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for Enterprise Support

Honduras
A Small and Micro Enterprise Development Strategy

Volume II Appendices

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APPENDIX A

APPENDIX A. FINANCIAL AND ECONOMIC ANALYSES OF SELECTED FIRMS

Introduction

This appendix contains a financial and economic analysis of selected small and medium-sized enterprises in the industrial and commercial sectors. The main purposes of this investigation are to: (1) assess the financial status of selected firms in these sectors; and (2) estimate the economic impact of investments made by these types of firms. To this end, the research team conducted a financial and economic analysis of a group of five firms that have requested, and obtained, loans from Financiera Industrial y Agropecuaria (FIA). Four of these firms produce industrial products and the fifth retails goods manufactured by small shoemakers. These firms represent traditional beneficiaries of programs to promote the development of small and medium-scale enterprises. In addition to these firms, however, the research team has collected financial information for a group of five firms in the commercial sector, generally considered to be outside the focus of technical and financial assistance provided by development programs. None of the small firms included in this second group has received loans from an established financial institution.

Firms that Have Received Loans

Antecedents

The group of five companies that have obtained financing from FIA have been selected for analysis because they were the first ones to receive financing from this entity and have more complete information records. These firms are:

Comercial Erika

This company started as a small carpentry shop in the city of San Pedro Sula in 1980, producing custom-made furniture made of precious woods. Its sales grew rapidly,

motivating its owners to move the workshop to Tegucigalpa in 1983. The growing firm established strong commercial links with domestic wholesalers in the principal cities of Honduras and opened its own retail outlet in the capital city. In 1985, Comercial Erika obtained a loan from FIA to purchase machinery, land, and materials to construct a new plant and for working capital.

Guantesa

Formed in San Pedro Sula in 1980, this firm produces industrial gloves and boots, utilizing domestically produced leather and manmade materials. In 1985, the company obtained a loan from FIA to acquire the machinery and operating capital needed for the production of soccer balls and shoes.

Madetex

This company was formed in 1984 to produce furniture, renting the facilities and machinery of another firm. Madetex obtained financing from FIA to purchase complementary machinery and working capital. Most of its production was to be exported to the U.S. market, where the company has established stable linkages with importers and distributors.

Fibra Plast

Even though this company was formed in 1981, it began to operate in 1984 in an experimental form. In 1985, once it developed a reliable production method, it obtained financial support from FIA to set up its plant, purchase machinery and equipment, and obtain the necessary working capital.

La Fraternidad

This company is a cooperative organization established in 1973. It groups 236 members who produce shoes in several cities and villages of the country. Most members operate small workshops and employ from five to six assistants and apprentices. In 1985, the company obtained a loan from FIA to open its own retail outlet in the Las Americas market of Tegucigalpa, establishing an alternative marketing channel for the production of its members.

Analytical Method

To perform financial analyses and economic impact assessments for each one of the above firms, the research team utilized both FIA evaluation reports, before the loans were granted, and financial information submitted by each firm to

FIA after the loans were provided (see Tables 1-5). Based on this information, a five-year financial projection was made for each firm, consisting of summary balance sheets, income statements, and cash flows. In all cases, financial projections made before disbursement of loans have been adjusted with data obtained during project implementation. For every firm, it has been assumed that assets are liquidated at the end of the fifth year, at prices equal to their initial value minus their accumulated depreciation. Loan terms for each firm vary, ranging from 24 to 33 months for operating capital and 24 to 54 months for investment in fixed assets. Interest rates for both working capital and investment in fixed assets equal 21 percent. Sales revenues have been projected assuming a 12 percent annual growth rate, which accounts for both inflation and increased sales volumes. Operating costs have been estimated to grow as a fixed percentage of sales revenues.

Financial Internal Rates of Return (IRRs) were obtained by equating the stream of net income flows to the initial cost of investment. Economic IRRs were estimated by adjusting each company's net income flows to account for the economic prices of labor and foreign exchange. The economic or shadow price of labor was obtained by assuming that, without investment, 15 percent of the new hires would have been unemployed; hence, 15 percent of the wage bill paid to the newly hired employees was included as an additional revenue. To measure the shadow price of foreign exchange, 25 percent of foreign exchange earnings corresponding to exports -- or import substitution -- have been added to and 25 percent of foreign exchange disbursements corresponding to raw materials imports have been deducted from revenue streams of each company.

Principal Results and Observations

Tables 6 and 7 present the main results of this analysis, showing the incremental employment induced by the new investments, the share of output sold in foreign markets, the share of inputs purchased abroad, and the financial and economic IRRs. As can be observed in Table 6, the financial and economic internal rates of return for each firm are very attractive, when compared to the opportunity cost of financial resources in the country (approximately 20 percent). This demonstrates the financial viability and importance to the economy of funds channeled for investment by the small and medium-sized companies under analysis. Table 7 provides information about the incremental investment in each firm (including FIA loans and equity contribution), the amounts paid by each firm as wages to newly hired employees, the cost of creating each new job (found by dividing the incremental investment between the number of newly hired employees), the

Table 1. Comercial Erika: Financial and Economic Analysis

	Before the new loan	Incremental investment	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
A. BALANCE SHEET								
Assets								
Current Assets	100	18	118	187	234	293	349	689
Noncurrent Assets	110	54	164	158	152	146	149	
Total Assets	210	72	282	345	386	439	489	689
Liabilities								
Current liabilities	3		3	12	17	24	24	
Noncurrent Liabilities	22	55	77	65	48	24		
Equity	185	17	202	202	202	202	202	202
Retained Earnings				66	119	189	263	487
Total Liabilities and Equity	210	72	282	345	386	439	489	689
B. INCOME STATEMENT								
Sales				251	302	375	420	604
Cost of Sales				131	178	244	273	305
Gross Profits				120	124	131	147	299
Other Costs				49	56	48	63	70
Financial Costs				5	15	13	10	5
Net Income				66	53	70	74	224
C. CASH FLOW								
Net Income				66	53	70	74	224
Plus Depreciation				6	6	6	6	6
Less Incremental Investment	-210	-72						
Net Cash Flow	-210	-72		72	59	76	80	230
IRR (1):	0.12							
IRR (2):	0.62							

Continued

Table 1 continued

	Before the new loan	Incremental investment	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
D. FINANCIAL RATIOS								
a. Return on Sales (Net Income/Revenues)				0.26	0.18	0.19	0.18	0.37
b. Return on Equtiy (Net Income/Equity)				0.33	0.26	0.35	0.37	1.11
c. Return on Assets (Net Income/Assets)				0.19	0.14	0.16	0.15	0.33
d. Total Liabilities/Total Equity				0.38	0.32	0.24	0.12	0.00
e. Total Liabilities/Total Assets				0.22	0.17	0.11	0.05	0.00
f. Current Assets/Current Liabilities			15.58	13.76	12.21	14.54	ERR	

Table 2. Guantesa: Financial and Economic Analysis

	Before the new loan	Incremental investment	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
A. BALANCE SHEET								
Assets								
Current Assets	60	25	85	210	439	604	1,032	1,873
Noncurrent Assets	65	50	115	104	93	82	71	
Total Assets	125	75	200	314	532	786	1,103	1,873
Liabilities								
Current Liabilities	50		50	25	25			
Noncurrent Liabilities		50	50	25				
Equity	75	25	100	100	100	100	100	100
Retained Earnings				164	407	686	1,003	1,773
Total Liabilities and Equity	125	75	200	314	532	786	1,103	1,873
B. INCOME STATEMENT								
Sales				450	676	757	847	1,009
Cost of Sales				202	304	340	381	227
Gross Profits				248	372	417	466	782
Other Costs				79	119	133	149	12
Financial Costs				5	10	5		
Net Income				164	143	279	317	770
C. CASH FLOW								
Net Income				164	243	279	317	770
Plus Depreciation				11	11	11	11	11
Less Incremental Investment	-124	-17						
Net Cash Flow	-125	-75						
IRR (1):	0.57							
IRR (2):	1.30							

Continued

Table 2 continued

	Before the new loan	Incremental investment	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
D. FINANCIAL RATIOS								
a. Return on Sales (Net Income/Revenues)				0.36	0.36	0.37	0.37	0.76
b. Return on Equity (Net Income/Equity)				1.64	2.43	2.79	3.17	7.70
c. Return on Assets (Net Income/Assets)				0.52	0.46	0.35	0.29	0.41
d. Total Liabilities/Total Equity				0.50	0.25	0.00	0.00	0.00
e. Total Liabilities/Total Assets				0.16	0.05	0.00	0.00	0.00

Table 3. Madetex: Financial and Economic Analysis

	Before the new loan	Incremental investment	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
A. BALANCE SHEET								
Assets								
Current Assets	196	224	420	265	332	419	603	962
Noncurrent Assets	20	90	110	103	96	89	82	
Total Assets	216	314	530	368	428	508	685	962
Liabilities								
Current Liabilities	36	100	136	66	66	16	16	17
Noncurrent Liabilities		181	181	115	49	33	17	
Equity	180	33	213	213	213	213	213	213
Retained Earnings				-26	100	246	439	732
Total Liabilities and Equity	216	314	530	368	428	508	685	962
B. INCOME STATEMENT								
Sales				698	783	878	983	1,175
Cost of Sales				572	507	567	635	711
Gross Profits				126	276	311	348	464
Other Costs				121	106	118	132	148
Financial Costs				31	44	47	23	23
Net Income				-26	126	146	193	293
C. CASH FLOW								
Net Income				-26	126	146	193	293
Plus Depreciation				7	7	7	7	7
Less Incremental Investment	-216	-181						
Net Cash Flow	-216	-181		-19	133	153	200	300
IRR (1):	0.13							
IRR (2):	0.35							

Continued

Table 3 continued

	Before the new loan	Incremental investment	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
D. FINANCIAL RATIOS								
a. Return on Sales (Net Income/Revenues)				-0.04	0.16	0.17	0.20	0.25
b. Return on Equity (Net Income/Equity)				-0.12	0.59	0.69	0.91	1.38
c. Return on Assets (Net Income/Assets)				-0.07	0.29	0.29	0.28	0.30
d. Total Liabilities/Total Equity				0.85	0.54	0.23	0.15	0.08
e. Total Liabilities/Total Assets				0.49	0.27	0.10	0.05	0.02
f. Current Assets/Current Liabilities				4.02	5.93	26.19	37.69	56.59

Table 4. FIBRA PLAS: Financial and Economic Analysis

	Before the new loan	Incremental investment	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
A. BALANCE SHEET								
Assets								
Current Assets	38	15	53	93	130	165	206	443
Noncurrent Assets	138	30	168	159	142	125	108	
Total Assets	176	45	221	252	272	290	314	443
Liabilities								
Current Liabilities	7		7	15	15	15		
Noncurrent Liabilities	15	30	45	30	15			
Equity	154	15	169	169	169	169	169	169
Retained Earnings				38	73	106	145	274
Total Liabilities and Equity	176	45	221	252	272	290	314	443
B. INCOME STATEMENT								
Sales				137	151	176	182	292
Cost of Sales				59	73	88	85	106
Gross Profits				78	78	88	97	186
Other Costs				34	38	51	56	55
Financial Costs				6	5	4	2	2
Net Income				38	35	33	39	129
C. CASH FLOW								
Net Income				38	35	33	39	129
Plus Depreciation				9	17	17	17	11
Less Incremental Investment	-176	-45						
Net Cash Flow	-176	-45		47	52	50	56	140
IRR (1):	0.09							
IRR (2):	0.67							

Continued

Table 4 continued

	Before the new loan	Incremental investment	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
D. FINANCIAL RATIOS								
a. Return on Sales (Net Income/Revenues)				0.28	0.23	0.19	0.21	0.44
b. Return on Equity (Net Income/Equity)				0.22	0.21	0.20	0.23	0.76
c. Return on Assets (Net Income/Assets)				0.15	0.13	0.11	0.12	0.29
d. Total Liabilities/Total Equity				0.27	0.18	0.09	0.00	0.00
e. Total Liabilities/Total Assets				0.18	0.11	0.05	0.00	0.00
f. Current Assets/Current Liabilities				6.20	8.67	11.00	ERR	ERR

