will be complemented by series of courses and seminars in such areas as business administration, marketing and distribution, financial planning, inventory controls, production technologies, product development, personnel management, human relations, and group bulk purchasing. For these courses or seminars resources will be drawn from the management assistance organizations and from organizations more specialized in such activities such as Cooperative Development Institute (IFC), INCAE/Costa Rica, Dale Carnegie, INFOP, the National Autonomous University of Honduras (UNAH), the Private University of San Pedro Sula (USPS), Modern Executives Group (GEM), the Honduran Managers and Administrators Association (GEMAH), Fortin Lagos y Asociados, or from outside of Honduras. At present there are few training course materials well adapted to the realities of Honduran small businesses and outside TA will be needed to assist in the development of this series of courses and seminars.

In order to ensure that the system is working properly and that the funds are being well spent, INCAE will prepare a yearly workplan setting forth its targets for institutional development and services during the first two years of project implementation. If needed, this requirement will be extended by USAID/Honduras for the third year.

Outside technical assistance will be needed to ensure proper development of the system. They are: advisory services to INCAE in setting up the Business Assistance Services System, assistance in training personnel of the management, information and technical assistance providers, and development of training courses oriented to small business problems. A full time Small Business Adviser financed with AID Grant funds will provide these services. The contract will be for twenty four person months at an estimated cost of \$200,000.

Financing the T.A. System

Funding for T.A. System will come from two sources, (1) the interest differential between the cost of AID funds to the Honduran Central Bank and the rate they loan the funds to the financiera, and (2) USAID/H grant fund. It is expected that over the three years of the project that the interest differential will average at least 6% (it would be 9-10% given the present Central Bank discount rate) and that income to the T.A. System from this source will be \$160,000 in Year 1, \$360,000 in Year 2, and \$480,000 in Year 3 for a total of \$1,000,000. The shortfall in this funding in covering costs is \$436,050 in the first year and \$199,800 in the second year, and these costs, mostly off-shore T.A. and vehicles, will be covered by USAID/H grant funds totalling \$635,850.

The Central Bank will charge FINSA for lending resources at its highest discount rate, which is currently 13% per annum. Thus, the Central Bank will earn a sizable spread on the credit funds after paying interest on the A.I.D. Loan. This interest differential will be paid into a Business Assistance System Fund and drawn down by INCAE to finance its expenses and the costs of the service providing agencies. INCAE will be limited to a flat

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percentage of the Fund income on a yearly basis for its services. It is expected that this amount, which is yet to be negotiated, will not be in excess of 10% of the Fund's yearly income. The Fund's resources can be used to pay all reasonable and necessary costs of providing assistance services to small businesses. These costs are expected to include personnel and fringe benefits, travel and per diem, consultant costs, books, training materials, costs of training personnel, rent, vehicles and office equipment.

The level of services that can be provided for the Business Assistance System under the present Central Bank discount rate is approximately L.1,600,000 per year. To allow for reduction of the discount rate to better reflect likely interest rates over the longer term, it has been assumed that the system should be prepared to operate on a yearly budget of no more than L.1,000,000. At the present Central Bank discount rate this earnings level will be reached in the third year of project implementation.

The technical assistance system will be partially financed with A.I.D. Grant funds until this level of interest earned on the A.I.D. Loan is reached. Developing the TA system and completing assistance to the first clients promises to be a lengthy and difficult institutional development task. In order to ensure maximum benefit to the target group, this activity must begin as soon as possible. Accordingly, A.I.D. Grant funds will be used to cover the gap in earnings up to L.1,000,000 per year during the first three years of Project implementation. Should the amount generated on the A.I.D. loan fall below the L.1,000,000 level at any time, the Business Assistance institutions will increase their charges to clients for services as needed to make up for the shortfall. The amount needed during the first three years of the project is estimated at \$4,000 (calculations in Financial Analysis Section).

All the funds for the T.A. System will be deposited in an account in its name. The coordinator will distribute funds based upon the following criteria. The first and more important criteria is that funds will be directed to those organizations which are generating the greatest number of clients for the financier. A necessary element in the overall success of the project is the close supervision of the borrowers after they have received a loan. It is envisioned, at least in the initial stages of the project, that the organization which assists the businessperson in preparing his loan application package and is furnishing the personal and business references will be the organization which will supervise the credit and provide or arrange for the provision of whatever assistance is needed as the need arises.

The second criteria for determining to whom the T.A. System funds should be directed is the success of the services being provided. This will weed out organizations who are receiving funds based upon the first criteria, but who are not following-up closely the progress in the business or are not responding to its needs and therefore, not earning the income they are receiving from the T.A. System. Loan performance will be the chief indicator for measuring the effectiveness of the T.A. services being provided. However, the coordinator should also investigate the success of the businesses since

there are many instances in which the loan has been repaid and the business has failed. The coordinator will be looking for two things in order to judge whether an organization should be receiving T.A. System support. First, he will look at the organization's ability to identify viable projects, and second, he will look at the organizations ability to provide effective services to clients on a timely basis.

A third priority which the coordinator will use in determining where to allocate resources is opening up new territories. Funds will be allocated to cover costs of setting up operations in regions of Honduras that are not presently being serviced or that are ineffectively and inefficiently being served from a central office in Tegucigalpa.

The T.A. System does not, as it is presently conceived, incorporate a fee structure for basic services. The rationale for this is the following. We want to attract as many small businesspersons to the system as possible because the experience of other programs of this sort has been that as much as two thirds of all the people who begin the loan application process never receive a loan. The most common reasons are (1) they are not willing to satisfy the application requirements such as formulating a workplan, doing a market study, or setting up management systems; (2) they find after receiving some assistance that they do not need credit; and (3) their business is not viable or barely so and it would not benefit it to receive a loan; (4) for personal reasons they do not follow through on the process. So the promoters will want to work with a wide variety of people and enterprises in order to find those who will benefit the most and whose development will have the greatest impact on the local economy, in terms of employment, income production and services. In addition, many of the businesspersons who could best take advantage of the T.A. and subsequent credit do not have sufficient resources to pay for it upfront, nor will their businesses grow large enough in the short term to generate sufficient profits to pay a significant portion of the costs. Any fee system is an added administrative burden on the service provider and the advantages of charging a token fee on the attitudes of the businessperson towards the assistance are more than offset by the disadvantages of the time promoters spend collecting the fees and the administrative burden on the organization.

The most compelling argument against a fee structure for basic services is that it would contradict the intentions of the organizations providing assistance. Their intention is to provide services which will lead to the businessperson becoming a paying and contributing member of the association, chamber, federation or organization. By this mechanism some of the benefits of the assistance/services are rechannelled back into the system through membership fees, contributions, and charges on other services such as bulk purchasing which in turn subsidize the basic assistance to new clients.

We do not mean to imply that because the T.A. System is not incorporating a fee structure for basic assistance that no fees will be charged. On the contrary, the assistance organizations will be encouraged to experiment with different ways to cover the costs of the T.A. they are giving

in order to lessen their dependence on the interest differential from the financiera. Also, in all cases in which specialized T.A. is contracted, the maximum feasible amount of costs will be covered by the businessperson and his business. This might require that a portion be capitalized in the loan package offered by the financiera. This will be analyzed on a case by case basis.

Below is a summary of the promoters who will be financed under the T.A. System. At present IDH's current client load and the walk-in business which they are not presently able to service will occupy two promoters. FEHCIL is at present overextended with the existing groups it is supposed to be serving; they are able to visit each cooperative or pre-cooperative less than once a month, and new groups are forming and looking to FEHCIL for services. So FEHCIL needs two promoters immediately in order to provide adequate management assistance services to its affiliated groups of small businesses. In addition, Peace Corps will be assigning several volunteers to work in particular cooperatives. At ANMPI there are a sufficient number of small businesses who walk-in looking for assistance and access to credit to occupy one promoter, and that is without any promotion of such services. If promoted, demand for assistance could occupy two or three persons. However, ANMPI needs to focus its efforts on its own organizational development, and therefore it appears best to go slow and give ANMPI time to develop its institutional capability to manage T.A. services. The Cortés Chamber of Commerce is in a much better position to manage T.A. services and with minimal promotion will have sufficient walk-in traffic to occupy two or more promoters. It is likely that the businesspersons who will come to the Cortés Chamber will probably, on average, be larger than the ones coming to ANMPI, in other words, they will tend to be mostly from medium size businesses.

The annual costs for fielding a promoter during the first year will range from \$18,375 for IDH and FEHCIL to \$30,650 for the Cortés Chamber. The differences are due to institutional salary scales and the size businesses they will be assisting.

Summary: Promoters Supported by T.A. System

	<u>YEAR 1</u>	<u>YEAR 2</u>	<u>YEAR 3</u>	<u>YEAR 4</u>
IDH	2	2	2	2
FEHCIL	2	2	2	2
ANMPI	1	1	2	2
Cortés Chamber	2	2	2	2
Other	<u>-</u>	<u>2</u>	<u>3</u>	<u>3</u>
TOTAL	7	9	11	11

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The target of the T.A. System is to provide assistance to about two hundred loan clients in the third year of the project. A promoter can provide adequate assistance to, on average, 20 loan clients in a year. Therefore, the projected number of promoters should enable the system to reach its target in the third year.

C. Project Analysis - Technical Assistance System

1. Small Business Technical Assistance Needs

In order to be eligible for a loan from FINSA, a small entrepreneur has to be able to document its past performance, present financial condition and future prospects. In addition, the entrepreneur needs to provide certain documentation for assets which will be used as collateral on the loan. In order to satisfy these formal application requirements, the entrepreneur will need to apply basic management tools such as record keeping, P & L and cash flow analysis, and market, production and financial projections. The SBF will also want to be sure that the entrepreneur has the skills required to produce or provide services and control the production and quality of products or services and at a price which can compete in their intended market. This implies the identification of technologies and acquisition of skills to apply those technologies.

Various surveys/investigations of the small business sector in Honduras have pointed out deficiencies in the management and technical skills in SSEs, specifically in the areas of record keeping, planning, marketing and market analysis, management and production controls, and rationalization of the productive process in the case of industry. The lack of separation between business and family finances has contributed significantly to the under capitalization of small enterprises. Credit is seen as the solution to cash shortage when in fact, its availability might only exacerbate the degeneration of the financial condition of an enterprise.

Accordingly, the technical assistance needs of small enterprises in Honduras are:

- i. Training and/or management assistance in management tools which will give the entrepreneur (and the credit officer of the SBF) an overview of the performance of the business.
- ii. Training and/or management assistance in business planning including market analysis, production or service and financial projections (income and expenses and cash flow, including loan repayment).
- iii. Technical information from internal and external sources.
- iv. Legal assistance in formalizing or documenting business assets.
- v. A mechanism for continuously reassessing the needs of small enterprises as the economic, legal and political environment in Honduras changes.