Table 5. La Fraternidad: Financial and Economic Analysis

	Before the new loan	Incremental investment	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
A. BALANCE SHEET								
Assets								
Current Assets		25	25	35.5	48	64.5	90	118
Noncurrent Assets		5	5	4.5	4	3.5	3	
Total Assets		30	30	40	52	68	93	118
Liabilities								
Current Liabilities				6	6	6	7	
Noncurrent Liabilities		25	25	19	13	7		
Equity		5	5	5	5	5	5	5
Retained Earnings				10	28	50	81	113
Total Liabilities and Equity		30	30	40	52	68	93	118
B. INCOME STATEMENT								
Sales				136	182	229	271	271
Cost of Sales				114	152	193	227	227
Gross Profits				22	30	36	44	44
Other Costs				7	8	11	12	12
Financial Costs				5	4	3	1	
Net Income				10	18	22	31	32
C. CASH FLOW								
Net Income				10	18	22	31	32
Plus Depreciation				0.5	0.5	0.5	0.5	0.5
Less Incremental Investment		-30						
Net Cash Flow		-30		10.5	18.5	22.5	31.5	32.5
IRR (1):	0.38							
IRR (2):	0.38							

Continued

Table 5 continued

	Before the new loan	Incremental investment	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
D. FINANCIAL RATIOS								
a. Return on Sales (Net Income/Revenues)				0.07	0.10	0.10	0.11	0.12
b. Return on Equity (Net Income/Equtiy)				2.00	3.60	4.40	6.20	6.40
c. Return on Assets (Net Income/Assets)				0.25	0.35	0.32	0.33	0.27
d. Total Liabilities/Total Equity				5.00	3.80	2.60	1.40	0.00
e. Total Liabilities/Total Assets				0.63	0.37	0.19	0.08	0.00

Table 6. Firms that Have Received Financing from FIA: Principal Results of Financial and Economic Analysis[a]

Name of firm	No. of persons employed		Exports	Imports	IRR %	
	Before	After	(% of sales)	(% of costs)	Fin.	Econ.
Commercial Erika	14	6	--	--[b]	62	70
Guantesa	22	18	50[c]	--	1.30	1.63
Madetex	49	58[d]	60	25	35	63
Fibra Plast	--	6	25[c]	--	67	79
La Fraternidad	--	3[e]	--	--	38	38

a. The projections for each one of the firms are shown in Tables 1 through 5.
b. Data are not available concerning the importation of pneumatics for soccer balls produced by the company.
c. Refers to import substitution.
d. An inconsistency exists between FIA evaluation documents and financial information presented by the firm.
e. Includes only the new jobs created at the retail level.

Table 7. Firms that Have Received Financing from FIA: Economic Impact Indicators

Name of firm	Increm. invest (L.000)	New employm. yr. wage bill (L.000)	Cost of new empl. (L./Job)	Foreign exchange earn. (L.000)	Added value (% of sales)
Comercial Erika	72	75	17,000	--	46
Guantesa	75	148	4,166	338	48
Madetex	314	15	26,166	469	29
Fibra Plas	45	63	7,500	38	62
La Fraternidad	30	4	10,000	--	n.a.

foreign exchange earned for exports, and each company's added value.

It can be observed that there is a wide range of variation between firms with respect to both financial position and economic impact. For example, from a financial and economic viewpoint, Guantesa is by far the most appealing investment, mainly because of its labor-intensive production techniques, the use of predominantly local raw materials, and the existence of a captive domestic market which is presently satisfied with imported products. This company exhibits the lowest investment for each new employment position created (L4,166) and the highest financial and economic internal rates of return (1.30 and 1.63, respectively). It also has the highest return-on-equity ratio (1.61:1 in year 1 and 7.70:1 in year 5). Madetex shows the highest investment costs for each new employment position established (L26,166). However, even though the financial IRR for this firm is smaller than the one corresponding to La Fraternidad (0.35 versus 0.38), its economic IRR is much larger (0.63 versus 0.38), as a consequence of Madetex's foreign exchange earnings.

It should be borne in mind that the above analysis is of an illustrative nature to provide an indication of the types of financial and economic returns that can be obtained from investment in the small and medium-sized business sector. It should be taken into account, however, that the firms analyzed -- precisely because they have all obtained financing from FIA -- are likely to be part of those companies in the small and medium-sized business sector that show relatively higher IRRs for investment. It is possible to infer that given the size of this sector there is a large number of firms that could undertake investment projects with equally high or lower (but still profitable) IRRS, which have not yet received outside financial support. Furthermore, it is necessary to point out that the research team has not attempted to carry out a definitive financial or economic analysis for any one of the five FIA firms indicated above. This would have required additional work to harmonize FIA's evaluation reports and the financial information provided by each firm and to collect data not presently available.

Firms that Have Not Received Outside Financial Assistance

Antecedents

To complement the previous analysis, the research team studied financial information corresponding to selected small and medium-scale firms in the commercial sector, four of which

presently operate in the city of San Pedro Sula and one in Tegucigalpa[1]. Because these firms have been traditionally considered outside the scope of development programs, none of them has yet applied for loans in established financial sources nor has elaborated feasibility studies to justify new investments. Hence, at present it is not possible to obtain IRR estimates for new investments by these firms. These firms are:

Seafood Market Stall

This is a family-owned business involved in seafood retailing. It is located in El Rapido market and occupies a selling area of eight square meters. It sells predominantly curiles, turtle eggs, and fresh and dried fish.

Vegetable Market Stall

This firm is a family-owned business dedicated to the retailing of fresh vegetables (including tomatoes, potatoes, peppers, onions, lettuce, and cabbage), garlic, spices, and beverages. It occupies an eight square meter stall in El Rapido market. This business, together with the preceding one, are representative of approximately 3,000 similar ones operating in the retailing of foodstuffs in municipal markets throughout Honduras.

Neighborhood Store

This is a business in the Las Palmas area of San Pedro Sula. It has a storage and sales area of 30 square meters. It has no paid employees inasmuch as it is attended exclusively by family members. It operates from 6:00 a.m. to 9:00 p.m. six days a week. It is representative of some 1,450 similar small businesses in San Pedro Sula and approximately 6,000 in the entire country.

Mobile Vendor

This is a uni-personal business corresponding to an individual having established a trade route in the Concepcion

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1. Data for the firms in San Pedro Sula was extracted from Esqueli, S. A., Diagnostico en Mercadeo Agropecuario, presented to USAID/Honduras, Tegucigalpa, October 1986.

and Las Palmas suburbs of San Pedro Sula. It is involved in the retailing of all kinds of fresh vegetables, utilizing a rented four-wheeled wooden cart, commonly referred to as a troco.

CADEHSA

This acronym stands for Cadena de Detallistas de Honduras, the only existing retail-owned chain in Honduras. It is located in Tegucigalpa and, according to its sales volume and value of assets, it is a large firm. However, it is included in this analysis inasmuch as it is a company owned by predominantly small-scale neighborhood store retailers. It has approximately 230 active members-shareholders. The company wholesales some 1,500 products to its retain members at prices that are between 5 and 15 percent lower than in competitive outlets.

Analytical Method

Financial information for each firm was collected by the research team. This information consisted of balance sheets, income statements, and financial ratios. Figures for the first four companies correspond to calendar year 1985, while those of CADEHSA correspond to 1984.

Principal Results and Observations

As is presented in Table 8, there is a wide range of variation in the financial status of the different firms. The highest return-on-sales are obtained by the mobile vendor (0.24:1), while the lowest corresponds to CADEHSA (0.02:1). It has to be taken into account, however, that the low return of this latter organization results from its explicit purpose to transfer trade benefits to members. Returns-on-equity are very high for the seafood stall operator and the mobile vendor, as a consequence of the very low levels of investment in their businesses. All firms have healthy liquidity ratios, ranging from 4.80:1 for CADEHSA to 159.70:1 for the vegetable stall operator (disregarding the mobile vendor which reported no liabilities).

This brief analysis provides an indication of the level of business handled by small commercial operators in the traditional Honduran marketing system, which has been estimated by the research team at L400 million per year in San Pedro Sula alone. It also shows that there exists financially viable businesses in this sector, which can offer attractive investment opportunities.

Table 8. Firms That Have Not Received Outside Financial Assistance

Concept	Seafood stall operator	Vegetable stall operator	Neighborhood store (Pulperia)	Mobile vegetable vendor	Cadehsa
A. BALANCE SHEET					
Assets					
Current Assets	2,113	3,194	15,100	230	527
Accounts Receivable	10,971		900	4,000	15
Noncurrent Assets	8,000	33,428	6,300	4,135	246
Total Assets	21,084	36,622	22,300	8,365	788
Liabilities					
Current Liabilities	960	20	1,875		113
Noncurrent Liabilities					83
Equity	500	4,000	7,000	240	134
Retained Earnings	19,624	32,602	13,425	8,125	458
Total Liabilities and Equity	21,084	36,622	22,300	8,365	788
B. INCOME STATEMENT					
Sales	109,876	85,045	144,649	33,689	2,510
Costs of Sales	78,166	62,248	122,952	20,403	2,347
Gross Profits	31,710	22,797	21,697	13,286	163
Other Costs	11,125	14,606	8,090	5,161	112
Net Income Before Taxes	20,585	8,191	13,607	8,125	51
Taxes	960	20	375	103	8
Net Income After Taxes	19,625	8,171	13,232	8,022	43
C. FINANCIAL RATIOS					
a. Return on Sales (Net Income/Revenues)	0.18	0.10	0.09	0.24	0.02
b. Return on Equity (Net Income/Equity)	39.25	2.04	1.89	33.43	0.32
c. Return on Assets (Net Income Assets)	0.93	0.22	0.59	0.96	0.05
d. Total Liabilities/Total Equity	1.92	0.01	0.27	0.00	0.84
e. Total Liabilities/Total Assets	0.05	.00	0.08	0.00	0.14
f. Current Assets/Current Liabilities	13.63	159.70	8.53	ERR	4.80

Final Commentary

The previous analyses permit to formulate several comments. First, with respect to financial and economic viability of investments in the small business sector, there is a wide range of variation depending on the specific type of industry, firm's size and location, and market being served. However, based on the information collected for the group of five FIA loan beneficiaries, investments in all these small firms show attractive financial rates of return, ranging from 35 to 130 percent. From an economic viewpoint, investments in these firms are even higher for IRRs go from 38 to 163 percent. Moreover, these investments exhibit a positive impact upon the level of employment and relatively low costs per job created (which range from L4,166 to L26,166).

Second, the analyses conducted support the finding that development assistance for the small business sector is geared mostly to firms in the urban industrial sector and consists predominantly of credit. Because of this, businesses in the commerce and service sectors, which are considered to represent the majority of small firms in Honduras, are presently excluded from such assistance.

Third, considering the information provided by FIA with respect to each one of its loan recipients, a system for the evaluation of investments in the small business sector has not yet been completely established. Specifically, IRRs are not being calculated to rank alternative investments; financial information and feasibility studies presented by loan applicants are not standardized; and, based on projections made before the loans were granted, there is not a mechanism to monitor each firm's performance.

APPENDIX B

APPENDIX B. INSTITUTIONAL CASE STUDIES AND MATRIX ANALYSIS

This appendix consists of case study summaries and a matrix analysis of 19 institutions and programs currently active in supporting small-scale enterprise development in Honduras. The institutions fall into three broad categories: implementing institutions (nine), training and technical assistance agencies (six), and "second-story" organizations (four).

In order to obtain a representative sample, nine implementing institutions were selected for their client group (i.e., the location, the type, the size, and the market orientation of the enterprises supported); their attitude toward female entrepreneurs; and their credit and training program components. The amount of information available, the maturity of the organization, and current or potential funding from USAID were also considerations[1] (Table 1).

The implementing institutions in this review are ANMPI, ASEPADE, CADEHSA, FEHCIL, FUNADEH, IDH, IDC/PTR (program), OEF, and Partners. For each institution, eight areas of organizational effectiveness in SME support were covered to provide analytical consistency. The areas are: coverage, organizational objectives, methodology and operating procedures, managerial and administrative capacity, cost efficiency/cost effectiveness, level of self-sufficiency, constraints, and capacity to expand (Table 2).

Six technical assistance and training agencies were selected for this review based on USAID interest, team interest, and the Agency's actual or potential support of SMEs or

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1. A maturity level of five-plus years was dropped as an exclusive criterion. It became the basis for comparing older and more newly established organizations as institutions were selected for study.

Table 1. Institutional Selection Criteria

	CDI/PTR	ANMPI	CADEHSA	FEHCIL	ASEPADE	IDH	Partners	FUNADEH	OEF
INCLUSIVE CRITERIA:									
Client Base:									
Location:									
Rural	X					X	X		X
Urban		X	X	X	X			X	
Exercise Category:									
Industry	X	X		X	X	X		X	X
Agro-industry	X					X	X		X
Service			X						
Commerce			X						
Sizes:									
Medium		X	X						
Small	X	X	X	X		X	X	X	
Micro					X		X	X	X
Co-ops				X				X	
Market Orientation:									
Domestic	X	X	X	X	X	X	X	X	X
Export Interest									
Gender:									
Mixed	X	X	X	X	X	X	X	X	
Women's Focus									X
Program Base:									
Credit	X	X	X		X	X		X	X
TA/Training	X	X		X	X	X	X	X	X
Other		X	X	X					
EXCLUSIVE CRITERIA:									
Information Available:		X	X		X	X	X	X	
Evaluation								X	
Review	X								
Special Study		X	X	X	X	X	X	X	X
Maturity of Organizations 5+ years:	X	X	X(2)	X	X	X	X	X(2)	
USAID Relations:	X	X	X	X	X	X	X	X	X
Currently works with (SBD or FOPRIDEH) potential USAID client			X						
OPG Funded					X	X		X	

Table 2. Characteristics of Implementing Institutions

	ASEPADE 2-3	IDH 2	FUNADEH 1	OEF 1	CDI/PTR 3-PPM -1-SSE	FEMCIL 2	CADESSA 1	AMHPI 1	Partners 1-2
Coverage									
1. Location:	5 cities	10 deptos	SPS-100 mi	Yoro, Cortes	6 regions	13 depotos	95% Comayaguela	11 dept. TEG/SPS	51 communities
Urban	100%	190 (proj.)	100%	--	--	70%	Yes	100% focus	0
Rural	--	290 (proj.)	--	--	100%	30%	No	--	100%
Regional	Yes	East Central	SPS	--	--	--	No	Yes	6 regions
National	No	Yes	--	--	--	--	--	--	--
2. Size of Firm:	(2,680)	480(365)	230(12/86)	9 business	54 SSE	47 pre & coops	230	500	900 small holder
Micro	100%	100%	70-80%	--	40% micro	--	No	1%	--
Small	--	--	20-30%	--	60% agro-ind.	--	70%	48%	No
Medium	--	--	--	--	--	--	26	51%	No
3. Gender:	--	--	--	--	--	--	4% large	--	--
Men	40%	75%	65%	--	--	70% of groups	50%	90%	Small holder 95%
Women	60%	22%	35%	100%	7% micro	30%	50%	10%	Micro prod: 35%
4. Type of Enterprise:	--	--	--	--	3%	21%	--	--	No
Service	70%	5%	--	--	--	--	100%	--	Yes
Commerce	--	8%	100	33%	37%	73%	--	100%	Yes
Industry	(20-30)	33%	--	--	--	--	--	--	Yes
Artisanary	--	--	--	--	--	--	--	--	--
Agro-industrial/agriculture	-0-	5%/49%	--	1,190/5,590	60% Agro/ind	6%	--	--	Yes
Objectives:	2-3	2	2-3	2	2	1	1	2-3	--
1. Employment generation	Yes	Yes	Yes-focus	--	Yes	--	No	Yes	No
2. Employment maintenance	Yes	Yes	Yes	Focus	Yes	--	No	Yes	Yes
3. Increase number of firms	No	No	No	--	Yes	Focus (co-ops)	No	No	Yes
4. Improve Health of Firm	Yes	Yes	Yes-Focus	Focus	Yes	(Co-ops)	Yes	Yes	Yes
5. Savings mobilization	Yes	No	No	--	No	--	No	Yes	Yes
6. Domestic market production	Domestic	Domestic	Domestic	Domestic	Domestic	Domestic	Domestic	Domestic	Domestic
7. Export market production	--	--	--	--	Export	--	--	--	--
Appropriate Methodology/ Operating Principles	2	2	3	1	1	1	0-1	2 (3 mon. exp)	Current small
1. Credit	3,200	196	230	9 business	54 SSE	11 co-ops in 86	Commodity credit	24	Farm supply
- Selection of beneficiary	Yes	Yes	Yes	Yes	No	Yes	Members	Yes	Credit fund
- Outreach promotion	No	No	Yes	No	No	No	No	Low	No SME
- Agile loan application/Review process	Yess-2 weeks	1-2 months	7 weeks	4 months	N/A	3 weeks	Yes	3 days	Credit fund
- Flexible loan terms	Yes	Yes	Yes	12-15 months	N/A	--	Yes	Yes	
- Commercial interest rates	2% month	16+3-19%	17%	16%	16%	12% or 15% (19%)	No	12-18%	
- Loan collection	29%-26%-17%	29% mora	2-3%	11% mora	20%	30% mora	0%	0% mora	
- Savings mobilization	Yes	No	No	No	No	No	No	Yes	
- Lender margins	2% month	18%+	17%	Yes	12% (Bank) 6.5%	13%	No	6-12%	
- Rediscounting and guaranteed schemes	No	No	No	No	No	No	No	No	
2. Training and Technical Assistance	1-2 partial	100 T.A. 1-70% T.R.	2 male 62% for	3 men 156 women	2 54 T.A.	2 864 members	0-0	1 55 members	
- Tailored to Beneficiary needs	Yes	Minimal	Yes	Yes+	T.A.-yes	Yes	--	Yes	Yes
- Builds on existing knowledge of Enterprise	Yes	No	Yes	Yes+	?	Yes (co-op mod)	--	Yes	Yes
- Emphasizes group sessions	Yes	No	Yes	Yes	No	Yes	--	Yes	Yes
- Differentiates skills (Technical management)	Yes	Yes/INFOP	Yes	Yes	Yes	Yes	--	N.A.	Yes
- Provided paralell to credit	During	During	During	Yes (before)	Yes	Sometimes	--	No link	AG:Yes; Some:No
- Charges fees	No	No	No	No	No	No	--	No	No
- Networking Beneficiary	No	No	No	Yes+	No	No	--	No	--
Management/Administration	2	1(Small)	2+	2	1	0-1	2-3	1 recently in effect	2
- Descentralized	Yes	No	Somewhat	No	No	No	No	No	No
- Low staff turn over	Low	Low	Yes	Yes	No, High	Yes	Yes	Yes	Yes
- Experienced en business	No	No	Yes	Yes	Yes	No	Excellent	Yes	No

Continued

Table 2 continued

	ASEPADE 2-3	IDH 1	FUNADEH 1	OEP 1	CDI/PTR 3-PPM -1-SSE	FENCIL 2	CADERSA 1	AMRPI 1	Partners 1-2
Management/Administration cont									
- Staff training plan implemented	Yes	No	No	Yes	Partially	No	Good	No	?
- Evaluation of staff on concrete performance standards	Yes	limited	?	No	Yes	No	Yes	Yes	?
- Organizational management	Good	Fair	Excellent	Yes	Poor	Poor	Excellent	Good/entrenched	Good
- Financial Management of organization	Good	Poor	Excellent	Yes	?	?	Excellent	?	?
- Evaluation linked to planning	Yes	Poor	Yes	No	Yes	Yes	Starting	No	Yes
- Impact evaluation	Yes	Poor	Yes	No	Yes	No	No	No	Yes
Cost Efficiency/Effectiveness:	2	--	2	0-1	1-2	1	2	1	1
- Low administrative costs per program costs	Yes	Fair	Yes	Yes	No	No	Yes	No	No
- Cost per job generated	N/A	3,000	7,000	Very high	3,000-Ind.	-	N/A	N/A	?
- coordinates with other implementing organizations	No	INFOP	Yes	Yes	Yes	Yes/INF/IESC	No	Yes (INFOP)	Yes
Level of Self-Sufficiency:	1-2	--	2	0	0	2	3	1	0
- Funds generated by training	None	No	No	No	No	No beneficiaries	No	No	No
- Funds generated by credit	77.000Lps./86 Yes	Yes	Yes	Low	Yes-Minimal	Yes	No	Yes	No
- Funds generated by membership	No	No	Yes	No	No	Yes	Yes	Yes	No
- Multiple donors	5-6	Yes	Yes	AID/Ex	No-AID	Yes	No donors	Yes	No
- Independent of outside funds	Donor	Donor dependent	No	No	No	No	Yes	No	Services
Problems:	2	--	2	2	0-1	1	2	1	--
- Image	Mixed	Honest/religious	Excellent	Good	Govt.	Poor	Excellent	Good	?
- Cost	Moderate	Moderate	Moderate	High	High	High	Low	High	High
- Coverage	Good	Over extended	Low	Minimal	SSE-Low	Good	Low	Low	Low
- Management	Good	Fair	Good	Good	Poor	Poor	Excellent	O.K.	No
- Survival	Good	Good	Good	Good	dependent	Good	Excellent	Good	No
- Staff Training	Good	None	Good	Excellent	Good	Poor	Good	No problem	No SME
Capacity to Expand:	2-3	0-1	3	1	2	1	2-3	2-3	--
- Clients with current staff size/capacity	Yes	No	Yes	No	Yes	No	Yes	Yes	No
- Geographically with current staff size/capacity	No	No	Yes	No	Yes	No	Yes	No	No
- Budget with current management	Yes	No	Yes	No	Yes	No	No	Yes	Yes
- Program areas	No	No	N/A	Yes	SSE-No	No	Yes	No	No
- Requires no changes/in institutional philosophy, mandate/orientation	Yes	Yes	Yes	Yes: women	No	Yes co-op	--	Yes:S/M Industry	No

SME support institutions. The agencies are INFOP, INCAE, GEMAH, CADERH, CIDE, and IDEA. The areas of organizational effectiveness mentioned above were used -- with a more detailed focus on training and technical assistance components and methodologies. Another category was added to highlight the relevance of the various programs to the SME sector (Table 3).

Four "second-story" organizations were examined during this review. A "second-story" organization is defined as one that does not currently implement a support program directly to SMEs, or one, such as CDI, that has the potential to reach institutional rather than individual beneficiaries. Organizations in this category are ANDI/PYME, CDI, CCIC, and FOPRIDEH. The same areas of organizational effectiveness were employed, although three categories were expanded: type of organization, program components and concerns relevant to broad based institutional and SME support (Table 4).

Table 3. Characteristics: Some T.A. and Training Organization

	INFOP	GEMAH	CADERH	INCAE	CIDE	IDEA
COVERAGE:	3	0	2	0+	-	-
1. Location:	TEG., SPS, Lai Ceiba, others	SPS, TEG.	Training Inst. 6 cities	C.A./TEG.	Based coverage TEG., Student	TEGUCIGALPA
Urban	Yes	Entirely	--	Primarily	--	--
Rural	Yes	No	--	No	--	Too early
Regional	Yes	No	Yes	No	--	No
National	Nearly (1984)	No	Implicit scop N.A.	National Focus	Potential	No
2. Size of Firm:	--	--	--	--	Est. 1987: 18	Est. 1987: 30
Micro	Via PVOs	No	--	No	Too early	Too early
Small	Yes	No	--	Limited	Too early	Too early
Medium	Yes	30-40%	--	Yes	Too early	Too early
3. Gender:	--	--	--	Yes	--	--
Men	--	92% Ind. Membership	3	?	?	Too early
Women	--	8% Ind. Membership	--	?	?	Too early
4. Type of Enterprise:	Trainees:	'(Estimate)	N.A.	--	Pre-entrep.	Too early
Service	--	34%	--	Yes	Too early	Too early
Commerce	9%	36%	--	Yes	Too early	Too early
Industry	68%	30%	--	Yes	Too early	Too early
Artisanry	68%	No	--	No	Too early	Too early
Agro-Livestock	23%	--	--	No	--	--
OBJECTIVES:	2	1	1	-0- see (PYME)	--	--
1. Employment Generation	No	No	No	No	Yes	No
2. Employment Maintenance	No	No	No	No	Yes	No
3. Increase N number of Firms	No	NA	No	No	Yes	No
4. Improve health of Firm	Yes	Yes	Yes	Yes	Yes	Yes
APPROPRIATE METHODOLOGY/OPERATING PRINCIPLES	1-2	2	1	3	--	--
1. Training and Technical Assistance/Coverage						
Loan Application	No	No	Grant Application	No	0: Not begun yet	No
Feasibility/Marketing Study	Yes	Yes	Yes	Yes	Studies done	No
Direct Consulting/Diagnostic	Yes	Yes	Training Needs	Yes	?	Yes
Prod/Technical Process	Yes	No	No	No	No	No
Training: Books, Basic Management	Yes	No	No	No (PYME)	No	Yes
Training: Management/Fin./ Marketing	Yes	Yes	No	Yes	Yes	Yes