Another form of assistance that is needed but which does not necessarily fall under the rubric of T.A. is a system of personal and business references. Often times a person is refused credit because he or she is not known to the lender or by someone the lender knows and trusts.

Problems and Technical Assistance Needs of Small Businesses

More specifically the following problems and needs have been identified in the areas of management, marketing and technical, legal environment and access to credit.

Administrative Knowledge

Knowledge and application of basic management tools such as written accounting systems and inventory controls is not common in small businesses, though people who have survived for several years in these businesses generally have developed, through hard experience, some sort of informal systems. The Michigan State Rural Small Industries Study indicated that only 14% kept written records and only 15% kept bank accounts. However, there were marked regional differences which suggest that following "modern" administrative practices is a manifestation of the phenomena that might be called "business" orientation in contradistinction of the "artisan" orientation which is more prevalent in rural small business than in urban areas. This is supported by the fact that almost two thirds of those who kept no written records perceived no needs for them.⁽¹⁾ Therefore, the small entrepreneur may not have complete knowledge of what his actual assets and liabilities, costs of production or profit margins are. The small entrepreneur has numerous responsibilities, and typically, a limited formal education. Another indicator of management deficiencies is the frequent lack of work plans; in the MSU Study two thirds of the entrepreneurs did not formulate a work plan, 22% formulated plans on a daily basis and only 12% on a weekly longer basis.⁽²⁾ Too often the small entrepreneurs does not realize that he does not know. They say their most pressing needs is for money, but their reasons for why they need it, together with a look at their underutilized assets (usually the most expensive ones) indicates they are not utilizing what they have as productively as they could.

These insufficiencies in management knowledge are less apparent in medium scale businesses and in commercial enterprises. However, it is interesting to note that in the UNAH study to determine TA needs of small and medium enterprise, 55% of the medium size businesses expressed a need for assistance in financial systems and controls.

(1) Kelley JC/Coronado L., "A profile of Rural Small Industries in Selected Areas of Honduras." USAID/Honduras June 1979 Pg. 9.

(2) 1 Fid Pg. 13 Table 70.

Beyond loan-packaging services, Honduran small and medium businesses have needs for direct technical assistance and training in administrative systems and controls and planning. Moreover, at the level of small business there is a need for the type of assistance which will enable the entrepreneur to become more aware of the usefulness of such systems and controls. With this knowledge he will have a basis for planning for expansion and analyzing investment decisions.

Marketing and Technical Knowledge

In order to sell a product you have to make a product that someone wants to buy at the price you want to sell it. The experience to date of various small business assistance programs in Honduras has indicated that the problems of marketing and technical know-how are closely interrelated. Recent studies have shown that although small businesspersons are less inclined to recognize the connection between these two components of their business they and medium entrepreneurs recognize needs for technical assistance in both production and marketing. As in some other developing country markets, in Honduras there is a definite bias towards imported products in part because of the status that is associated with them, but more importantly because of inconsistent or poor quality or, to a lesser extent, because of unreliable supply of products to the market. Small and medium businesses' primary concern in the area of production is increasing their productivity. In one survey 65% of the small and 70% of the medium sized business interviewed indicated a need for technical assistance for improving their production process.⁽³⁾ The observation of advisors working in this sector is that significant productivity gains could be achieved without further mechanization merely by adjusting the plant layout.

Raw materials figure significantly in the problems mentioned by entrepreneurs. In a study of rural small business almost half experienced difficulties in obtaining raw materials (and that was in 1979 before the shortage of foreign exchange developed) with 40% indicating that they could not find decent quality raw materials and 33% indicating that they could not find what they needed.⁽⁴⁾ Many small entrepreneurs do not have the resources to buy raw materials in large quantities and at reduced prices. This combined with inefficient and limited productive capacity limited understanding of product markets and limited awareness of marketing techniques puts the small business person in the worst of situations, paying the most for inputs and often receiving the least for products. A better understanding of sources of supply, distribution channels and product opportunities will enable entrepreneurs to take advantage of improved management and production practices and compete more effectively in the internal and possibly in the export market.

(3) Marin de Perez RI, et a. Determinacion de Necesidades de Asistencia Técnica de la Pequeña y Mediana Industria en Honduras, UNAH 1981 PG 283.

(4) OPCIT Kelley Pg. 12

Legal Environment Constraints

The Project Team findings indicate that only the large and some medium scale enterprises are organized in some legal business incorporation form, according to Honduras' Code of Commerce. Those firms which are legally incorporated show the firms own assets, liability and capital structure. Many of the existing, business firms in Honduras adopt the form of Individual Merchant (Comerciante Individual) which is the simplest legal business organization form. However, the Project Team's direct interviews with small and medium size business, uncovered that even those organized as Individual Merchants, do not list assets in the business name but rather carry them in their personal name. More over, it was realized that many businesses, particularly those at the bottom of the scale, usually operate at the minimum permissible legal registration requirement.(5) Such registration is done at the Public Registry of Commerce, at the local town-halls, which involves only the notation of the person's or business' name and the place where the business is conducted.

This legal characteristic of business firms in Honduras limits their access to credit services, since it forces the financial institutions to offer loans on personal rather than business basis. Personal loans from the banks are usually for small amounts and only yearly they have maturities of up to one year. Moreover, it has become apparent that even the public financial institutions that exist in the country are out of reach for most small and even medium scale enterprises, since they require in their loan approval procedures proof of business legal existence, as well as many other financial and economic projections, which only the medium to large firms are able to provide. Therefore, loan packaging assistance will need to include legal advisory services which will assist small businesspersons legally document their business and what they have to offer for collateral.

The Availability and Access to Credit Sources

There is evidence that Small/Medium scale businesses in Honduras need and want greater access to sources of credit. However, the small and medium size firm or entrepreneur, has very limited access to credit from the private and even the public financial institutions. Their access to credit is constrained by a variety of factors, some of the most important of which appear to be:

- a) The inability of small/medium size firms or entrepreneurs to convince bankers of their credit worthiness, which is partially the result of past very poor repayment records on government loan programs.

(5) See Appendix E for Summary of Legal Status of Businesses and their Assets.

- b) The banks' own credit policies that emphasize the collateral requirements over the commercial viability of the business.
- c) The difficulties encountered by the small and medium scale enterprises to meet the formal banking regulations for loan approval - e.g. lack of understanding of loan application procedures, lack of audited financial statements, inability to project cash-flows, etc.,
- d) The loan maturities which are inadequate to enhance the financial soundness of the business;
- e) The excessive delays and documentation requirements involved in obtaining credit from public sources of finance;
- f) The interest rate limits imposed by the Central Bank, that does not make it profitable for banks to lend to most small and medium scale enterprises.
- g) Recently, the apparent desire of the banks to abstain from augmenting their credit exposure under perceived conditions of uncertainty and high business risks.

There are in Honduras 15 private banks and 3 public banks. It is a well known, established practice, that private banks offer credit on a short term basis, up to 1 year, and extend their credit facilities usually to a limited list of selected clients, which are the largest business firms in the country. Those firms have a credit history, are capable of meeting not only the local banks collateral requirements but, also, in many cases, have had direct access to foreign sources of credit to fill their long term and working capital needs. Those firms have also made extensive use of the credits offered by the public financial institutions, and even of the GOH's guarantees to obtain foreign loans.

The small and medium size business, on the other hand, are unable to establish a credit history with those banks. In the best of the cases, they obtain small personal loans, on a short term basis, which are used to finance working capital and even capital investments, and for which mortgaging personal assets is normal. Rural small and medium business is excluded from access to credit by the fact that private banks will only accept urban land and buildings as mortgagable property. When the entrepreneur or the business itself, lack the required mortgagable assets, particularly prevalent among business at the lower part of the scale, their growth is inhibited as they either operate without credit at a low level of production, or resort to corner street lenders, who charge very high interest rates on short term funds. Some of those loans carry an interest rate as high as 7% a month and collections are made even on a daily basis.

The UNAH's study "Analysis of Small and Medium Industries of Honduras - 1981", shows that business in that scale mostly finance their operations with their own funds, which accounts for the low level of production of those units. The figures contained in that study, organized by sources of financing and size of firms, are the following:

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Source of Funds	Size of Firms		Average
	Small (%)	Medium (%)	
Own Funds	87.8	80.3	84.1
Supplies	6.0	8.8	7.4
Private Banks	4.2	9.1	6.6
Public Banks	0.3	0.1	0.2
Lenders	0.3	0.4	0.3
Others	1.4	1.3	1.4
TOTAL	100.0	100.0	100.0

2. System Coordinator

The coordinator is the common link between all the organizations in the TA System as well as with the financiers and will provide assistance to those organizations as it is needed, especially during the startup phase. The coordinator will act as a special implementation unit for project activities. It will receive requests for assistance from the TA System organizations and the financiers for themselves or for their clients. The Coordinator will provide assistance in program design and management and will conduct annual evaluations of the participating assistance organizations to assess the effectiveness of their services, their organization development and the progress towards covering their costs. The coordinator will provide training to assistance organizations field staff and management staff in areas affecting project development. It is expected that these efforts will be supported by off-shore technical assistance. As part of the training the coordinator will develop a series of seminars/workshops which will bring management, and/or field staff of assistance organizations and the financiers together to review experiences, coordinate activities and acquire knowledge about new developments in their field. In addition, the coordinator will control the flow of project generated financial resources to service providers.

The same principle stated above for the TA System was applied for the function of Coordinator: use already existing organizations and resources if possible. Based upon the above indicated coordinator functions it was decided that the organization housing the coordinator would have as many as possible of the following characteristics. First, it would be knowledgeable of the particular needs of small business or at least have experience in needs assessment. Second, it would be aware of the programs and services presently available to small business in the various parts of Honduras (urban and rural). Third, the organization or its individual staff members would have had exposure to a wide variety of the many small business assistance and development programs in existence in other countries in Central and South America and elsewhere. This was felt necessary in order to accelerate the service selection and improvement process by taking advantage of the lessons already learned in similar programs. Fourth, it would have knowledge of and experience with financial institutions and small business finance. Since the coordinator will have certain responsibilities for linking the TA System with

the financier, the coordinator should be able to communicate easily in the financier's own language. Part of the problem of linking TA and credit has been one of communicating different viewpoints of small businesses needs such that appropriate packages of TA and credit are provided according to need. The coordinator needs to be able to see the situation from three sides, one, the financier's, two, the T.A. System's and the third being the small business persons. Fifth, it would need to have had experience coordinating the activities of two or more organizations since usually the financier and at least one if not more TA organizations would be working with a client, and the training seminars will often involve staff from several different organizations. Sixth, it would need to have experience in program and/or service evaluation. This is not something that one can assume an organization knows how to do if it has the other experience called for, and it is important that the coordinator be able to assist the TA System organizations and the financier assess their effectiveness, efficiency and impact. Seventh, it would be preferable that the organization itself not be providing any assistance services, besides the coordination itself, including the actual training so as to avoid possible conflicts of interest in the allocation of program resources. Eighth, it would be preferable that the coordinator function not be important as a means of promoting the organization and its own activities since it would detract from its function of developing others' activities and institutions. An finally, it would need to have an administrative system which meets A.I.D. standards, so that it can adequately track the use of the TA System financial resources, both the grant and the interest portion. The three institutions which were evaluated in depth for the role of System Coordinator were: the Honduras branch of the Central American Institute of Business Administration (INCAE), Development Advisers (ASEPADE), and the National Association of Small and Medium Industrialists. It was determined that INCAE best meets the above criteria. The consultant's evaluation of the institutions is in the LAC/DR bulk files.