	INFOP	GEMAH	CADERH	INCAE	CIDE	IDEA
Training: Prod/Tech.	Yes	No	No	No	No	No
Training: Other	Comm., Tot	Yes	Training	Extension	?	Computers
2. Training and Technical Assistance: Methods						
Tailored to Beneficiary needs	Acc. to course	Yes	Yes	Yes	Yes (student)	Yes
Builds on existing knowledge of enterprise	Poor	Yes	Yes	Yes	Yes	Yes
Emphasis on group sessions	Yes	Yes	NA	Yes	Yes	Yes
Differenciates skills (Technical/Management)	Yes	Yes: Management focus	NA	Yes	Yes	Yes
Provide parallel to credit	No	No	No	No	No	No
Charges Fees	No	Yes	No	Yes	University fees	Yes
MANAGEMENT/ADMINISTRATION	1	3	2	?	--	--
- Descentralized	No	Highly cent.	No	Yes	No	No
- Low staff turnover	No	Yes	Unknown	?	?	Yes
- Experienced in business	Low	Yes	Yes	?	Yes	Yes
- Staff training plan implemented	Yes	Yes	?	?	Too early	Too early
- Evaluation of staff on concrete performance standards	Yes	Yes	No	?	Too early	--
- Organizational management	?	Good	Good	Good	Too early	--
- Financial management of organization	?	Good	?	Good	Too early	--
- Evaluations linked to planning	Yes	Yes	Yes	Yes	Too early	--
- Impact evaluation (beneficiaries)	No	?	Yes	?	Too early	--
COST EFFICIENCY/EFFECTIVENESS	1	1	1	2	--	--
- Low administrative costs per program costs	No	No	No	No	?	Yes
- Cost per job generated	NA	?	NA	NA	Too early	NA
- Coordinates with other implementing organizations	Yes	Some	Yes	Yes	Too early	--
LEVEL OF SELF SUFFICIENCY	0	3	0-1	2	--	--
- Funds generated by training	No	Yes	No	Yes	No	?
- Funds generated by credit	No	No	No	No	No	No
- Funds generated by membership	Payroll tax	Low	Limited	No	No	No

Continued

	INFOP	GEMAH	CADERH	INCAE	CIDE	IDEA
- Multiple donors	No	No	No	Yes	No	No
- Independent of outside funds	No	No	No	No	No	Yes
PROBLEMS	2	3	2	2	--	--
- Image	Poor	Good	?	Good	Too early	Too early
- Costs	High free to SSE users	No problem	Grants	Possible problem	Too early	--
- Coverage	Very good	Good	Good: INFOP-PVO	PVOs: (Low)	Low	Low
- Management	Uncertain	Good	Good	Good	Too early	?
- Survival	Good	Good potential	?	Good	Too early	?
- Staff training	Fair	Good	?	Good	?	?
CAPACITY TO EXPAND						
- Clients with current staff size/capacity	Yes	Yes	Yes: Grants	Yes (PYME)	--	--
- Geographically with current staff size	Yes	Yes	Yes	Yes	?	No
- Budget with current management	Yes	Yes	Yes	Yes	?	?
- Program areas:	No	No	No	Yes (PYME)	No	No
- Requires no changes/in institutional philosophy, mandate/oreintation	No	No: major transformation	No	No: Some change	No: Some change	Yes
RELEVANCE TO SSE SUBSECTOR:	High, direct	Very Low	Indirect: Funds to PVO Voc-Ed centers T.A. to INFOP	High, Indirect through PVO training	Potential Indirect and institutional	Potential Direct and indirect, low coverage

Table 4. Second Story Organizations

	ANDI/PYME	CDI	CCIC	FORPIDEH
COVERAGE	--	Regs.	--	--
1. Location	Teguc.	Teguc.	SPS	Teguc.
Urban	Yes	Yes	Yes	Yes
Rural	Yes	Yes	Yes	Yes
Regional	--	--	Yes	--
National	Yes	Yes	--	Yes
2. Size of Firm Benefitting				
Micro	Yes	--	--	Yes
Small	Yes	Yes	--	Yes
Medium	Yes(1)	Yes	Yes	--
Large	--	--	Yes	--
3. Type of Enterprise Benefitting				
Service	Yes	--	Yes	Yes
Commerce	Yes	--	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Artisanry	Yes	Yes	--	Yes
Agro-industry	--	Yes	Yes	Yes(L)
TYPE OF ORGANIZATION				
1. Membership	Yes	--	Yes	Yes
Exclusive	Yes	--	Yes	Yes
Non-exclusive				
2. Government	--	Yes	--	--
3. Private	Yes	--	Yes	Yes
OBJECTIVES				
1. Employment generation	Yes	Yes	--	--
2. Employment maintenance				
3. Increase number of firms	Yes	Yes	--	--
4. Improve health of firms	Yes	Yes	Yes	--
5. Domestic market	Yes	Yes	Yes	--
6. Export market		Yes	Yes	--
7. Provide services to members	--	--	Yes	Yes
8. Provide services to others	Yes	--	--	Yes
9. General development focus	--	--	--	Yes
10. Specific business focus	Yes	Yes	Yes	--
PROGRAM COMPONENTS				
1. Credit	--	Yes	--	--
2. Training/TA to beneficiaries	Yes	Yes	Yes	--

Continued

	ANDI/PYME	CDI	CCIC	FORPIDEH
PROGRAM COMPONENTS cont.				
3. Training/TA to organizations	Yes(1)	--	--	--
4. Scholarships	--	--	--	--
5. Grants	Yes	--	--	Yes
6. Data Bank	--	--	Yes	--
7. Statistical Studies/Info	--	--	Yes	--
8. Market Development	--	--	Yes	--
9. Product Development	--	--	--	--
10. Conferences/Seminars	Yes	--	Yes	Yes
11. Contracting Services	--	--	Yes	Yes(L)
12. Lobbying on behalf of business	Yes	--	Yes	--
13. Legal Assistance	Yes	--	Yes	--
MANAGEMENT/ADMINISTRATION				
1. Management capacity	Low	Low	Good	Good
2. Low staff turn-over	No	No	Yes	Yes
3. Experience in sub-sector	Yes	Yes	No	Some(L)
4. Business Expertise	Yes	Prob	Yes	(L)
5. Ability to satisfy AID requirements	Low	?	Yes	Good
6. Financial management	Good	Poor	?	*
COST EFFICIENCY/EFFECTIVENESS				
1. Low administrative progr. cost	30% actual	High --	? --	25% progmd.
2. Coordinates with other agencies	Yes --	Yes Govt.	Yes --	-- --
LEVEL OF SELF SUFFICIENCY				
1. Funds generated by programs	No	No	Yes	Yes
2. Funds generated by members	Yes	No	Yes	Yes(L)
3. Multiple Donors	No	Yes	N/A	No
4. Government subsidies	No	Yes	No	No
5. Requires changes in institutional philosophy, mandate, orientation	No	Yes	Yes	Yes
CONCERNS				
1. Membership exclusivity	Yes	--	Yes	Yes
2. Program exclusivity and coverage	--	Yes	Yes	--
3. Client Base exclusivity	--	Yes	--	--
4. No focus/experience in sub-sector	--	--	Yes	Yes
5. SME focus requires changes in mandate or oreintation	--	Yes	Yes	--

Continued

	ANDI/PYME	CDI	CCIC	FORPIDEH
(CONCERNS cont..)				
6. Limited experience in important program components	Yes	Yes	Yes	Yes
7. Efficiency/costs	--	Yes	--	--
8. Management	Yes	Yes	--	--
9. Staff Expertise in Business	--	--	--	Yes
10. Image	--	Yes	--	--
11. Staff turn-over	Yes	Yes		Yes
12. Coordination Potential	--	Yes	--	Yes
13. Capacity to expand	Yes	Yes	Yes	Yes
14. Geographic coverage	--	--	Yes	--
15. Newness of organization	--	--	--	Yes
ADVANTAGES				
1. Do not implement projects	Yes	--	Yes	Yes
2. Existing umbrella	--	--	--	Yes
3. Plans to broaden services	Yes	Yes	--	Yes
4. Links to broader private sector (business)	Yes	--	Yes	--
5. Strong organization/program	--	--	Yes	--
6. Includes industry, service, commerce, agro-industry	--	--	Yes	--
7. Focus on sub-sector	Yes	--	--	--
8. Links to PVO community	Yes	--	--	Yes

Summary Conclusions

While "Second Story" organizations exist to provide services to different categories of business within the sector, such as CDI for small industry, there is not organization that groups them all under one "umbrella". The Chambers of Commerce and Industry come close, but their organizational bias is towards large and medium business, and they have a strict geographical focus. FEDECAMERAS is the Federation of Chambers. It is too far removed to be an effective for implementor, and an important Chamber, CCIC, is not a member.

Two organizations currently provide assistance to PVO's, cooperatives and, trade associations in support of business development. These are the ANDI/PYME program and

FOPRIDEH, although FOPRIDEH's objectives are much broader. A major concern with ANDI/PYME program is current program management and staff capacity to undertake additional workload. Major concerns with FOPRIDEH are the broad objectives and lack of a specific focus on small and micro enterprise; potential to coordinate with private for profit and government agencies; and the relative newness of the organization--no internal policies, approaches or strategies have been developed to assist the sub-sector.

ASOCIACION NACIONAL DE MEDIANA Y PEQUENA INDUSTRIAS (ANMPI)

Introduction

ANMPI is a trade association that was established in 1971 by a group of owners of small and medium industrial enterprises. ANMPI started to offer credit and technical assistance programs in 1985 with the support of an ANDI/PYME grant (the AID-supported small business development project).

Coverage

Client

ANMPI estimates that there are 20,000 potential members nationwide. Its membership increased by 35 members in 1985 and 83 members in 1986, and it currently has 500 members; 150 pay a monthly membership fee and are considered active. Ten percent are women. Members are urban-based entrepreneurs (engaged in industrial transformation).

A diagnostic survey of ANMPI's members indicates that 1 percent is micro, 48 percent small, and 51 percent medium. ANMPI defines micro/small/medium as follows: micro - below L.2,500 in fixed assets; small - below L.50,000 in fixed assets; and medium - between L50,000 and 400,000 in fixed assets.

Geographic

Membership focus is in the urban areas of Tegucigalpa, SPS, La Ceiba, Siquatepeque, Santa Barbara, Choluteca, Juticalpa, El Progreso, Santa Rosa, Tocoa, El Paraiso, and Nacaome. Currently there are offices only in Tegucigalpa and representatives elsewhere.

Program 1986

Technical Assistance	Tegucigalpa/SPS	15 businesses
Industrial classification	Tegucigalpa only	10 businesses
Loan preparation	Tegucigalpa only	30 businesses
Credit	Tegucigalpa only	24 businesses (2 medium, 22 small)

Loans by category:

38 percent food industry
21 percent wood products
17 percent shoe industry
8 percent metal work
8 percent clothing
8 percent others

Principal Objectives

Organizational

To represent small and medium industry before the government, national private organizations, and international associations; to respond to members' needs for training, finance, technical assistance, and services.

Program

To increase national industrial production by increasing the size and productivity of the firm; to increase employment in industry; to provide services to members; to develop the capacity and leadership of small and medium entrepreneurs.

Program Operating Principles and Methodology

Based on a survey of membership requirements, the following programs were established:

- Credit
- Technical assistance in loan preparation, repayment plan revision, and basic financial analysis is provided by ANMPI staff. ANMPI plans to hire an additional staff member (full or part-time) to help in industrial classification.
- Training in accounting and business management is provided by outside agencies (INFOP). ANMPI has no plans to hire its own training staff.

The program's operating principles and methodology may be summed up as "keep it simple, keep it fast, keep it flexible."

Capacity of Management

- Strong leadership at organizational level (albeit entrenched 16 years)

- High commitment of staff to small and medium industry

- Home office and extension personnel experienced in business, accounting, economics, finance, and credit programs (four professional staff members; 2 extension agents)

- The program has been in operation for three months: planning and program development capacity is there. No reason to believe management capacity isn't strong, but operations are too recent to make an informed determination.

Administrative Procedures/
Effectiveness

- Agility in loan application and reviews: three days from application to review; one day from review to receipt of funds. The loan committee meets two times a week.

- Loan terms: L.500-5,000, with weekly/bi-monthly/monthly payments, no grace period, duration of loan depends on destination of working capital and/or fixed capital. To date, all loans have been made for working capital, and the average size of the loan is L.500.

- Selection of beneficiary: ANMPI member of at least six months, loan decisions are made by a six-member committee: one ANMPI staff member, two members of the Board, two members not of the Board, two community members (currently, one from the CDI and one from the Ministry of Economy). Community members are elected by ANMPI Board and must be "sympathetic to small/medium industry."