In addition to the criteria for selection of the coordinator organization, criteria were developed to select the person who will be the coordinator. Much of the success of the system will depend on the person who carries out coordinator's functions. These criteria are: First, the person must be objective and mature because many different alternatives are to be considered and many people/organizations will be looking to draw upon program resources. Second, the person should have had direct exposure to at least some of the better models of small business assistance programs in the region as well as in Honduras. Third, the person should have background/experience in business management, and finance as well as in program management and training, all of these preferably related to small business. Fourth, the person should be gregarious and have good communication skills since so much will depend on sharing of information. Fifth, the person should be secure and not overly self-ambitious in order to inspire confidence and trust in the parties being worked with that their and small business' best interests are being served. Because of the importance of this position, AID will reserve the right to approve the individual selected by INCAE to serve as Coordinator.

3. Service Providers

At present in Honduras there are some 20 private organizations and half a dozen government agencies that provide various forms of assistance (credit, management, technical, training) to small and medium scale businesses including industry, service and commerce (see Appendix G: Existing Assistance Resources in Honduras). Many of the organizations were formed within the last 3-4 years. Many of the activities in older organizations related to small and medium enterprise are relatively new, within the last two years. This indicates an increasing consciousness of the importance of the small and medium scale enterprise in the economic and social well-being of the country. The process that each institution has followed of building new activities on the base of its other activities indicates recognition of the needs of this sector. The proliferation of private sector activities indicates two other trends: one, an emerging confidence in the private sector in its role as an engine of national development; and two, a recognition that these might be more efficient and effective ways to accelerate private sector development than through government programs.

Beneficiaries will be made aware of the T.A. System services available through several already existing networks. IDH uses their clients to refer people to them. They have found that that has been an effective and efficient means of promoting their services. They originally used a church network, in which beneficiaries were introduced to their program at church meetings. Now, with 150 clients in 5 departments their contacts are ever expanding. Several businesspersons have been referred to IDH whose needs they were not able to meet because of limited credit and human resources. With their link to the financiera, they would be able to provide management assistance services to these people.

FEHCIL on the other hand has small businesses come for services through the cooperatives. Its promoters have on occasion worked with cooperative or pre-cooperative groups to introduce the idea and advantages of participation and the services which they provide to small businesses in various parts of Honduras.

ANMPI and the Chamber of Commerce and Industry of Cortés already have a fair amount of walk-in traffic. Their participation in the T.A. System will enhance their ability to serve the people coming to them for information or assistance.

The following are the designs of the two management assistance organizations and the two information assistance organizations to be included under the project:

IDH: The Honduran Development Institute was registered with the government of Honduras as a private non-profit institution in 1979. Their purpose is to create new sources of work in rural and urban areas in order to resolve problems of hunger, unemployment, migration, malnutrition, and economic instability. They effect this by giving TA and loans to small and

medium sized enterprises which do not otherwise have access to these services. This model has been developed with the assistance of an AID OPG of \$328,000 approved in 1980 for the purpose of developing a mechanism for reaching small and medium businesses with TA and credit. IDH will graduate clients from their own loan program into the financiara. These clients will have demonstrated their creditworthiness and will have received a combination of courses and direct assistance in management and basic management systems. IDH will assist these businesses in packaging their loan requests to the financiara and will continue to provide management assistance and loan followup. Since they will have business promoters (they who provide the assistance and do the followup) located outside the major urban centers of Tegucigalpa and San Pedro Sula, this will give the financiara outreach capability into some of the rural areas of Honduras (Olancho, Comayagua and possibly Choluteca). IDH will provide a moral guarantee on the loans made to its clients. IDH staff supported by the T.A. System will initially consist of two full-time promoters and it is expected that later the TA System could support more promoters. In addition, two Peace Corps Volunteers will be working as promoters. All the IDH promoters will have the opportunity to participate in the field staff training provided by the TA System.

The majority of the IDH sponsored loans (80-90%) will be for expansion of existing business activities, both for working capital and fixed asset purchases. The balance of loans will be for entering into new product lines. Average loan size will be on the order of \$15,000-20,000. IDH is in the process of developing a fee system which enables them to cover the costs of the TA they provide, and they should be able to achieve cost coverage for project related services by the end of the second year.

Assistance System

A typical IDH client would go through the following process in receiving assistance from IDH. First, new clients are generally introduced by old IDH clients. The promoter then visits the potential client in his (her) place of business in order to get to know the community, the business and the business person and to collect data related to the request for assistance.

A group of 20-30 of these new clients is brought together for a weekend seminar which is held at a hotel in which participants and IDH staff are housed and fed. These introductory seminars are basically motivational and focus on what it is to be an entrepreneur and to be a socially conscious businessperson. Participants pay a \$10 fee for the course which covers about one third to half the costs.

After the introductory seminar clients are visited in their workplace and self select themselves for further assistance in preparation for receiving a loan. The promoter makes three or four visits to the client to assist in filling in a loan request and making financial plans. The credit application is processed.

The bulk of the TA is given after the credit has been given. Regular follow-up visits are made in which the promoter checks how things are going in each of the areas of the business: production, sales, marketing, personnel, administration and accounting. As specific needs are perceived the assistance is given. At present the promoters are handling an average of 37 clients each and they are visiting every client only once a month. A few clients receive more frequent visits and IDH staff acknowledged that they were stretched a little thin.

In addition to the individual assistance IDH organizes seminars and talks on specific management topics and in special cases actually look for buyers in Tegucigalpa for client products. When assistance in production is needed they look for someone with experience in that field to assist, but they do not feel they have been very effective in this.

They have found that knowing the community and being known in the community is important for loan collections. They require that another person in the community who is recognized as a responsible person give a written reference on the client. And they use group pressure to minimize the late payments on loans. They have clients sign a personal guarantee for their loans which they admit would probably not hold up in court but seems to result in more responsible behavior on the part of borrowers. They use "cartas de venta" (sales agreements) to secure loans and require certifications of ownership signed by someone such as the tenderos de pueblo as documentation on assets.

They would need to upgrade their existing promoters for them to be able to adequately provide management assistance to graduated clients with expanded businesses. It would be appropriate to include all of them in any of the TA System training seminars because they would both bring the wealth of their experience and could benefit from it themselves.

FEHCIL - The Honduran Federation of Industrial Cooperatives is a private non-profit cooperative development foundation which was founded in 1979. Their goal is human development and more specifically to improve the relationship between capital and labor in small industry. Through education and training they promote, organize and advise in the installation of programs at the level of cooperatives, pre-cooperatives and federations. They also do bulk purchasing of raw materials, technical training and management assistance to individual small businesses, provide credit for materials and machinery and equipment purchases and have sales outlets for member cooperatives products. This model has been developed with the assistance of an AID OPG for \$70,000 for the purpose of developing services to improve the economic viability of small businesses. FEHCIL will initially sell the loan notes of their more experienced borrowers to the financiera while continuing to provide training and technical assistance through the cooperatives. Later FEHCIL will assist cooperatives which are forming group enterprises prepare their loan request packages and will continue to provide training, management assistance and follow-up to them after they have received loans from the financiera. They also will continue to provide accounting services, planning assistance, bulk

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purchasing and commercialization assistance to these groups. The financiers will have recourse to FEHCIL on the loan notes it purchases from them. FEHCIL staff supported by the TA System will consist initially of two promoters and could expand to three or four promoters by the second and third year respectively. In addition, one Peace Corps Volunteer will be working with FEHCIL headquarters staff and 2-4 volunteers will be assisting directly FEHCIL cooperatives. All FEHCIL promoters will be given the opportunity to participate in field staff training seminars sponsored by the TA System.

The majority of FEHCIL sponsored loans (60-70%) will be for working capital. Average loan size will be on the order of \$30,000-50,000. FEHCIL is planning to graduate and assist four groups during the first year of the project. It should be noted that these four groups represent over 350 small businesses.

Assistance System

A group of small businesses in the same industry would go through the following process in receiving assistance from FEHCIL.

a) Education/Training

In some instances FEHCIL has done zonal studies to analyze the potential for cooperative formation. Once having identified an activity for which a cooperative would lend advantages FEHCIL staff go door-to-door visiting with potential cooperative members to promote the idea. When a group of at least 12 entrepreneur has decided that they are interested in forming of cooperative, a promoter visits each to get to know the business and person and to confirm the information they have about the business. Through these visits group members are screened.

Then there are a series of general meetings held with the group to educate them about cooperativism and explain how a cooperative works. There is a two-day basic course given in the region of the pre-cooperative (not all group members come from the same town) in how to define the nature of the organization, the cooperative they are trying to form. Subsequent to that they are advised on the legal matters of forming a cooperative. Other group meetings are held in which they are assisted in defining how the cooperative will function, who is responsible for what, where will money come from and for what will it be used. These formation activities then lead to more specific training.

Courses in cooperative administration, accounting, human relations, product quality and production techniques are given on weekends at FEHCIL's training center in Talanga. Key people from different cooperatives and pre-cooperative groups come to these short courses. In addition to these technical courses, FEHCIL offers what they call ideological courses on subjects such as labor laws, social security, fundamentals of cooperativism, social function of cooperatives, etc. There is a third type of courses which are given wherever the cooperative is located. Any member of the cooperative or pre-cooperative group can attend these course in basic accounting, cost analysis, administrative controls in the workshop, inventory controls, kardex system for controlling raw material purchases made through the cooperative, membership controls, etc. These courses are also held only on weekends.

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b) Services to Cooperatives and Pre-Cooperatives

Once a group has received the theoretical training and has established itself, then FEHCIL provides three basic services; first, bulk purchasing of raw materials, second, technical assistance in implementing their administrative and management systems, and third, accounting services for the cooperative or pre-cooperative. For the bulk purchasing FEHCIL takes orders from various groups and occasionally on its own purchases stocks for resale to the groups. It charges a commission and is still able to reduce the cost of most items to the ultimate user, the small business which is a member of a cooperative or pre-cooperative group. FEHCIL provides credit for these purchases up to 200% of the value of the members' contributions to the cooperative. Promoters make monthly visits to the groups to work with them on their accounting and control systems, planning and performance review and other management problems which come up. (They admit that they are possibly exceeding their limits of providing what's needed on a timely basis. However, two or three new Peace Corps volunteers will be assigned to FEHCIL as of July 1983 and that should alleviate some of the pressure). The educative services complement this TA.

The other service they provide to cooperatives is accounting. They are using a computerized system. They collect the data from the cooperatives and put it into the system. Quarterly Income/Expense statements, balance sheets and general ledgers are printed out by the system and delivered to the cooperatives. At present this service is partially subsidized. The cooperatives are paying L100-200/month for what is costing FEHCIL an average L600/month. FEHCIL thinks it is worth paying the difference to know what is going on in the cooperatives, and it gives them another basis for determining TA needs.

c) Individual Consulting in Production

INFOP vocational skills instructors have been used on a voluntary basis to provide skills training. They in turn have been instructed by FEHCIL to adjust their-teaching techniques to be more responsive to the specific needs of the course participants, and this approach has seemed to have worked well. The courses are followed up by instructor visits to the workshops of the participants. While they are admittedly constrained in the number of people they can reach with these services, they see it as an important component in the overall upgrading process of small businesses and their products. On occasion a technical advisor is brought in to provide technical assistance. FEHCIL's preference is to use this sort of assistance for assisting groups who want to form a union of workshops with a coordinated production process. Their ultimate aim is to assist cooperatives to develop into one large cooperative enterprise in order benefit from all the attendant economies of scale.

d) Commercialization of Products

As a final step in the assistance process FEHCIL presently operates four terminals out of which they sell products of their member groups. They estimate that only 25% of the cooperatives production is being sold through these outlets. They are selective in the products they will accept, and

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emphasize good quality. They feel they can educate the producers to be more aware of their market, and they can also give the producer a fairer portion of the ultimate sale value of his product.

ANMPI - National Association of Small Industries was established in 1971 and was changed to the National Association of Medium and Small Industries in 1978. This private non-profit institution was established to represent and serve the needs of the small and medium industry sector. Members have been providing various services on an informal basis including legal information, management assistance, credit source information, loan packaging and business and personal references. ANMPI will refer members who it has screened to the financier. They will also assist businesses in loan request packaging, meeting the legal requirements of the financier, basic management and administrative systems and controls, locating technical advisors, and with technical, market and management information. They will make follow-up visits to loan recipients and provide assistance as it is needed. ANMPI will provide a moral guarantee on the loans made to members they have recommended. One promoter on ANMPI's staff will initially be supported by TA System funds; this number will increase according to the performance of ANMPI members and the credit demand which comes to the financier through them. It is possible that a Peace Corps volunteer will assist ANMPI in these activities.

The majority of ANMPI sponsored loans (60%) will be for working capital. Average loan size will be on the order of \$5,000-\$20,000. As these activities on a formal basis are new to ANMPI, the first months of implementation will be directed towards organizational and staff development. Therefore only 15 loan clients are projected to be served during the first year though probably double that number will receive some assistance.

Cortés Chamber of Commerce and Industry has been in existence for over twenty years. This non-profit, private sector, advocacy organization has grown over the years and now provides a broad range of services to member and non-member businesspersons. They have a solid funding base from members quotas, contributions and service charges. This model is basically the same as the ANMPI service model. The Chamber will assist businesses in loan request packaging, meeting legal requirements of the financier, basic management and administrative systems and controls, locating technical advisors, and technical, market and management information. They will also make follow-up visits to loan recipients and provide assistance as it is needed. The Chamber will provide a moral guarantee on the loans made to members which they have recommended to the financier. Two promoters on the Chamber's staff will be supported by the TA System and will receive orientation and training in conjunction with other participants in the system. It is possible that a Peace Corps volunteer will be placed with the Chamber to assist in these activities.

The majority of Chamber sponsored loans (60%) will be for working capital for business expansion. Average loan size will be on the order of \$10-30,000. As assistance to small businesses is new to the Chambers, the first months of implementation will be directed towards staff development and the information system development. Therefore, only 15 loan clients are projected to be served during the first year while an additional 30 entrepreneurs will receive information and/or other assistance.

D. Financial Plan

Schedule 1 is a detailed breakdown of the estimated costs for the first three years of the project of the T.A. System by year and by local costs and foreign exchange. (These figures are based on information gathered by the consultant, but they should be reviewed before being included in the Project Paper.) Also the budget for T.A. to the T.A. System and the financier is summarized in Schedule 2.

MINISTRE - T.A. (in L\$)

	FY				1 YEAR TOTAL	FY1		FY2		FY3	
	1	2	3	4		1C	1E	1C	1E	1C	1E
INTEREST DIFFERENTIAL - G.B. @ 6%	160,000	320,000	480,000	640,000	1,600,000						
SAID Grant Funding	420,000	199,900		3,850	3,850						
Other	590,000	559,800	480,000	481,850	1,511,700						
TOTAL											
COST ITEMS											
Coordinator/Advisor					220,000		100,000		100,000		20,000
(Total costs including vehicle)	100,000	100,000	20,000		96,000	31,200		32,000		33,000	
Coordinator (Salary + Benefits)	31,200	32,000	33,000	34,000	29,800	9,300		10,000		10,500	
Secretary	25,000	26,350	27,570	29,000	78,920	25,000		26,350		27,570	
Travel & Office cost (including rent)	4,500				4,500	2,000	2,500				
Equipment	14,000	13,650	14,200	14,900	41,850	14,000		13,650		14,200	
ISCAE Overhead @ 20%	184,000	182,000	105,270	89,200	471,670	81,500	162,500	82,000	100,000	85,270	20,000
Sub-Total Coordinator					60,000	20,000	10,000	15,000	5,000	10,000	45,000
Training Courses/Seminars/Workshops	30,000	20,000	10,000	10,000	125,000	40,000	40,000	20,000	40,000	30,000	
Short Term T.A. External	40,000	40,000	45,000	45,000	70,000	20,000		20,000		20,000	
Short Term T.A. Internal	20,000	20,000	30,000	30,000	40,000	30,000		10,000		10,000	
Training Trips	30,000	10,000			295,300	40,000	20,000	35,000	55,000	40,000	25,000
Sub-Total					130,000		100,000		20,000		10,000
T.A. to Financiers	160,000	20,000	10,000	20,000	20,000	40,000	180,000	35,000	20,000	40,000	55,000
Evaluation (Outside)	220,000	130,000	95,000	110,000	445,000				95,000		
Sub-Total	404,000	311,900	200,270	194,500	916,670						
Sub-Total Coordinator & T.A.											
PRO											
Promoter(a) Salary & Benefits	18,000	18,900	19,850	20,850							
Travel & Per Diem	8,000	8,800	9,700	10,650							
Regional Office Costs	6,000	3,000	3,000	3,000			12,000				
Vehicle	12,000										
Overhead @ 25%	11,000	7,700	9,150	8,600	134,100	43,000	12,000	38,400		40,700	
Sub-Total	55,000	38,400	40,700	43,100							
FEHCL											
Promoter	18,000	18,900	19,850	20,850							
Travel & Per Diem	8,000	8,800	9,700	10,650							
Miscellaneous	1,000	1,000	1,000	1,000			12,000				
Vehicle	12,000										
Overhead @ 25%	9,750	7,200	7,650	8,100	122,850	36,750	12,000	33,900		40,700	
Sub-Total	48,750	37,900	38,200	40,600							
AMPE											
Promoter	15,600	16,400	32,800	34,400							
Travel	2,500	2,750	6,000	6,600							
Miscellaneous	500	600	1,000	1,000			3,000				
Vehicle	2,000										
Overhead @ 25%	6,250	4,950	9,950	10,500	101,550	34,000	3,000	49,750		32,000	
Sub-Total	27,000	24,700	49,750	52,500							
Costs of Other											
Promoters (2)	46,800	49,000	51,600	54,200							
Travel & Per Diem	5,000	5,500	6,150	6,750							
Secretary	2,500	2,800	3,100	3,400							
Miscellaneous	1,000	1,000	1,000	1,000			6,000				
Vehicle - Motorcycles (2)	6,000										
Overhead - Donation					181,450	35,300	6,000	33,300		32,000	
Sub-Total	61,300	58,300	61,850	65,350							
Additional Costs											
Promoters (2nd Yr. 3-3rd Yr.)		30,600	49,200	51,700							
Travel & Per Diem		4,000	13,200	14,200							
Regional Office Cost		7,500	4,000	4,000			26,500				
Vehicle		20,000	16,000	17,600							
Overhead		18,000	83,000	81,000	171,000	44,000	7,500	80,000		80,000	
Sub-Total		79,100	165,400	174,500							
Sub-Total PMO's & PSM's											
TOTAL	180,000	207,000	223,500	240,100	711,500						

SCHEDULE 2

BUDGET FOR T.A. TO T.A. SYSTEM
(In \$US 000's)

-Years-

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Total</u>
Small Business Specialist Person/months	100 12	100 12	20 2			220
Short Term TA - External Sources Person/months	40 4	40 4	20 4	20 4	20 4	140
Short Term TA - In-country Sources Person/months	20 4	20 4	20 4	20 4	20 4	100
Training Courses/Seminars	30	20	10	10	10	80
Training Vistis (eg. D.R., Panama, Colombia, México) 3-4	30	10				40
TA To Financiera Person/months	100 12	20 2	10 1			130
	<u>320</u>	<u>210</u>	<u>80</u>	<u>50</u>	<u>50</u>	<u>610</u>

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V. Implementation Plan

The T.A. System will be implemented in what could be described as four phases. The first phase is one of gearing up the system with the four selected service organizations and the coordinator. This first 9 to 12 months of the project will focus on the upgrading of the technical assistance being provided by the promoters in these organizations and gearing them to assist small businesses to meet the requirements of the financiera. The second phase will focus on reaching more clients and integrating a wider variety of services such as marketing, unsubsidized accountancy, technical and information. They might consider sponsoring courses which clients of various TA organizations attend together. It will be important for the promoters, who are the primary contact point between the T.A. System and the Small business, to become more aware of the resources available to their clients through the T.A. System. The promoters must become business generalists so that they can accurately define what the client's need is which they cannot meet, relay that request to organization or individual who can satisfy it, and then coordinate and follow-up on the delivery of that assistance. The third phase will be a reassessment period in which everyone participating in the system looks at what has been done, what has and what has not been accomplished and why, and at the distribution of the T.A. Systems resources. Decisions are made and new contracts/agreements are signed expanding certain services and promoting other new services. The fourth phase should see a smooth functioning, integrated T.A. System which has effective feedback mechanisms and is still flexible enough to respond to the changing needs and new opportunities of small businesses. Schedule 3 lays out the system development plan according to the phases and the types of participating organizations. Schedule 4 presents the Implementation Schedule.