- Outreach/promotion efforts are low.

- Interest rates: 12-18 percent depending on size of loan. To date, 12 percent charged.

- Loan collection: Three months experience; two late payments (five days late); 3 percent late charge; zero arrearage. To date, L.11,750 lent

and L.8,200 recuperated. Incentives: future loans from ANMPI require little information; letters of recommendation are written to banks.

- Savings mobilization: 2 percent charge on all loans for an automatic credit fund, which can be used by contributors in the future.

- Lender margins: Credit funds are received from a grant from FOPRIDEH and repayment is made directly to ANMPI. ANMPI paid FOPRIDEH 6 percent of amount granted.

- Technical assistance visits to clients are made by ANMPI staff for loan preparation. This is tied to receiving the loan. INFOP training is not tied to the loan but available to ANMPI members.

Evaluation

Performance Standards for Personnel

Credit officers are evaluated based on profitability of loans and recuperation rates.

Internal Evaluation/Monitoring

An annual plan, with monthly targets, is reviewed on a monthly basis. An evaluation system for procedures and systems is to be established soon.

Impact Evaluation

A system to detect the growth of the firms assisted has not yet been established. Some base estimates of employment generation on loan amounts (70 percent working capital; 30 percent fixed capital) include: L.500-3,999, none; L.4,000-5,000, one position; L.5,000-10,000, two positions; L.10,000-20,000, three to five positions; L.20,000-25,000, ten positions.

Cost Efficiency/Effectiveness

Cost Efficiency

Contrary to budgetary estimates that administration costs would amount to no more than 65 percent of loan volume, actual costs exceed by 38 percent. (Budget: Administrative costs per month, L.5,400; loans per month, L.8,300, 65 percent.

Actual: Administrative costs for three months, L.16,200; loans per month, L.11,750, 1.38 percent.)

The four current professional staff members can absorb work associated with expanded portfolio.

Cost Effectiveness

No data yet on improvements in firms assisted or on employment generated. To date, all loans have been for working capital (92 percent for L.500). According to ANMPI's own criteria for employment generation, loans of this size will not generate employment.

Level of Self-Sufficiency

Internally Generated Funds

Interest charged on loans: 12 percent up to L.5,000; 15 percent, L5,00-25,000; 18 percent, L.25,000 and above. Surcharge of 2 percent of the amount of the loan for forced savings funds. Currently L.235. No charge for technical assistance provided to ANMPI by INFOP. Membership dues: L.50 initial and L.12/month. Current estimate: L.21,600.

Donor Funds

Approached IDB for US$643,000: US$500,000 loan fund; US$143,000 support. Support for technical assistance L.66,300 and administrative costs L.54,700 from ANDI/PYME. Support for loan fund L.200,000 from FOPRIDEH. Support for "materials bank" study L.4,000 from ANDI/PYME.

Problems

Loan fund is too small to satisfy demand. Members want loans without avals, want it the same day, and do not want ANMPI to ask for information or references. Presently there is no way to supervise loans to SPS and La Ceiba, so ANMPI has not yet expanded to these areas. No transportation for staff/credit preparation and supervision. No effective promotional efforts or outreach mechanism. Donor restrictions have influenced ANMPI's credit plans: (1) L.200,000 credit fund must be used over two years instead of one; (2) disbursements from the donor are on a six-month basis over a two-year period, leaving the amount ANMPI has available to lend for any six-month period at L.47,000.

Capacity to Expand

- Twenty-three percent of membership joined in the last two years: 7 percent in 1985 and 16 percent in 1986.
- Program expansion will require additional staff and budget support in an organization with relatively little program experience.
- ANMPI will need to build membership concurrently with program expansion.
- Staff can absorb additional loan portfolio, presently underutilized.
- ANMPI plans to expand, but due to the relatively recent nature of the program, expansion is best done slowly.
- Annual budgets over the past two years and projected two years hence show expansion as follows:

1984 no operational program

1985 US$18,000 ANDI/PYME funded

1986 US$30,000 ANDI/PYME funded

1987 US$110,000 ANDI/PYME funded and FOPRIDEH

1988 US$690,000 ANDI/PYME funded, FOPRIDEH, and IDB

ASESORES PARA EL DESARROLLO (ASEPADE)

Background

ASEPADE was formed in 1977, with funding from European Groups, as a private, non-profit organization to provide research and consulting services to entrepreneurs. In 1983, funds were received from IAF and, later, PACT, which allowed the opening of ASEPADE's three major credit and assistance programs. CREVEM, the first of these, provides credit, training, and consulting services to cooperatives of market women in five cities. CREDISOL assists solidarity groups of men and women market sellers in three cities. CREME provides micro entrepreneurs with credit, technical assistance, and training in these same cities. ASEPADE has recently signed an accord with IDB to increase activities under CREME and to support a number of internal adjustments and improvements. In August 1986, under a two-year OPG with USAID, ASEPADE was provided with a resident technical assistance advisor from Accion Internacional/AITEC.

Coverage

Beneficiaries are urban micro entrepreneurs that may be divided into two major categories: 20-30 percent of all beneficiaries are micro producers in branches such as shoe making, sewing, carpentry, baking, and mechanics; 70-80 percent are market vendors, chiefly women. Geographical coverage extends to the five cities identified below. To date, cumulative Coverage Data by major program area:

	CREVEM (Established 1978)	CREDISOL (Established 1984)	CREME (Established 1984)
Number of beneficiaries	557	1,621	500
Geographical area	Choluteca, Progreso, San Pedro Sula, Siguatepeque	Tegucigalpa, San Pedro Sula, Choluteca	Tegucigalpa, San Pedro Sula, Choluteca
~~Type of enterprise~~	~~Commerce~~	~~Commerce~~	~~Industry~~
Size of enterprise	Micro	Micro	Micro
Percentage women	100 percent	66 percent	37 percent

ASEPADE also has community development projects in approximately 13 of the 35 black-populated "Garifuna" communities of the Atlantic Coast. Beneficiaries are some 380

persons, predominantly women, involved in fishing, cassava production, corn and pig farming, and consumer stores.

Direct technical assistance is provided to all beneficiaries. Training coverage varies by program. In 1986, the oldest program, CREVEM, provided 13 courses in different program areas to 309 group members. CREDISOL's training, on the other hand, is embryonic. CREME's training is a bit more advanced. CREME plans to provide 16 sessions to 244 micro entrepreneurs (61 percent of current program total) over seven months in 1987.

Principal Objectives

To support Honduran development through the provision of credit, technical assistance, training, and consultancy services to the economically least favored sectors of the economy. Specifically:

- To contribute to development through promotion of employment, democratic organization, and participation of the majority in the conduct of society.
- To provide popular organizations and individuals with credit and services in order to increase production, and this in order to improve living standards.
- To carry out integrated development projects for particular zones or population segments.

Program Operative Principles and Methodology

Credit and technical assistance are joined to the provision of credit, not only to improve enterprise performance and loan repayment, but also as a means to assist individuals' sense of economic importance, self-esteem, and organizational potential.

CREDISOL beneficiaries are organized in solidarity groups of up to six members. Often smaller groups of three or four are more effective among the highly mobile market sellers. CREVEM groups are better established and are somewhat larger. CREME is an individual loan project. Both CREME and CREDISOL operations depend upon a manager, an "asesor" (promoter) for each program, and an administrative assistant in each regional office. CREVEM programs in each of the five cities are managed and assisted (asesoria) by one manager. GARIFUNA has

eight "asesores" under a regional manager. Monitoring is performed on a regional basis by the central office, which provides overall planning and evaluation functions.

Credit Program

	CREVEM	CREDISOL	CREME
Amount of loans distributed	L.1,149,000	L.1,750,000	L.429,000
Interest rate	2 percent/month	2 percent/month	2 percent/month
Average savings/ monthly	101/member	1,250/member	6,000/member
Average loan size	223	500-600	500
Purpose of loan	Working capital	Working capital	Working capital
Period of loan	1-30 days	2 weeks-1½ months	4-12 weeks

Initial loans are small, short-term; first loans require only seven working days from first contact to disbursement; subsequent loans, one day.

Credit Monitoring

Files are kept on (a) borrowers' credit history, (b) socioeconomic profile, and (c) enterprise impact variables. Data are computerized and the portfolio is reviewed monthly, including cash flow analysis, to indicate recuperation and funds available for new loans.

Analysis of overall arrearage is performed monthly. However, with regard to individual loan delinquencies, an action plan is prepared weekly to move these promptly through the stages of redress: a group meeting with the promoter; a meeting with the (regional) manager; a session with a lawyer, if necessary.

Incentive Plan

The promoter receives 7.5 percent of value recovered for efforts to recuperate delinquent loans (one day overdue). Currently, ASEPADE is studying the policy of defining default write-off.

Training

See principles mentioned above. For group credit projects, an orientation session is provided, but training begins only after group formation. The training takes three to four hours per month; it emphasizes group collaboration and means of motivating the group as a whole, and maintaining the flow of repayments. In addition, training under CREDISOL will provide for discussion of business principles, records, inventory, and buying, all oriented toward pre-coop organizational units. CREVEM training already involves a strong focus on cooperativism.

CREME plans to combine on-site technical assistance (ten outside "asesores") with training by successful entrepreneurs, UNAH trainers, and ASODAOC staff in four modules over seven months. While focusing more on formal business skills, it will also seek to raise self-esteem and collective self-knowledge of producers, preparing for eventual organization for representation, purchasing, and marketing.

Capacity of Management

The Central Office contains an Executive Director, a Program Director, and the Program Coordinators who manage three principal programs (Garifuna being effectively managed by the Program Director). An internal evaluation revealed that the promoters would like to have a coordinator for each program. Each regional office handles its own credit fund and local office costs, providing monthly reports to Tegucigalpa. The management appears to be good at all levels, but particularly strong at the level of Program Director, who oversees all operations.

Further staff training will take place to further strengthen functions of computerized portfolio management and data analysis.

Executive Committees of industry representatives and professionals have been established in Choluteca and San Pedro Sula to serve as advisors and for credit review. The committees meet once a week to review and approve loans.

Administrative Procedures/Effectiveness

The active portfolio of clients assisted and loans supervised by each "asesor" varies with the program fund. From August to December 1986, the CREDISOL and CREME programs exhibited the following characteristics:

Total new borrowers	475
Total loans disbursed	1,108
Amount lent	L.563,600
Amount repaid	L.480,400
New savings	L.39,000
Arrearage	19 percent
Interest income	L.29,200
Cost/lempira lent	.16

According to the Program Director of the CREVEM program, a "gerente" will service up to 150 credits per month (a range of 75-150), for an average value of L.25,000. New credits per month are fewer for the CREME program -- approximately 24 per month currently.

Arrearage on the three programs is approximately: CREVEM, 29 percent, CREDISOL, 26 percent, CREME, 17 percent (estimated at 10 percent by the Program Director). External factors (a fire in the market place) affected CREDISOL's performance. In the past three months, arrearage in the Tegucigalpa CREDISOL program has not exceeded 3 percent, and the regional CREME programs have no arrearage or defaults.

Training program operations consisted of the following staff outputs in 1986:

	CREVEM	Per staff	CREDISOL	Per staff
Number of courses or sessions	13	13	44	
Number of hours (total)	72	72	n.i.	
Number of participants	309	309	685	
Number of groups	n.i.	n.i.	119	

n.i. = no information

CREVEM courses involved larger (average 5.5 hours), more formal courses on cooperativism, etc., whereas CREDISOL sessions lasted one to three hours and also included less formal orientation talks and "charlas."

Evaluation

Evaluations occur at three levels, including organizational, staff performance, and beneficiary impact levels. While an overall external evaluation has not been performed recently, ASEPADE conducts regular internal evaluations with staff participation. In December 1986, an "auto evaluation" among employees reviewed program objectives and achievements, overall management issues, staff effectiveness, and training issues. Findings were integrated into the 1986 annual report on accomplishments.

A parallel document analyzed reasons for non-fulfillment of loan program goals, dividing these into external (economic), institutional (structure and procedures), and internal (staff performance) causes. Evaluation of staff performance occurs at the level of "asesores" regarding groups formed, loans, and payback.

Beneficiary-level impact data includes not only changes in the firm and outputs, and employment and income data, but also a number of other social/quality of life indicators, and data relating to the level of administrative and organizational cohesion -- a linked and parallel goal of the solidarity group programs.