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SCHEDULE 3

IMPLEMENTATION PLAN - T.A. SYSTEM

	PHASE I (First 9-12 months)	PHASE II (9th-24th months)	PHASE III (22nd-30 months)	PHASE IV (28th-36th months)
FEHCIL IDH	Receive assistance in giving TA; Provide TA services to clients; channel most experienced clients to financiera Develop commercialization capabilities	Expanded services to clients including commercialization and expanded financing of experienced clients	New agreements for service provision and client screening	Identify & develop new services
ANMPI & Camara de Comercio de Cortes	TA-Organizational Development client screening market identi- fication	Expand operations and develop services (legal & information & market)	Integrate coordination function and expand services	Identify & develop new services
Financiera	TA credit officers development; service test cases; develop and implement complete policies and procedures for all systems	Expand test cases; continued development. Prepare for expanding funding base	More formal links with ANMPI, Camara de Comercio, ANDI expand funding base	Develop new services
Training Organizations	Inventory, begin to develop select courses in management	develop select course(s) in management; begin development of select technical course for S&ME managers.	Expand management training service to S&ME. Develop technical training for S&ME managers.	Continued expansion of courses and materials. Integration of training services
Technical Assistance	Inventory; T.A. test cases, IESC, Fortin Lagos, etc.	Use on on-call basis Identify other TA resources	Establish TA clearinghouse Expand use on selective basis Integrate with PSOs activities	
Admin. Services	Inventory; test cases of admin. services (accounting, budgeting)	Selectively promote/ test new services	Promote useful, efficient services	
Coordinator Institution	Startup; Counterpart training	Ongoing counterpart training and system planning	Shift into S&ME private sector representative organization (as appropriate)	
Other TA Service providers	Identify potential system participants; qualify their services, and introduce them to system	Field test services; select services to be expanded and organization through which to expand them	Expand services	

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SCHEDULE 4

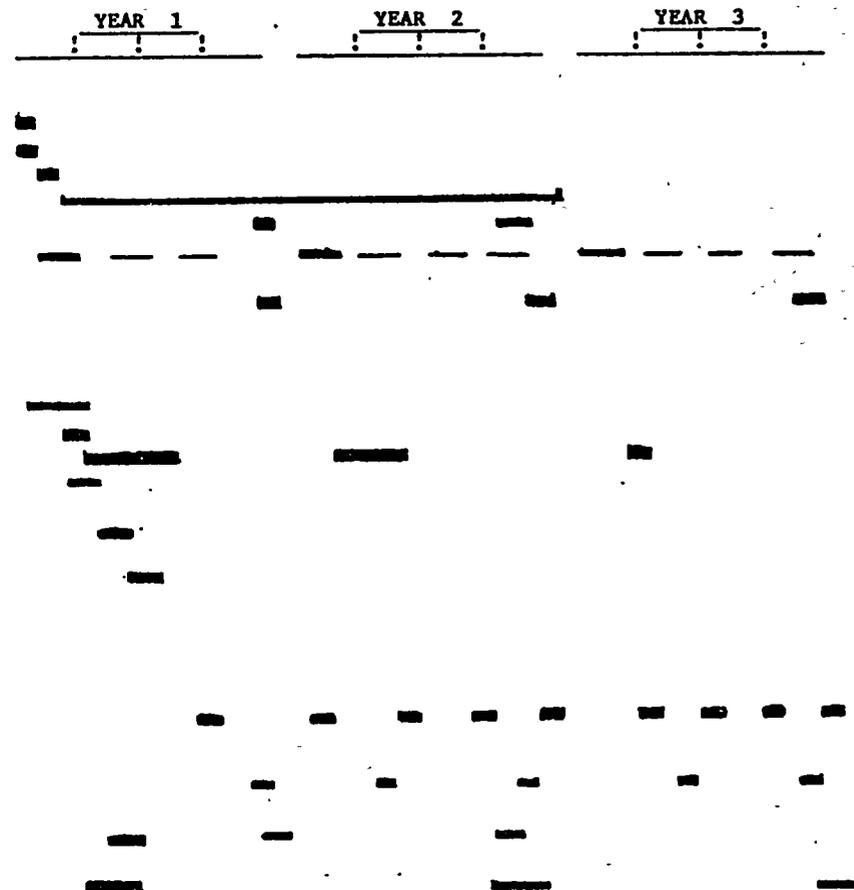
IMPLEMENTATION OF THE T.A. SYSTEM

Coordinator

1. Select and hire system coordinator advisor.
2. Sign agreement with system coordinator organization (INCAE).
3. Select and hire system coordinator counterpart.
4. Train coordinator counterpart.
5. Review institutional placement of counterpart coordinator.
6. Inventory T.A. resources for S&ME.
7. Update projection of T.A. system costs and income; evaluate schedule of charges vis-a-vis viability of system.

T.A. Organization

8. Assist FEHCIL, IDH, ANMPI, Cortes Chamber complete workplans.
9. Sign agreements with FEHCIL, IDH, ANMPI, Cortes Chamber.
10. Select and contract T.A. for promoter training.
11. Assist FEHCIL, IDH, ANMPI, Cortes Chamber select promoters.
12. Promoter orientation training seminar - T.A. to small and medium business - including Financiera staff.
13. Seminar/training - "Giving T.A." - supervisors, promoters, credit officers.
14. Series of in-service seminars on T.A. system (who has what to offer how); T.A. needs of S&ME; feedback on services; how to consciencize entrepreneurs; institutional development of representative orgs; issues in S&ME development; issues of credit; review functions of credit officers, field agents and coordinators.
15. Periodic meetings of T.A. providers and users to discuss activities/services and ways to make improvements.
16. Develop & test T.A. service assessment implements and integrate into FEHCIL, IDH, ANMPI and Cortés Chamber systems.
17. Develop and test TA needs assessment implements and integrate into FEHCIL, IDH, ANMPI and Cortés Chamber systems.



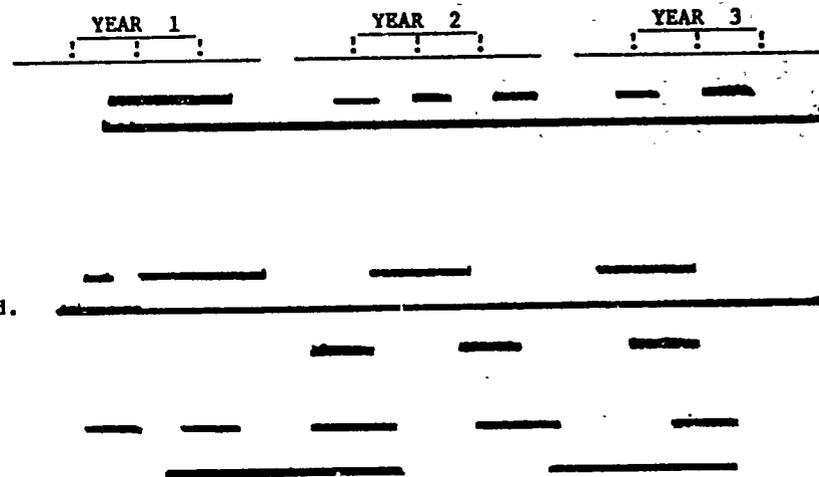
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SCHEDULE 4 cont.

- 18. Support/corraborate organizational development of ANMPI and Chamber for provision of information services.
- 19. Services to small businesses

Technical & Other Service Organizations

- 20. Test variety of specialized and general services and provide T.A. support to organizations to strengthen service provision capabilities.
- 21. Look for specific technical resources and contract them as needed.
- 22. Investigate other private TA organizations for inclusion in TA System.
- 23. Establish informal agreements understandings with other TA organizations for provision of services to potential and actual financiera clients.
- 24. Test administrative services for SSE to be provided by private companies.



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Improving the Delivery of Technical Assistance to Small Entrepreneurs and Characteristics of Promoters/Advisors

At present IDH and FEHCIL both are providing management assistance to individual small businesses and cooperative respectively. The services tend to have a heavy emphasis on record-keeping, setting up the accounting systems and training people in the business to use them. Another area of emphasis is on planning. As is common in small business assistance programs throughout the world, both organizations have tried to arrive at an assistance process in which the client is taken through in a linear fashion, and if he already is doing what is included in the earlier steps, then he merely enters the process further down the line. That kind of approach works well with businesses who are not in dire need of assistance. Dire in this instance means a business that is about to or has already defaulted on a loan and is about to have equipment repossessed or mortgaged land and buildings foreclosed or which has for whatever reasons, totally run out of resources to keep the business going and the family is going to starve unless they can earn some income quickly. That approach also does not work well with the majority of small businesspersons who are wary about people coming into their business telling them that they can help them out (after all who asked for their help anyway). The approach can be summarized as one which starts from the premise that a businessperson needs written records in order to keep track of what is going on in the business and only with them can the businessperson then systematically make plans and decisions which will direct the business on the path to success. The implications of this approach are that businesspersons who do not keep written records do not know how to run their business and that it is not possible for a business to succeed without formal, documented management systems. In the UNAH study of the small and medium business sector they found that over 60% of small businesses had been operating for 10 years or more. That a business has survived that long usually says something about the businessperson's ability to do enough right in producing something, providing a service, or merely selling other products that it is worth continuing to do it. What the UNAH study also found was that 42% of small business needed assistance in financial systems and controls. Another implication of this approach that businesses that do not have written records or formal management controls do not have records or controls which suggests that the businessperson does not know at all what is going on in the business and it is out of control.

These are a few of the implications of this approach and the way they most commonly manifest themselves is in the way and the attitudes with which the advisors or promoters approach the businessperson and small businesses, in general, with condescension. And what they most often miss because of their single tracked thinking is the amazingly diverse ways small businesspersons do manage their businesses, how they do have an idea about what is going on in the business, and how they resent the invalidation of an oftentimes younger person with little or no actual experience in running a business who comes in inadvertently telling them they do not know what they are doing. A telling example of this myopia is the INFOP Program of Assistance to Small and Medium

Industry which cannot understand why businesses do not want their help (since after all they have the answer to the businesspersons needs....don't they?). They say that their problem is the small businessperson's attitude that he does not need help. Okay, they need to take that as a given and adjust their approach to that given and not spend any more time thinking that the small businessperson should change his attitude towards them. They were somewhat amazed that based solely upon a discussion of the resistance to their assistance, an outsider could detail how they introduced themselves to clients, how they proposed to work with the client and how they actually did work with the client.

IDH and FEHCIL are not encountering the same kind or degree of resistance to their assistance that INFOP is, but they are still finding difficulty in arriving at the businessperson or cooperative manager doing what they (IDH and FEHCIL) think he should be doing. A more detailed investigation of how the promoters of these and other organizations are working with clients should be a first priority of the coordinator. This could be accomplished in a seminar in which promoters present their approaches and difficulties to other promoters and try to arrive at a better understanding of what worked and why, and what did not work and why. This could be followed by a series of seminars which would deal with specific technical areas in which the promoters knowledge and skills need upgrading. They would be working towards an assistance approach which would be able to identify what the businessperson sees as his (her) most pressing problem and by working through that problem begin to work down towards the roots of the problems in the business. Also, these seminars will reinforce the idea of the promoter's function being to learn at least as much as to share knowledge of the ways others have arrived at to more easily management their businesses. Too often promoters/advisors go out to teach rather than to participate in a mutual process of discovery in which the businessperson is never doing something, such as keeping books, which (s)he cannot immediately put to use. The reason that so many small business assistance programs have found it so difficult to successfully train small businesspersons to keep books is that they use a linear approach. They tell the person why it is important to keep books, they set up the system and train him in filling in the blanks. Then after that is accomplished, they work with him on using the information that is being accumulated. The small businessperson sees that what the advisor has given him is work that does not seem to serve his purposes or needs, and to a great extent he is correct.