Cost Effectiveness/Efficiency

For the period August-December 1986, the cost of each lempira loaned under the CREDISOL program is estimated at .10/per lempira lent. An estimate provided for the CREME loan fund for micro producers was that each lempira lent cost .17 to .19. The cost of creating a new job could not be calculated on the basis of existing data. It should be noted that the primary objective of the credit programs servicing market vendors and micro producers is job maintenance and not employment generation.

Level of Self-Sufficiency

Reviewing the three major credit programs, interest incomes in 1986 were: CREVEM, L.38,000, and CREDISOL and CREME, L.29,200 (August-December 1986 only). The level of internal income generation is rising. However, since interest earned is used to increase the size of the funds lent, the programs (especially CREDISOL) reach a high degree of financial self-sufficiency (currently 70-80 percent) without reaching operating self-sufficiency.

Looking at performance in December 1986, interest income for CREDISOL and CREME was L.740 in San Pedro Sula, or about

46 percent of direct salary costs of local staff, and L.973 in Choluteca, covering some 60 percent of these costs. The Program Director for operations believes that "asesores" can handle a much larger number of loans in both cities. Another informed opinion is that existing staff could handle a 20 percent increase.

ASEPADE is dependent on grants to cover costs. Grant and (IDB) soft loan contributions still in effect are: European grants, US$50,000 (two years), PACT, US$70,000 (two years), IAF, US$110,000 (two years), USAID, L.650,000 (two years - AITEC, credit funds, and operations), and IDB, US$500,000 (three years - disbursements beginning February 1987).

Problems

No major internal institutional problems have been identified. Long-term effects and program options flow from the special problems of dealing with very low income, ambulant market vendors with few fixed assets. "Problems" may appear if and when goals for program "graduation" are established and promoted. In general, fairly high levels of staff commitment may be required for successful work in this environment.

Capacity to Expand

"Vertical" expansion is possible. Current staff can increase the level of disbursements and, to a lesser extent, the level of parallel training and technical assistance. Any geographic "horizontal" expansion would require increased staff resources.

CADENA DE DETALLISTAS DE HONDURAS S.A. DE C.V. (CADEHSA)

Introduction

CADEHSA is the oldest and best-established private retail chain in the country. It was established in 1985 as a private corporation although, in practice, it functions as a cooperative.

Ing. Benjamin Membrano and Lic. Dorkas Gonzalez de Guzman of the Centro Cooperativo de Tecnoga Industrial (CCTI, now functioning under the name of Industrial Development Center, CDI), provided CEDEHSA with the technical assistance necessary to start up operations. They sent two persons to observe the operations of chain grocery stores in other countries. After this, CADEHSA received no additional technical assistance from CDI or any other source. There has been no outside financial support.

Coverage

- 230 members -- principally grocers; 25 drugstores, and four consumer cooperatives are currently members as well
- Ninety percent of the members operate stores in Comayaguela; only a handful of the members have stores in Tegucigalpa or in secondary urban centers such as Comayagua, Paraiso, La Paz, and Valle de Angeles
- Main offices and warehouse outlet in Cmayaguela
- A one-time entrance fee of L100; the original fee was L500, but it was reduced to encourage membership growth

Membership Characteristics

Size of operation:	Small	Medium	Large
Volume of sales/month:	L.3,000	L.4,000-12,000	Over L12,000
Inventory:	Up to L5,000	L5,000-20,000	Over L20,000
Number of members by size:	160	60	10

Principal Objectives

To purchase goods in common, at savings of 5 to 15 percent, in order to provide a broader selection of goods. All members operate independently and participate in sharing CADEHSA's net annual income.

Capacity of Management

CADEHSA's Board of Directors is made up of five members; of the five, two are women. The Board meets once a month and is responsible for all major decisions concerning CADEHSA's growth and orientation. Board members receive L300 for each meeting they attend and L125 when extra sessions are deemed necessary.

Management is comprised of a Special Manager (Mrs. Eloina Suarez), who has 20 years of experience in foodstuff retailing. She is assisted by an accountant, Mr. Jose D. Aguilera, and a full-time secretary. Since she took control of CADEHSA in 1982, membership has increased, and a complete and reliable accounting system has been put in place.

Management is strong, competent, and honest. There is an extremely high level of dedication and sincere interest in improving CADEHSA's organizational controls and capacity to compete with the "monopolistic" wholesalers.

There are 14 full-time employees at the head office/warehouse, three of which are security personnel. While some of the employees had former work experience as cashiers in a store, none of the employees were working full-time prior to their jobs at CADEHSA. Turnover is nearly non-existent and employees can work overtime.

Operating Procedures

CADEHSA owns a 600 sq. meter warehouse facility, valued at L250,000, in a very accessible site in Comayaguela. The facility was bought on credit which has recently been fully repaid. In this warehouse, some 1,500 imported and domestic products are held in stock. Domestic products consist principally of eggs, lard, rice, beans, tomato sauce, sugar, soaps and detergents, toilet paper, and office and school supplies.

CADEHSA operates with gross and net margin targets of 6 and 2 percent, respectively. Administrative costs are estimated to represent approximately 4 percent. Annual sales volumes equal approximately L2.7 million and nearly L3.0 million in 1985 and 1986 (see financial analysis below).

CADEHSA pays no municipal sales tax as a result of an agreement reached with the Municipality of Tegucigalpa. CADEHSA does pay taxes to the Central Government's collection agency.

Members are not required to purchase any minimum quantity, which permits them to practice "hand-to-mouth" borrowing practices. Members are also known to buy their supplies elsewhere if prices are found to be lower than in the CADEHSA warehouse.

CADEHSA provides a series of services to members, including:

(1) Interest-free loans on purchases (L2,000 maximum for a period not to exceed one month). At this time, there are approximately 70 loans worth L80,000 outstanding. There are no late payments or defaults on record. The credit policy assists both the client (CADEHSA will prolong the credit term of clients exhibiting a high sales volume), and CADEHSA itself (the movement of merchandise is facilitated).

(2) Shopping convenience. Members can order supplies by phone, or in person. The warehouse is easily accessible. Product prices are often 5 to 15 percent lower than in any other source.

(3) Free delivery for all purchases greater than L500.

(4) Provide commercial references of members in support of application for bank loans.

Evaluation

The CADEHSA Board and management are now investigating the purchase of a computer to further advance their warehouse inventory control and future business planning process, to standardize the financial accounts, and to utilize in financial analyses.

The Special Manager and Accountant utilize their annual audits and financial records to study problem areas in operations, and to make annual plans for presentation to, and discussions by, the Board.

Cost Effectiveness

Information on CADEHSA's cost efficiency/effectiveness will be available upon termination of the financial analysis. We do know that CADEHSA had a net profit of L500,000 in 1985, that it is expected to be higher in 1986, and that CADEHSA maintains L30,000 in reserve. The purchase, improvements, and credit payoffs, with interest for the warehouse-office facility in Cayaguela, are valued at L230,000. CADEHSA has approximately L500,000 in inventory.

Level of Self-Sufficiency

CADEHSA is completely self-sufficient and has accomplished this entirely on its own. The corporation has never received a donation or "soft loan."

Problems

A brief analysis of CADEHSA reveals that this entity has been through some very difficult times, principally because of poor institutional focus and insufficient participatory management. Considering that it has been in existence for over two decades, its current level of development is not very impressive. Chain stores as old as CADEHSA in other Latin American countries exhibit much larger growth rates in terms of membership and product volume.

The principal limiting factor for CADEHSA is that members have not been sufficiently conscious about the essential role of their wholesale facility. CADEHSA should not be viewed solely as a source of cheap goods, but rather as a catalyst for improved retail management.

CADEHSA is largely responsible for the member's current attitude. It has emphasized the bulk buying and the cost-reducing aspects of its operations.

Perhaps with the new administrative procedures and the current better qualified Board directors and executives, CADEHSA can start to stress its foodstuffs marketing role. Certainly, this role would be enhanced through the provision of specialized technical assistance to its members and through a more aggressive merchandising strategy.

Capacity to Expand

Current management is well aware of the deficiencies that limit CADEHSA's growth. Because of this, a series of activ-

ities is being planned to position the organization and expand its scope.

The principal short-run target of CADEHSA is to increase its membership by at least 200. To accomplish this, a promotional and publicity campaign is being planned.

Management also expresses interest in providing training and technical assistance to members to improve their store operations, appearance, presentation of merchandise, expansion of merchandise, business planning, and cost control and financial study, etc.

As mentioned above, management is seeking to computerize their own accounting and inventory control system. In addition, management wants to improve the layout and fixtures of the warehouse facilities, to acquire or rent storage facilities to house the basic grains purchased directly from farmers, and to expand their activities to handle fresh fruits and vegetables.

One must obtain annual budgets prior to the 1985 and 1986 to better determine a rational growth pattern for CADEHSA.

HONDURAN FEDERATION OF INDUSTRIAL COOPERATIVES (FEHCIL)

Background

Founded August 1976 as a federation with five cooperatives. Obtained legal status in May 1979. Organized to secure raw materials at lower prices and credit for production. Initial capital: L.14,800,00.

Coverage

- Thirteen departments covering a total of 27 cooperatives and 20 pre-cooperatives
- Thirty percent of groups located in Francisco Morazan
- Seventeen percent in Cortes, 13 percent in Copan, and 11 percent in Santa Barbara
- Fourteen groups are rural (30 percent)
- Seventy percent of groups are formed by men

Rural Home Improvement

Two hundred eighty-seven credits from 1983-86 at an average of L.1,383 per beneficiary.

Credit

In 1986, 18 loans granted to 11 groups. Total disbursement equal to L.295,079,94. Loan amounts ranged from L2,665.70 to 508 (L.26,825.00/cooperative).

In 1985: four loans in cash (total L.452,127), and eight in-kind (L.158,685). La Fraternidad received 59 percent and two cash credits plus 17 percent in-kind.

Training

1985 - 16 courses -- cooperativism 7, management and administration 7, technical (sewing) 2.

1986 - 37 courses benefitting 864. Thirty-five percent of beneficiaries were women who received training in shops -- 54 percent were youth.

Marketing

(Two stores Tegucigalpa and San Pedro Sula) yearly inventory rotation.

Types of Industries

Clothing 30 percent; multi-services 17 percent; carpentry 13 percent; shoe making 9 percent, and fiber weaving 6 percent.

Principal Objectives

Institutional

To work for the economic, social, and cultural well being of its members.

Program

- Sponsor and develop cooperatives and pre-cooperatives
- Increase production capacity through the rational use of resources
- Improve capitalization of FEHCIL; training and technical assistance
- Promote, organize, and consolidate industrial cooperatives
- Present alternatives for strengthening the administrative structure of FEHCIL

Marketing

- Analyze the market and quality of product
- Stimulate producers to improve production

Rural Home Improvement

- Promote the Rural Home Improvement Program among members of the cooperatives with low income
- Promote courses in carpentry and masonry in the communities where the program operates

- Orient beneficiaries in the use of resources

Operative Principles and Methodology

Credit

- Past trend has been to benefit the larger cooperatives, and hence, a reduced number of cooperatives; the new tendency is to concentrate efforts in smaller cooperatives and promote self-management enterprises
- Feasibility studies are now part of the pre-loan appraisal process
- Grant agreements with donors specify which cooperatives will receive credit
- Credit Committee meets to discuss requests and decide disbursement plan
- Monthly visits are made to cooperatives with outstanding loans

Training

Organization of two training committees: the Central Region and Northern Region (each formed by cooperative members). Two workshops held to determine training plan for 1987.

Capacity of Management

- Personnel have inadequate qualifications
- Personnel are not always efficient and responsible; some needless positions have been cancelled
- Personnel lack motivation; salaries low
- Institutional diagnostic (1986) recommends training and strengthening internal structure of FEHCIL through in-service training plan; ten areas need improvement, starting with management development

Administrative Procedures

Credit

(1) From feasibility study to first disbursement, 22 days

(2) Interest depends on sources of funds: IDB 15 percent; Misereor 12 percent; Desjardin 12 percent. FEHCIL's credit policy indicates a 19 percent interest rate

(3) No delinquency rate on the 1986 credits; for the loans granted before 1986, there is a 30 percent delinquency rate

Evaluation

- Visits from donors to oversee projects
- Annual audit
- Institutional diagnosis by ADAI in 1986
- Evaluation meetings twice a year coordinated by Educational Department to revise plans
- Monthly evaluation meetings to review plans
- No personnel evaluation

Cost Effectiveness

(Not enough data.) 1986 administrative cost 75 percent.