A common example of the trap that many advisors fall into with small businesses is when the small businessperson states that his only need is money. The advisor asks a few questions about what the money is for, why it is needed and how it will be paid back. One of the questions is about how much profit the business makes, the businessperson hesitates, and it is discovered that he does not keep books regularly, etc. etc. The advisor finds himself on familiar ground, after all, this is what his training focused on, and he launches into the necessity and merits of recordkeeping and financial statements and is completely off the track of what is of most concern to the businessperson. Instead, the advisor could have taken the time to look with the businessperson at each asset to see if there was not something that

somehow could be converted into the cash that is needed. It is not always possible to come up with the complete answer in this situation. However, by trying to focus on immediate measures that the businessperson independent of anyone else can take to alleviate the problem with which he is preoccupied, the advisor will demonstrate that he is there to work with the businessperson not to preach to him and that he has something to offer, a way of looking at things if nothing else, that the businessperson can use to his advantage. And if the businessperson's primary problem is a technical one, the advisor should be prepared to assist him in finding the technical resources to solve it, either locally as through the TA System. In fact the promoter will be in most cases the primary contact point for the small businessperson with the TA System, and as much as possible (s)he should continue to develop skills which will enable him (her) to serve a wide variety of clients well.

This approach requires promoters/advisors who have the following characteristics. One is an insatiable curiosity, a desire to continue learning in order to better understand. Another is that they enjoy communicating with others and they communicate ideas easily. An aspect of this characteristic which deserves mention is that the advisors are communicate in the language of the people with whom they are working. They should be mature and responsible, willing to look, on their own initiative, for information which will help them better serve their clients. It is preferable that they have experience in working in business above the clerical level, though they might have acquired this from exposure to a family business while they were in school. They should have quiet self-confidence without being cocky or glib. They should have good mathematical skills and be comfortable playing with numbers because the training cannot give them this, and it is important that they be able to quickly perceive contradictions in numbers they are being given by the entrepreneurs as well as perceive trends and patterns of cash flow, sales, production and financing needs.

ADDENDUM TO FINAL REPORT OF PFP INTERNATIONAL

During the contractor's exit interview several questions were raised about specific content in the Final Report. This Addendum will clarify points made in the report which are misleading or which did not fully convey what the contractor intended to convey.

1. In the first paragraph on page 47 of the report the contractor mentions additional assistance organizations which will likely be qualified as management assistance organizations during implementation of the project. The contractor failed to clarify that ANMPI and the Cortes Chamber of Commerce, the two organizations mentioned as information assistance organizations in the T.A. System, are expected to develop into full assistance providers, including management assistance, during the implementation of the project. The other organizations mentioned in the first paragraph, ASEPAPDE, the Tegucigalpa Chamber of Commerce, and UNAH, would be organizations which will not be formally incorporated in the T.A. System during the first phase of the project.

2. In the first paragraph under Financing the T.A. System the contractor mentions that the "interest differential will average 6% " over the three years of the project. The agreement on the project team had been that it was likely that the Central Bank discount rate would decline over the life of the project such that the interest differential would decline to 6% in the third year of the project. On page 49 of the report in the second paragraph the last sentence should be changed to read, " At the expected Central Bank discount rate this earnings level will be satisfied in the third year of the project."

3. On pages 51 and 52 of the report the contractor talks about the promoters who will be supported by the T.A. System and how by the third year of the project they will be serving at least 200 loan clients. What is needed to be added to this is the fact that the project supported promoters will be working with an additional 15-25 clients each during the year. These additional clients will for any of several reasons not be receiving credit. They might not need credit, they might not be willing to complete the requirements of the financiera, or they might need extensive assistance or training before they will be ready to handle credit. It is normal in projects of this sort that promoters work with twice as many clients as receive credit, and there is a weeding out process, or a self selection process that operates in addition to the screening process used by the TA providers.

We also need to recognize that some of the TA providers have promoters in addition to the ones being financed by the T.A. System. IDH will have a total of six additional promoters who will be working with clients who will receive credit from IDH and some of whom will eventually graduate to the level of the financiera. FEHCIL will have three promoters/coop advisors working to improve the management skills of member coops and they will also have up to three Peace Corps volunteers providing similar assistance to potential financiera borrowers. In total it is expected that between the T.A. System supported promoters and the additional promoters/advisors working in TA provider organizations they will be assisting as many as 500-700 small businesses in a year.

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APPENDIX A

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APPENDIX B

CUESTIONARIO PARA LA INVESTIGACION DEL ESTATUS LEGAL DE LOS
ACTIVOS DE LA PEQUEÑA Y MEDIANA EMPRESA

1. Cuál es el nombre de la empresa? _____

Clase de empresa: Comercio _____ Servicio _____ Industria _____

2. Cómo esta constituida legalment la empresa?

- _____ Sociedad Anónima
 _____ Sociedad de Responsabilidad Limitada
 _____ Comerciante individual
 _____ Otra _____

3. La empresa o usted tiene alguna de las siguientes propiedades?

	EMPRESA		PERSONAL	
	dueño	renta	dueño	renta
Terrenos				
Edificios				
Casas				
Fincas				
Maquinaria				
Equipo				
Vehículos				
Inventarios				
Cuentas x cobrar				
Patentes y marcas				
Acuerdos de Licencia				
Titulos valores				

4. Qué tipo de derecho legal tiene sobre las tierras?

	Dominio Pleno	Dominio Util	Usufructo	Poseción
Propias				
Empresa				

5. Quién puede disponer legalmente de las propiedades?

	Empresario	Gerente	Pariente	Otro
Terrenos				
Edificios				
Casas				
Fincas				
Maquinaria				
Equipo				
Vehículo				
Inventarios				
Cuentas por cobrar				
Contratos de ventas				
Patentes y marcas				
Acuerdo de licencia				
Títulos valores				
Otros				

6. Qué tipo de documentos posee sobre las propiedades?

	Escritura Pública	Documento Privado	Contrato Compraventa	Factura Comercial	Otro
Tierra					
Edificios					
Casas					
Fincas					
Maquinaria					
Equipo					
Vehículos					
Inventarios					
Cuentas x Cobrar					
Contrato de Venta					
Patentes y Marcas					
Acuerdos de Licencias					
Títulos valores					

7. Qué valor tienen las propiedades?

	V A L O R	
	Empresa	Personal
Terrenos		
Edificios		
Casas		
Fincas		
Maquinaria		
Equipo		
Vehículo		
Inventarios:		
Materias primas		
Producto terminado		
Cuentas por cobrar		
Contratos de ventas		
Patentes y marcas		
Acuerdo de licencia		
Títulos valores		

8. Tiene préstamos? _____ Qué ha ofrecido como garantía?

	Hipotecas	Pignorado	Seguros	Otros
Terrenos				
Edificios				
Casas				
Fincas				
Maquinaria				
Equipo				
Vehículo				
Inventarios:				
Materias primas				
Producto terminado				
Cuentas por cobrar				
Contratos de ventas				
Patentes y marcas				
Acuerdo de licencia				
Títulos valores				

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9. Cuales son los términos, las condiciones y a nombre de quien aparecen los siguientes activos?

	Términos	Condiciones	Asignaciones
Cuentas por cobrar			
Contratos de ventas			
Patentes y marcas			
Acuerdos de Licencia			
Bonos			
Acciones			
Pagarés			
Letras de cambio			
Otros			

81.

CUESTIONARIO PARA LA INVESTIGACION DE NECESIDADES DE ASISTENCIA TECNICA EN LOS SECTORES DE LA PEQUENA Y MEDIANA EMPRESA

I. Identificación de la Empresa:

Nombre _____
Dirección _____ Telf. _____
Localización de la(s) Plantas: _____
Año de inicio de operaciones: _____
Clase de negocio: Comercio _____ Servicio _____ Industria _____
Productos/Servicios: _____

II. Mercado:

A. Ventas Locales _____ Por Contrato _____
Ventas Nacionales _____ Por Pedido _____
Ventas al Exterior _____ Al Producirlos _____
Ventas Total _____

B. Qué problemas encuentran ustedes en vender sus productos/servicios?

_____ Falta de demanda o poco mercado
_____ Precios controlados o demasiado competitivo
_____ Falta de buenos canales de distribución o sistemas de transporte
_____ Para las exportaciones - larga tramitación
_____ Competencia de productos importados
_____ Competencia local
_____ Nada

C. Cómo identifica usted el mercado para sus productos/servicios?

_____ Estudio de mercado formal
_____ Experiencia de ventas
_____ Investigación de estadísticas

D. ¹ Cómo se identifica cuales productos/servicios va a ofrecer al mercado?

- _____ Investigaciones de comerciantes
- _____ Lo que puede producir
- _____ Ideas de otras personas

III. Producción

A. Qué tipo de proceso productivo tiene su empresa?

- _____ Manual
- _____ Medio mecanizado
- _____ Mecanizado

B. Qué aspectos toma en cuenta o investiga sobre un producto que quiere elaborar?

1. Diseño, uso, necesidades y rentabilidad del producto, disponibilidad de materiales, adecuados, existencia del mercado, como otros lo hacen.
2. No lo investiga

C. Qué calidad de producto produce usted y como lo determina?

D. Qué considera usted para seleccionar la maquinaria y equipo?

1. Capacidad de la empresa _____
2. Necesidad de producción _____
3. Calidad de los productos _____
4. Tecnología del proceso _____
5. Asesoramiento técnico _____
6. Mantenimiento fácil _____
7. Medio ambiente _____
8. Seguridad de empleos _____

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E. Si usted espera aumentar la producción, qué recursos necesitaría?

- 1. Agrandar la planta _____
- 2. Contratar mas personal _____
- 3. Especializar empleados _____
- 4. Tomar cursos de administración _____
- 5. Pedir asistencia técnica de alguien _____ Qué tipo(s)? _____
- 6. Comprar mas equipo _____
- 7. Solicitar crédito _____

F. Qué porcentaje de la capacidad productiva utiliza la empresa actualmente?

90-100% _____ 75-90% _____ 50-75% _____ 50% _____ No sabe _____

IV. Administración:

A. Se lleva en la empresa libros registros de:

	SI	NO
1. Caja	—	—
2. Ventas	—	—
3. Compras	—	—
4. Existencias	—	—
5. Producción	—	—
6. Deudores/acreedores	—	—
7. Gastos	—	—

B. Quién lleva los libros de la empresa?

- 1. El empresario mismo _____
- 2. Un tenedor de libros/empleo de la empresa _____
- 3. Un contador contratado _____
- 4. Otro _____

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C. Cómo se determina en la empresa necesidades de caja?