Level of Self-Sufficiency

- In 1985, there was a deficit of L7.235.96; in 1986, a deficit of L60,000.00
- Means of support: (1) interest generated by loan portfolio, including Rural Home Improvement Credits (charge 18 percent and 5 percent returns to INVA); (2) membership dues -- L10.00 initially and 2 percent annually of their "labor social". Minimum L15.00; maximum L500.00, but dues do not cover a month of operations; (3) course fees charged to other institutions; (4) sales in stores; (5) donations

Loan Portfolio

- IDB - 1 million (lempiras)
- MISEREOR: L329,000
- DESJARDINS: 89,900
- INVA: L300,000

Plans for self-sufficiency: Establish textile and rubber factories to provide raw material to members and generate income to cover cooperative costs

Problems

(1) Funds insufficient to support current level of operations

(2) Slow return of money in the stores (credit)

(3) Some cooperatives having difficulties procuring raw materials

(4) Must assume home improvement loan credit because of past errors

Capacity to Expand

No capacity with current situation.

NATIONAL DEVELOPMENT FOUNDATION OF HONDURAS (FUNADEH)

Introduction

FUNADEH is a private non-profit organization created by a group of private sector businessmen in San Pedro Sula (Rotarians) for the expressed purpose of assisting small business. Founded in 1983 with technical and financial (US$33,000) assistance from PADF and a three-year OPG for L1,736,000 from AID, FUNADEH began operational programs in March 1985; AID provides US$132,000 to PADF for technical assistance and training to FUNADEH. There are currently 135 FUNADEH members from the business community.

Coverage

FUNADEH focuses on micro and small industries run by sole proprietors, sociedades mercantiles, or organized groups that demonstrate a business mentality in their operation for at least one year. The focus is on small and micro industry. Seventy to 80 percent are considered micro. Average monthly sales are US$4,500; average number of employees is 3.

Client Definition

Twenty employees and below L60,000 assets and below.

Geographic

To date, concentration in San Pedro Sula area. For 1987, plans to expand within a 100-mile radius of San Pedro Sula and increase gradually to acquire national coverage.

Program

(As of September 1986) Credit: 176 loans; 35 percent female; average loan size US$3,600 for fixed and working capital; total amount loaned US$633,500.

Technical Assistance and Training

Technical assistance is provided to all beneficiaries during the loan application process (cash flow and balance sheet construction) and throughout the life of the loan. Technical assistance covers loan application preparations, and on-site consultancy consisting of general observation and advising. Training is provided exclusively by outside agencies such as INFOP, IESC, Dale Carnegie, and Partners of

the Americas. Approximately 62 percent of clients participate in at least one formal training workshop.

Principal Objectives

Organization

(1) To address the responsibility of the private sector in the promotion of the economic and social development of poor communities and organized social groups

(2) To coordinate efforts with government in different economic and social development programs

Program Priorities

To finance small industries without access to commercial or private institutional credit, with low economic resources, with productive potential to increase sales and generate employment. Specific objectives are to increase business growth, increase recipient income, generate employment, and familiarize clients with the banking system.

Program Operating Principles and Methodology

Credit

Beneficiary selection: 9 criteria in use; outreach promotion: through Board and promotion staff; reviewed 609 loan applications as of September 1986. Use of Rotary Clubs in other cities.

Loan Application/Review Process

Initial consultation/analysis: first-second week; information preparation: second-third week; credit committee analysis: fourth-fifth week; credit processed: sixth week; check delivered: seventh week. Once all the information is gathered, the process does not take more than five weeks.

Loan Terms

For working or fixed capital. Duration and repayment is scheduled according to the firm's capacity to repay (based on analysis), 3-36 months, adjusted seasonally. Up to L15,000 for individuals and L50,000 for groups. Collateral is required; FUNADEH claims ownership of the equipment until the loan is repaid and two avals. The current interest rate, set

within two points of the Central Bank's discount rate, is 17 percent.

Loan Collection

The delinquency rate is 2.3 percent (4.3 percent of outstanding loan balance over 90 days). Client pays directly to bank and into FUNADEH account.

Savings Mobilization

None required; some clients have opened bank accounts.

Training and Technical Assistance

Training is currently subsidized by grants and FUNADEH has no plans to begin its own department, relying instead on other agencies to keep costs down. All training activities are coordinated by a special training department (with a staff of two). No fees are charged. Technical assistance is provided by the extension unit -- currently, three promoters are handling approximately 60 cases. In addition to supervising new or active loans, each promoter has about 30 applications in various stages of completion. Technical assistance is also provided by Board members during the application review process. Conditions for loan approval may include mandatory training or advice in particular business operations. FUNADEH wants to do an inventory of members who would volunteer two hours of technical assistance a month to small enterprises as an in-kind contribution. This is currently done in a limited and sporadic manner.

Management and Administration

Centralized loan decisionmaking process; low staff turnover; strong leadership at Ex-Director level and Board level; staff training with PADF; qualified staff; no staff training plan; beneficiary training courses designed based on individual needs assessment; training courses attended at beneficiary initiative; training needs not documented as part of loan application procedure.

Evaluation

Loan monitoring process: monthly visits; impact data on income and employment collected; outside evaluations. Data base being developed to compare industries for growth potential, identify factors leading to growth and employment, and for use as a consultancy tool.

Cost Efficiency/Effectiveness

Efficiency

The cost of loan processing is US$266 per loan. The cost of training is US$133 per activity. Current total administrative costs are 39 percent of total operating costs at a portfolio level of US$1,872,500; they are 28 percent of operating costs.

Effectiveness

Ninety-six percent of survey sample (34 clients) claimed that the business was making more money as result of the loan; 55 percent showed sales increases (average 17 percent increase); 45 percent showed sales decreases.

Employment

Seventy-three percent showed increase in employment; employment increase of 1.08 jobs per loan; technical assistance: 65 percent keep accounting records (17 percent previously), majority of new practi es (63 percent) are related to accounting and control; 29 percent marketing related.

Level of Self-Sufficiency

- Rely on grants and outside agencies for training; no funds generated by training
- Portfolio of 535 loans worth US$1,872,500. A 12 percent rate of interest would allow FUNADEH to break even. The 17 percent rate of interest, will generate US$318,325 in interest income annually. To date, US$136,000 or 16 percent of this has been earned for 1987.
- US$35,000 funds generated by members: US$250 initial membership dues; US$75 per year thereafter; corporate donations dependent on tax exempt status, although strategy in place
- Multiple donors: IAF, IDB, ANDI/PYME

Problems

- Membership campaign

- Concern with supporting growth industries; the application process has not been changed to reflect the new target set for this group.
- Fundraising to reach equilibrium
- Portfolio expansion, number loans, amount of fund

Capacity to Expand

A strategy has been developed to facilitate expansion to other cities without opening new offices through Rotary Clubs. First step: gradual expansion out of San Pedro Sula, and an active fundraising campaign.

	1985	1986	1987
Administration	US$100,091	US$204,200	US$ 266,300
Loans	145,665	633,500	1,083,000

INSTITUTO PARA EL DESARROLLO HONDURENO
(IDH)

Background

IDH is a private development organization which was established with IIDI assistance and an AID matching grant in 1979. Since 1981, IDH has been dedicated to helping the small entrepreneur with financial and technical assistance. It has also at various times actively sought aid for projects for women. In 1983, IDH received a three-year loan of L800,000 from the IDB, which brought a considerable focus of on both agricultural foodcrop and livestock projects; under IDH's own funds, the Tegucigalpa region's portfolio continued to concentrate on a number of small industrial trades.

Coverage

Active portfolio: 480 projects; 40 percent urban, 60 percent rural; 107 or 22 percent women-owned (14 group loans).

Total fund: L1,300,000.

Four administrative regions covering ten departments, i.e., (1) Francisco Morazan/Tegucigalpa; (2) Olancho; (3) Comayagua/Cortes/Intibuca/Santa Barbara/La Paz; (4) El Paraiso. In the past, there was an attempt to expand into Yoro, Choluteca, and Atlantida; no new loans are now being made in these regions.

Subsectoral category coverage: agriculture 35 percent, livestock 14 percent, agroindustry 5 percent, industry 33 percent, commerce 8 percent, and services 5 percent. Ninety-eight percent of the agricultural and livestock projects are "rural," 70 percent of agroindustry and rural. Industrial projects are 82 percent urban, as are 73 percent of service projects.

The emphasis, since 1983, on agricultural, livestock, and agroindustrial activities (54 percent of all projects), appears to be due to IDB's grant specifications for loans disbursed between April 1983 and March 1986 under the L800,000 ~~grant. IDH's own funds of L200,000 have been devoted to~~ largely urban activities in the industry, commerce, and services sectors.

The total "active portfolio" of 480 includes unrecoverable loans not actively serviced, some of which matured several years ago. The percentage of unrecoverable loans is 32 percent in Zone 1 and 16 percent in Zone 2, for a median of

24 percent. Thus, the total number of "active and serviced" projects are estimated to be 365 (76 percent of the "active" portfolio).

Principal Objectives

Stated objectives are (1) to promote small livestock, agroindustrial, industrial, and service enterprises and to contribute to Honduran social and economic development; (2) to grant loans to enterprises, groups, or persons with scarce resources and without recourse to other institutional credit sources; (3) to create new sources of employment in urban and rural areas through the creation and strengthening of small enterprises.

The program appears to reflect adequately these objectives. It is perhaps worth noting:

- Neither technical assistance nor training are mentioned in the objectives; such assistance is, in fact, modest and closely tied to loan goals.

- Though employment generation is a stated objective, discussions with staff and available documents show that projects are not systematically approved on the basis of perceived employment effects.

- Since 25 percent of IDB's grant was earmarked for disbursement to women, IDH has integrated de facto WID goals into its objectives. Also, during a one-year period in 1985-86, of 43 loans out of IDH's own sub-fund, 16 percent were granted to women.

- Despite inclusion of groups as target beneficiaries in the objectives, 97 percent of projects are individual, requiring individual assistance methods.

Program Operative Principles and Methods

Some operating principles are: central portfolio management; zone-based loan supervision, technical assistance and training; mandatory borrower commitment to training and technical assistance (e.g., borrower must agree to oversight of books by the supervisor); delivery of credit and direct technical assistance by the zone supervisor (who makes visits

to the enterprise site, and thereby combines the consultation and collection functions).

The technical assistance and training mix is provided on an as-needed basis, with once-a-month, on-site consultations and an annually planned program of three management courses (these are delivered in the zones). Management training is complemented by technical production courses, increasingly integrated on a more tailored basis, and these are implemented by non-IDH (usually INFOP) staff. In all, training involves a low level of effort, and both training and technical assistance are subordinated to purposes of the credit program. However, an interesting extension practice is the distribution of informative pamphlets on a number of management and technical topics.

The loan disbursement policy stipulates that loans will be made, when possible, to suppliers for fixed investments. (Procedures include invoice examination and control of direct disbursements).

Loan approval procedures are highly centralized with the record keeping and database functions being performed in Tegucigalpa. Zone branch offices provide limited loan supervision, technical assistance delivery, and coordination of training. Zone branch offices, furthermore, have no planning or decision inputs.

Capacity of Management

Top management has broad professional experience and family business management experience; it should be noted that the Executive Director also worked in Banco Atlantida for 17 years. The organization suffers from the lack of a mid-management level, i.e., below the Director and above the zone supervisors. The portfolio assistants have minor oversight and monitory functions, their main responsibility being to enter data into the computer.

Loan officers (zone supervisors) have from two to four years of experience in their tasks, and adequate formal education and training; none of the supervisors, however, has acquired specialized training in extension, techniques of consultation, training of trainers. The single permanent trainer, moreover, is a novice with some prior work in adult informal education, but no preparation in training needs analysis/objectives/design or evaluation. All management tasks could be tightened if staff were to undergo training in extension techniques and management.

Any expansion in portfolio size or technical assistance activities will require the hiring of new extension and technical staff. The high level of staff commitment and cohesion appears to be reinforced by the staff's evangelical religious orientation.

Administrative Procedures and Organizational Effectiveness

At the technical/managerial level, the loan officers have two to four years of experience at IDH. All have commercial studies backgrounds (one is an agronomist), but no direct entrepreneurial background.

Loan officers appear to carry fairly heavy loads of loan supervision; at least, this is the case of regional loans officers who cover large territories. All loan officers seem to be limited in the amount of direct technical assistance they can offer by the lengthy project profiles/studies they are required to complete. They are also sometimes required to come to Tegucigalpa to defend or explain a loan application they have forwarded to the Review Committee. The amount of technical assistance and training offered to clients is, therefore, low, and it is unlikely that the target of one visit per month is met.

The number of borrowers per loan officer is at most 120 (480/4). The number of clients actually receiving services from a given loan officer may only be 91 (365 active borrowers, as calculated in the "coverage" section above, divided by four).