1. Por hacer proyecciones del estado de perdidas y ganancias _____
2. Por hacer proyecciones de flujo de caja _____
3. Por estimarlas casualmente _____
4. Instintivamente _____
5. Cuando no hay de caja _____

D. Qué planes se hacen en la empresa y con qué frecuencia?

- | | <u>diariamente</u> | <u>c/semana</u> | <u>por mes</u> | <u>otro</u> |
|------------------------------------|--------------------|-----------------|----------------|-------------|
| 1. Plan de trabajo o de producción | | | | |
| 2. Plan de financiamiento | | | | |
| 3. Plan de compras | | | | |

V. Crédito

A. Ha ido usted a alguna institución financiera a preguntar sobre las posibilidades de crédito? Si _____ No _____

Si es sí, a cuales?

1. Banco Comercial _____
2. Banco de los Trabajadores _____
3. CDI (CCTI) _____
4. Banco Nacional de Desarrollo Agrícola (BANADESA) _____
5. FONDEI _____
6. Cooperativa de Ahorro y Crédito _____
7. Prestamista _____
8. FEHCIL _____
9. IDH _____
10. Otro _____

B. Qué problema ha encontrado usted en obtener crédito adecuado de esas instituciones?

- 1. Garantías adecuadas _____
- 2. Preparación de estados financieros _____
- 3. Hacer un estudio de factibilidad _____
- 4. Plazos demasiado cortos _____
- 5. Legalización de la empresa o de otros activos _____
- 6. Referencias personales adecuadas _____

C. Qué ayuda necesitaría para obtener crédito?

- 1. Contable _____
- 2. Análisis de costos _____
- 3. Hacer proyecciones financieras _____
- 4. Preparación de un estudio de factibilidad _____
- 5. Búsqueda de equipo apropiado y las facturas proforma requeridas _____
- 6. Hacer los trámites _____
- 7. Información sobre fuentes de crédito _____
- 8. Otro _____

VI. Asistencia Técnica

A. Si usted pidiera a alguien o alguna institución ayuda para su empresa, que clase de asistencia pediría?

- 1. Clases o cursos _____ En qué? _____
- 2. Asistencia individuo en la empresa _____
- 3. Información técnica _____

DL

B. A quién ha pedido que le ayude a resolver los problemas que tiene su empresa?

1. CDI _____
2. INFOP _____
3. FEHCIL _____
4. ANMPI _____
5. ASEPADE _____
6. UNAH _____
7. Banco Central _____
8. Cuerpo de Paz _____
9. INCAE _____
10. GEMAH _____
11. Dale Carnegie _____
12. Consultor privado _____
13. Banco Nacional de Desarrollo Agrícola (BANADESA) _____
14. Banco comercial _____
15. IDH _____
16. Otro _____

DEFINITION/CHARACTERISTICS OF MEDIUM SCALE ENTERPRISES IN HONDURAS
150,000 - 400,000 IN FIXED ASSETS AND 20-100 EMPLOYEES

Management:

- Generally owner managed
- Managers have an instinct and flair for business which does not always correspond to directive skills
- Manager not usually directly involved in production
- Need some management assistance
- Often overcommitted or stretching the limits

Personnel/Worker relations

- Problem finding serious productive workers
- Difficult relations with workers and unions (workers are more often unionized)
- Weak supervision
- Worker resentment and retaliation

Financial

- Shortage of working capital
- Illiquid because of sales policies
- Improper investment due to insufficient feasibility analysis

Organization

- Have organigrama, but it might not correspond to actual situation
- A few overloaded supervisors
- Many unresolved problems

Production

- Delays in importation of raw materials
- Low quality local raw materials
- Underutilization of machinery (40-60%)
- Lack government incentives

Commercialization

- Poor estimation of market because of inadequate market studies
- Underutilization of publicity and promotion
- Careless treatment of clients
- Difficulties in delivery of goods
- Sales by instinct rather than competition (or do not know how to go about it)
- Price haggling

SUMMARY OF RESPONSES TO QUESTIONS ON LEGAL STATUS OF ASSETS

PHYSICAL ASSETS	OWN	RENT	LEGAL STATUS* OF LAND	EVIDENCE OF OWNERSHIP!				LIENS
				EP	DP	FC	OTHER	
1. Land & Buildings								
Land	7		4	5				1
Buildings	7	2		5				1
Residence	8			6				6
Farm	2			1				
Rental Property								
Other								
2. Machinery & Equipment								
Machinery	9				1	5		
Equipment	5						4	
Vehicles	7							
3. Inventories								
Raw Materials	5					2		
Finished Goods	3							
4. Financial Assets								
Receivables	4					3		
Sales Contracts								
Patents, Trademarks	1							
Licencing Agreements								
Distributorship								
Stocks/Bonds	1							
Other								

E.P. = Escritura Pública (Notorized Legal Document)

D.P. = Documento Privado (Private Legal Document)

F.C. = Factura Comercial (Invoice)

*Land held in full legal order

Sample of 10 businesses. interview May 4-8, 1983 by Ramón Medina Luna and J. Hochschwender.

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SUMMARY OF RESPONSES ON LEGAL STATUS OF ENTERPRISE

NAME OF FIRM	BUSINESS ACTIVITY/ PRODUCT LINE	TYPE OF BUSINESS			LEGAL STRUCTURE			
		COMMERCE	INDUSTRY	SERVICE	S.A.	S.deR.L.	C.I.	OTHER
1) Zapateria Lolo	Shoemaker			X			X	CMDC
2) INHOLA	Pencils		X			X		CMDC
3) Creaciones Suyapa	Chauk figures/retailer	X	X				X	CMDC
4) Almacen Sn Miguel	Fabrics wholesaler	X				X		CMDC
5) Fabrica Italia	Sweater manufacturer		X			X		
6) Panaderia Suyapa	Bakery		X					CMDC
7) Panaderia El Hogar	Bakery			X				None
8) Estilmoda	Tailor			X				None
9) Sast. La Juventud	Tailor		X				X	CMDC
10) Ladrilleria Hond.	Floor tiles		X					None

S.A. = Sociedad Anónima
 SdeR.L. = Sociedad de Responsabilidad Limitada
 C.I. = Comerciante Individual
 CMDC = Consejo Metropolitano del Distrito Central

Elaborated by Ramón Medina Luna

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NOTES:

1. The enterprises interviewed were of small to medium size, mostly employing 5-19 workers. Only two had each 20 and 21 employees.
2. The ownership of the assets was under the name of the entrepreneur, or a close relative by blood or marriage.
3. Only the enterprises organized under the corporate form of Sociedad de Responsabilidad Limitada (Limited Corporation), reported having assets registered under the corporate name.
4. The value figures of the assets varied a lot among the enterprises interviewed. The higher values reported were in land and buildings, usually in the range of \$10,000 to 60,000; one reporting a value as high as \$250,000. Mostly the machinery had values as low as \$500 and up to \$20,000; again, one enterprise had machinery valued at \$75,000. The other significant asset value was represented by vehicles, some of which were old enough to be completely depreciated, but had current market values.
5. Most of the entrepreneurs interviewed have had access to small personal loans from two private banks or public credit institutions. However, it became evident that the credit was not sufficient. They complained about difficulties in meeting bank loan requirements.

Elaborated by Ramón Medina Luna

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LOAN APPLICATION FORM

No. _____

Date Received _____

Name of Business: _____

Address: _____ Tel: _____

Owner(s): _____

Date Business Started: _____ Classification _____

Type of Business: _____

Products: Existing: _____

New with this project: _____

! Assets		Liabilities		!
!	Cash	_____	Accounts payable	_____ !
!	Receivables	_____	Accrued Liabilities	_____ !
!	Inventories	_____	Current Debt	_____ !
!			(Name sources)	_____ !
!	Machinery &		Loan Term Debt	_____ !
!			(Name sources)	_____ !
!	Equipment	_____	(more than 1 year)	_____ !
!	Building	_____	Other Liabilities	_____ !
!	Land	_____	Equity	_____ !
!	Other	_____	Contributed Capital	_____ !
!			Retained earnings	_____ !
!	TOTAL	_____	TOTAL	_____ !
!				_____ !

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	1980	1981	1982
SALES			
CG Sold	_____	_____	_____
Gross Margin			
GS&A Expense	_____	_____	_____
Operating Margin			
Other Expenses			
Tax	_____	_____	_____
Net Income			

LOAN REQUEST

Amount: _____

Purpose: _____

(Give detail of purchases to be made with loan funds)

How long will you take to repay loan: _____

(Months - Years)

Collateral: (what, estimated value) _____

Cosigner: Name & Address _____

PREVIOUS CREDITS

	NAME	ORIGINAL OR MAXIMUM AMOUNT	TERM	BALANCE
Suppliers	_____	_____	_____	_____
Banks	_____	_____	_____	_____
Other sources	_____	_____	_____	_____

DOCUMENTATION CONTROL

! I T E M !	! RECEIVED !	! REVIEWED ! ! BY !	! NOT ! ! ACCEPTABLE !	! ACCEPTABLE !
! I. <u>Proposal</u>	!	!	!	!
! Market Study	!	!	!	!
! Technical Analysis	!	!	!	!
! Financial Plan	!	!	!	!
! Business Plan	!	!	!	!
! Cash Flow	!	!	!	!
! Income Statements	!	!	!	!
! II. <u>Collateral Documents</u>	!	!	!	!
! Land Title Assess.	!	!	!	!
! Building Title Assess.	!	!	!	!
! Equipment: Title	!	!	!	!
! Invoice	!	!	!	!
! Valuation	!	!	!	!
! Chattle Mortgage in	!	!	!	!
! inventories	!	!	!	!
! Finished goods	!	!	!	!
! Goods in process	!	!	!	!
! Raw Materials	!	!	!	!
! Assign. of receivable	!	!	!	!
! Agreement	!	!	!	!
! Sight Drafts	!	!	!	!
! Notarized Sales	!	!	!	!
! Contracts	!	!	!	!
! Other _____	!	!	!	!
! _____	!	!	!	!
! _____	!	!	!	!
! _____	!	!	!	!
! III. Loan Agreement	!	!	!	!

QUESTIONNAIRE - STATUS OF ASSETS THAT MIGHT BE USED FOR COLLATERAL ON SB FINANCIERA LOANS

APPENDIX F
Page 4 of 4

PHYSICAL ASSETS	OWN	RENT	LEGAL STATUS OF LAND	NAME OF	RELATIONSHIP	EVIDENCE	VALUE	LIENS	
			(Dominio Pleno, Dominio Util, Ejido, Other)		TO	OF			(Estimate)
<u>1. Land & Buildings</u>									
Business									
Land									
Building									
Personal									
Residence									
Farm									
Rental Property									
Other									
<u>2. Machinery & Equipment</u>									
Business									
Machinery									
Equipment									
Vehicles									
Personal									
Machinery									
Equipment									
Vehicles									
<u>3. Inventories</u>									
Raw Materials									
Finished goods									
			LEGAL STATUS	NAME OF	RELATIONSHIP	EVIDENCE	VALUE	TERMS	LIENS/
			Formal Informal	LEGAL OWNER	TO	OF	(Average)	OF	ASSIGNMENT
<u>4. Financial Assets</u>			Contract Contract		ENTREPRENEUR	OWNERSHIP		AGREEMENT	CONDITIONS
1. Receivables									
2. Sales Contracts									
3. Patents, trademarks									
4. Licencing Agreements									
5. Distributorship									
6. Stocks/bonds									
7. Other									

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APPENDIX G

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TA SERVICES PRESENTLY AVAILABLE

Individual Management Assistance	Location	For Small Business	For Medium Business	Status/Comments
IDH	Tegucigalpa Sn Pedro Sula Olancho Comayagua	In general	In general	4 Promotores, 1 PCV + 2 promotores n/o 5/83 1 Trainer, 2 agronomists Quality could be upgraded
FENCIL	Tegucigalpa Sn Pedro Sula Other	In general	In general	Focus is on Cooperative development but visits are made to individual workshops
Fortin Lagos & Asoc.	Tegucigalpa Other	Accounting, Finance, inventory controls	Feasibility, Financial, Other	Oriented towards medium and larger businesses
Mendieta & Asoc.	Tegucigalpa Other	In general	In general	More open to small business than other for-profit companies
Hornum, Palao, Williams	Sn Pedro Sula Other		Financial systems & planning	Strictly in financial advising
INFOP Programa de Asistencia a la Pequeña y Mediana Empresa	Tegucigalpa, Sn Pedro Sula	In general	In general	4 advisors in Tegucigalpa 4 advisors in Sn Pedro S. Approach not functioning well, lack of clients
CDI	Olancho El Paraiso Valle Ocotepeque	In general		12 field agents presently under utilized, more integration with other services needed

Individual Management Assistance	Location	For Small Business	For Medium Business	Status/Comments
Peace Corps	Various Urban & Rural	Commercialization Accounting, finance	Same	18 new Vols n/o 7/83 20 Volunteers in various PVOs and para statal organizations
IESC	Tegucigalpa Sn Pedro Sula La Ceiba Pto. Cortes		High caliber	External T.A. brought in on case by case basis
UNAH - CETAE	Tegucigalpa	In general		Beginning July 1983 to give assistance to individual businesses thru IDH and ANMPI
TECHNICAL ASSISTANCE				
IESC	Same		Broad range High caliber	External T.A.
UNAH-CII	Tegucigalpa Sn Pedro Sula La Ceiba	Yes	Yes	Schools of Engineering Students & Professors
PRODHAJ	Tegucigalpa Other		Agrobusiness	Food testing lab. Technical feasibility
Fortin Lagos & Asoc.	Tegucigalpa Other		Minor	1 Ind. Engineer w/others contracted as needed
Mendieta & Asoc.	Tegucigalpa	Minor	Minor	1 Ind. Engineer w/others contracted as needed
SENCIL	Tegucigalpa Sn Pedro Sula	Recruit what's needed	Recruit what's needed	Use outsiders i.e. INFOP instructors

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APPENDIX G

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<u>Technical Assistance</u>	<u>Location</u>	<u>For Small Business</u>	<u>For Medium Business</u>	<u>Status/Comments</u>
IDII	Tegucigalpa Other	Minimal	Refer to others	Call on board members. and other contacts to find this assistance
Peace Corps	Various	Various	Various	Volunteers with training and experience in various engineering disciplines
Rivera y Asociados	Tegucigalpa		Various	Consulting Engineers
COHDEFOR	Various	Sawmilling & wood quality grading	Sawmilling & wood quality grading	Technicians in extension service
CONRAD	Tegucigalpa		Various	Testing lab & technical consulting
CDI	Tegucigalpa Other	Rural Technologies Project		Production techniques, 3 engineers
INFOP	Tegucigalpa Sn Pedro Sula		Various	Special cases
<u>MANAGEMENT TRAINING</u>				
INCAE	Tegucigalpa Sn Pedro Sula	(in future)	General	Sophisticated case study system. Regional project to develop materials for small business management training started late 1982 in Panama and Nicaragua.
INFOP	Tegucigalpa Sn Pedro Sula	General formative	General formative	Training materials not well adapted to small business.

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Technical Assistance	Location	For Small Business	For Medium Business	Status/Comments
FENCIL	Talanga Various other	Coops & Other	Coops	Coop management; some general training for workshop management.
IPC	Tegucigalpa Various others	Coops	Coops	Coop management training
Camara de Comercio Tegucigalpa	Tegucigalpa	Not specifically	Informative	Seminars, short courses and conferences
Camara de Comercio Cortés	Sn Pedro Sula	Not specifically	Informative	Seminars; conferences and short courses.
Ejecutivos Modernos	Sn Pedro Sula	Not specifically	Informative	15 hr. & 2 day courses given by contracted instructors
UNAH-School of Business & Economics	Tegucigalpa Sn Pedro Sula		Licenciatura	Formal degree
USPS	Sn Pedro Sula	Short courses	Licenciatura Short courses	Formal degree and non-formal educational courses
UJCV	Tegucigalpa		Licenciatura	Formal degree
GEMAH			Informative	Courses taught by members or contracted
Dale Carnegie	Tegucigalpa Sn Pedro Sula		Formative	Motivational & technical
Fortin Lagon y Asoc.	Tegucigalpa		Financial, accounting	Short courses
Mendieta y Asoc.	Tegucigalpa		Financial, accounting	Short courses

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Information	Location	For Small Business	For Medium Business	Status/Comments
LEGAL				
ANDI	Tegucigalpa	no	yes	Registration, classification
FENCIL	Tegucigalpa Sn Pedro Sula Other	Cooperatives	Cooperatives	Courses, Materials
IFC	Tegucigalpa Sn Pedro Sula Other	Cooperatives	Cooperatives	Courses, materials
Honduran/American Chamber of Commerce	Tegucigalpa	Minimal	Yes	Investment, Import-Export
IDH	Tegucigalpa Other	Yes	some	Individually and in group
GOH	Various	Various	Various	Ministries, Central Bank, etc.
TECHNICAL				
Camaras	Tegucigalpa Sn Pedro Sula La Ceiba		Bulletins, Newsletter Library	General materials are not well adapted to small business application.
ANDI	Tegucigalpa		Library	
CDI	Nationally	Bulletins		Rural technologies artesanía
CII RANTRAL & PRODIAT	Tegucigalpa Supposed to serve Nationally		Prefeasibility studies general Prefeasibility studies	Are supposed to be open to assisting smaller business but in fact claim they do not have the manpower to do it

Information	Location	For Small Business	For Medium Business	Status/Comments
GENERAL (Market, Economic, Management)				
Camaras	Various		Bulletins, library, Directories	
ANDI	Tegucigalpa		Library	
GEMAH	Sn Pedro Sula		Library, Bulletins	
Central Bank	Tegucigalpa Sn Pedro Sula	Economic statistics	Economic Statistics	
UNAH	Tegucigalpa Sn Pedro Sula La Ceiba	Studies	Library, Studies	CET has done several sector studies
USPS	Sn Pedro Sula	Library	Library	In process for developing materials for SSE management
UJCV	Tegucigalpa		Library	
ASEPADE	Tegucigalpa	Library, Bulletins		Orientation towards cooperative activities
INCAE	Tegucigalpa		Materials/Studies	Extensive libraries in Managua and San José
COHEP	Tegucigapa		Library	
IIAM-CHAM	Tegucigalpa		Library	

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LIST OF PERSONS INTERVIEWED

USAID/HONDURAS

Eric Zallman, PCR
Raymund Baum, PCR
Ramón Medina Luna, Consultant, PCR
Marcia Bernbaum, HRD/E

INFOP

Armando Castro Sierra, Director of Operations
Armando Enamorado B., Chief of Formation in Enterprises Division
Humberto Chinchilla, SME Advisor

CDI

Leony YuWay, Assistant Manager PTR
Rolando Pinzón, Technical Advisor
Pepe Herrero, Project Evaluator

FEHCIL

Gabriel Echeverría, General Manager
María Rubio, Chief of Education Department
Alvaro Murillo, Chief of Projects Department
Leticia Banegas, Chief of Finance and Commercialization
Kristine Curry, PCV Advisor

IDH

Oscar Chicas, Executive Director

ANMPI

Juan Rafael Cruz López, President
Ariel Espinal Berrios, Vice-President
René Raudales G., Secretary
Juan Ferrera Bonilla, Member
Ramón Aguilar Medina, Member
Bertino Bruni, Member
Roberto Mauricio Escobar, Member
Santos Nazario Flores, Member
Napoleón Pineda Lupiac, Member
Hanna Rochana, Member
Doroteo Montero, Member

Tegucigalpa Chamber of Commerce

Emilio Larach, President
Saúl Carrasco, General Manager

Cortes Chamber of Commerce

Mario Belot, President
Roberto Altamirano, Manager

GEMAH

Teófilo Castillo, President
Eduardo Kattán, Vice President
Aldo Lacayo Pasos, Manager
Alejandro Carrión, Member
Roberto Midence, Member

CIIBANTRAL - PROHDAI

Ricardo Freije Mejía, Director
Various staff

Group of Modern Executives.(GEM) & M.A. Reyes & Associates

M.A. Reyes

UNAH - Faculty of Economics & Business Administration - Center for Studies
and Work

Nery Chinchilla
Ramón Valladares
Leony YuWay

USPS

Jane Lagos de Martel
Joaquín Fernández
Roberto Perez Santiesteban

ASEPADE

Juan Ramón Martínez

IESC

Charles Rowley, Country Director

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Fortín, Lagos y Asociados

Nery Chinchilla

Mendieta y Asociados

Marco A. Mendieta

Morales, Palao, Williams y Asociados

David Osar Palao
Roberto Morales Alegria

Rivera y Asociados

Marcel Rivera, Director General

INCAE

Cesar A. González, Executive Secretary
Pablo Arturo Durón, Director of Executive Programs
Carlos René Lagos, Associated Professor
J. Fernando Marquez, Associate Investigator

R&D Technical Corporation

Benjamin Villanueva, President

U.S. Peace Corps

Alex Corpeno

Other Private Businessmen

Adolfo J. Facussé
Henry L. Bahr
Ramón Matta
Mario Araujo
Nicolas Chahín
Carlos Chahín
E. Handal F.
Miguel Bendeck
Lionel Bendeck
Hector Guillermo Guillén

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