The number of all projects per permanent professional staff is 60, or 46, if only active "serviced" projects are considered. The number of solicitations in 1986 was 472. Of this number, the number of profiles ultimately presented to the loan review committee was 309, or 65 percent. The loan officers are under some pressure to produce profiles, but they either find only 65 percent bankable projects or drop requests on slight technical grounds. Criteria for profiles and approvals should be reviewed.

Planned versus actual performance in training for 1986 is as follows: 17 courses in general administration (15-hour course) were planned, three were implemented; four courses in basic accounting (8-hour course) planned, two were delivered; four courses in marketing (7-hour course), two ultimately given; four in cost control (14 hours per course) planned, three implemented. Of four courses to be given in finances, none were offered. On the other hand, five unplanned courses

took place: one in legal aspects and four in technical production areas. The average number of participants was 15 per course in the management areas and 18 per course in the technical fields.

The fairly impressive level of loan application, profile preparation, and review (though perhaps not approval) is offset by the arrearage problem. One estimate of arrearage in January 1985, based on 342 active projects, put total arrears at 29 percent (source: IDH-ANDI/PYME Project Document). This compares to a figure of 42 percent given by Kilby and D'Zmura in 1983. The current level may be higher than 29 percent, but this figure matched the estimate provided by the Olancho loan officer: 60 delinquent loans (2-3+ payments late) among 152 projects; 24 of these delinquencies were old loans without collateral, which if written off, give arrearage equal to 29 percent.

Indications are that the new Director has been making maximum use of legal services to press for payment of collateralized loans.

Evaluation

No donor requires a comprehensive organizational evaluation. However, the in-house evaluation conducted by IDH to report to IDB on performance of that fund allows some inferences regarding both organization performance and capacity to conduct evaluations. No documents study staff performances; the annual reports of loan officers, however, show a cursory evaluation of credit management skills, e.g., numbers of profiles, numbers of new loans, and arrearage.

Impacts on beneficiaries: The three-year effort with IDB required annual reports. One such report provided some basic analysis on jobs created, income generation, and data on sales/production increases at the level of the firm. Some statements were also made concerning improvements in family living conditions. Technical assistance needs determination appeared to be an afterthought. Despite this attempt to provide data and analyses, evaluation at the level of beneficiaries is embryonic.

Cost Efficiency/Effectiveness

For 1986 , total administrative and variable operational costs were L270,295. The proportion of the latter (as an indication of level of effort in program) to all costs was 12.3 percent (33,260/270/295) and the ratio of all costs to these specific operational costs was rather large, 7.1 to 1.

Training and technical assistance functions are few. Since they are now the responsibility of the loan officer, they appear as administrative overhead.

By the end of 1986, 196 loans, valued at L614,198, were either approved or pending. The ratio of administrative costs to the value of new loans extended is 43 percent, or, the cost to loan one lempira is 43 centavos.

The cost of training 225 participants in 1986, was L12,400 or L55 per participant. As stated, the proportion of administrative costs to (training/technical assistance) program costs is high, but program emphasis is on the administration of the loan portfolio, and here, costs of new loans are relatively low or cost-efficient.

Program cost effectiveness data is not wholly consistent. However, with a calculated 0.5 permanent job created per loan project, at an average cost of L1,391 per loan (average size in 1986 = L3,235 at .43 per lempira), the cost per job created was L2,782.

Level of Self-Sufficiency

Internally-generated funds consist of interest revenue (16 percent) and one-time service fees for technical assistance and training (3 percent). It is unclear, however, how portfolio receipts are applied to organizational recurrent costs; there is no apparent application of the service charge to the budget line items for training. There is no system of forced savings administered by the organization.

Interest received on loans in 1986 (to November 31 only) was L106,321 for all credit lines, compared to total costs of L249,210 (same period). Other income of uncertain origin ("supervision" and "operation") brings total income to L203,552.

The 1983 IDH grant fund from IDB has been loaned out, with uncertain recovery rates. IDH is currently seeking funds from the InterAmerican Foundation to establish a new credit line and to strengthen regional offices. A small grant from ANDI/PYME of L17,000 was used to open a regional office in Siguatepeque at the end of 1985. Other small grants include a loan fund of L78,000 from the Reformed Evangelical Church. Smaller sums of unspecified origin were applied to operations.

Problems

The technical staff, particularly the loan officers and the coordinator of training programs, is stretched too thinly. Conflicts may also exist from combining the loan control and technical assistance duties under the loan officer. The pool of expertise in loan portfolio management may be adequate (this is not certain), but knowledge in technical production areas, and in extension methods is not.

The general poor health of the portfolio leaves IDH without sufficient income to cover costs, or to expand and upgrade staff functions. The problem of recuperation is partially based upon the legal inadequacy of guarantees for pre-1983 loans. The high rate of delinquency in the post-1983 loans also indicates an alarming trend. However, increased recourses to legal redress, higher staff awareness, and top management resolve to stiffen procedures may, over time, lead to the development of a recapitalizing fund, and sufficient portfolio income, to deal with capacity problems. The same consensus regarding possible new directions in loan policy (possible upscaling) may not exist in order to follow. This, in fact, may be a better route to improved portfolio health than upscaling loan disbursements. This may also require a fresh infusion of loan funds with flexible target requirements.

The possibility of expanding the portfolio exists. Though some of the staff feel that IDH is over extended in its geographical coverage, there is more than enough demand for credit to warrant a 50 to 100 percent increase in IDH's portfolio.

Capacity to Expand

The management capacity to expand exists, both to increase technical and loan promotional staff, and to increase portfolio size. A management information system is almost in place for credit operations, though not for administrative accounting. Some further assistance in organizing data for computer analysis and processing is necessary.

Expansion will require additional staff. Revenues to support the additional costs (salary, etc.) cannot be generated with the size and health of the current portfolio. Budgetary support will, therefore, be necessary during the initial phase of expansion.

INDUSTRIAL DEVELOPMENT CENTER/RURAL TECHNOLOGY PROGRAM (PTR)

Introduction

PTR is an AID-funded project with CDI, a semi-autonomous government agency. PTR, begun in 1979, is an outgrowth of the Small Farmer Technologies Project in the Ministry of Natural Resources.

The original project design relied on a coordinating body of several government agencies. The process was deemed cumbersome and CDI was chosen to house the PTR program.

Coverage

Clients

PTR works exclusively in the rural areas. Since program inception, approximately 12,000 beneficiaries have been assisted. In 1986, PTR worked in 233 rural communities and assisted 3,764 new beneficiaries, including 54 in small enterprises development; 420 in rural home improvements; and 3,263 in agriculture. The general client focus of the program is on families, specifically, heads of household. Women are supported through home improvement technologies. An overall estimate, based on a sample survey, indicates that 32 percent of program beneficiaries are women.

Geographic

There are six regional rural offices (North, West, Central, Olancho, East and South), each divided into three zones.

Small Business-Rural Industry

PTR staff estimates that there are 10,000 small rural industries employing 23,000 workers. In 1986, PTR reached 54 small enterprises with credit and technical assistance. Sixty percent of the enterprises serviced were agroindustry, approximately 40 percent were micro, and 7.4 percent were owned by women. (PTR defines small business as those with assets below L50,000.)

Principal Objectives

(1) To improve the well-being of rural poor by increasing incomes of small farmers and rural enterprises

(2) To improve the well-being of rural families other than through income

The program emphasis is on small farmers with from 0-30 manzs (emphasis less than five); on rural industry that can create one job with a capital investment of L3,000; and on rural families with incomes of less than L600 per year.

Program Operating Principles and Methodology

Views

PTR views small (agro) industry as a complement to agriculture, and as such, it cannot be separated from agriculture. PTR employs the farming systems approach where activities of the farm, village, household are treated as a whole rather than separate entities. The focus is on technologies that address problems identified by farmers and households.

Operations

The PTR program provides technical assistance directly and through PVOs; it provides credit primarily through a commercial bank with branch offices in the countryside. A multi-disciplinary team is employed by the regional offices. Problem solving, planning, and evaluation is done in the regions, although management is centralized in Tegucigalpa.

The program has a high turnover of beneficiaries, e.g., in 1986, 3,000 new beneficiaries were assisted, 12 percent through PVOs and 88 percent directly. Plans for 1987 include 4,200 new beneficiaries, 30 percent to be assisted through PVOs.

Small Business Agro-Industry Component

Previously, the PTR had five-six small business advisors ~~per region, each handling approximately 20-30 clients~~. Currently there are one-two small business advisors per region. Initially, PTR provided only technical assistance to clients. Now a complete technical assistance process is implemented including credit, follow-up, technical assistance, and marketing.

Credit

PTR is currently re-evaluating its credit policies and procedures. The fund managed through the bank has a 16 percent interest charge; the bank keeps 4 percent for administrative costs. PVOs approach PTR for credit funds and an agreement is signed between the PVO and PTR: 80 percent of the fund goes directly to credit and the remaining 20 percent goes to the PVO for operating costs; 6.5 percent is returned to the program.

Training and Technical Assistance

PTR has an in-service training program for staff in farming systems. There is no specific plan for training and no training officer. The annual budget for staff training was L200,000. In 1986, 126 staff members received training -- 11 received training abroad and 115 received local training in technical aspects, program administration, and management.

Beneficiary training is provided by staff, other training institutions, and outside experts. Three hundred twenty-seven beneficiaries received technical agricultural courses in 1986. The technical unit and the regional teams provide technical assistance to beneficiaries. Monthly visits are made.

Technology Promotion

There are three steps in technology development and promotion: (1) technical design in the lab, (2) validation through field tests, and (3) dissemination through credit.

Management

AID has a direct managerial role through participation on the Executive Committee. Technical functions are decentralized to the regional branches, while management and decisionmaking are centralized in the Tegucigalpa office. There are 158 staff members: 62 in the central office (39 percent) and 96 in the field (61 percent). Of central office personnel, 53 are management/administration (85 percent) and nine are technical (15 percent). Of field personnel, 65 are technical (68 percent) and 31 are management/administration (32 percent).

Credit program policies and procedures are currently being re-evaluated by staff. In 1984, the program received US$4 million for credit: L968,000 was disbursed to ten private organizations (including PVOs) to benefit 2,384 people

(440 or 18 percent received assistance in 1986; L293,000 was disbursed through the Banco Occidente; and L790,500 was disbursed directly through the PTR for 116 loans -- L304,881 (28 percent) to small business and L778,600 to small farmers (72 percent). Staff seems reluctant to devise new credit policies and requires training in this area.

Staff turnover among top level managers and key technical staff is high, reflecting government and political changes. Since PTR is a program, not a permanent organization, there is some insecurity on the part of the staff. The staff is highly committed and hardworking. Efforts are made to ensure staff understands program methodology (farming systems) through in-service training.

Fifty-four percent of the programmed budget was spent during 1980-85.

Administrative Procedures

Credit: the rate of delinquency is estimated at 20 percent, although no details could be obtained. The current interest rate (16 percent) is thought by staff to be too high since other funds charge 11 percent and sometimes 7-8 percent. This has caused problems in extending credit and disseminating technology. The interest rate is the same across the board. (Of the total US$4 million available, L27,000 was extended in 1985 and L1,083,475 was extended in 1986.) The delinquency rate is estimated at 20 percent, although this includes "credit" that should have been assumed under research/experimentation costs of developing the technologies.

The budget approval process and flow of funds is bureaucratic and complicated due to different AID/GOH fiscal years and budget approval necessary for two different GOH ministries. There are delays in transmitting documentation. Frequent changes in reporting have been required.

Evaluation

The client evaluates assistance received from field personnel, i.e., the frequency of visits, interest in work, changes in enterprise, problems, and knowledge of field agent. These performance evaluations are reviewed every quarter.

There is one person in charge of planning and evaluation at the central office, whose responsibilities include system design, internal monitoring of PTR and PVOs (based on agreements), collection of base line data, formative and summative

evaluation, including impact at the beneficiary level, and data bank functions.

External evaluations are carried out as accorded by AID agreements. There is a monthly reporting system for gathering data, another system for recording technologies received by beneficiaries, and a third system for analyzing benefits generated by the technologies. None are systematically organized.

Cost Efficiency/Effectiveness

The use of PVOs to implement technical assistance and credit programs and banks to implement programs reduces costs and the number of PTR staff necessary to implement the program.

Employment generated in 1986 in agriculture amounted to 94 seasonal jobs; in small business, 234 total jobs (101 permanent and 133 seasonal).

Credit to generate jobs. In agriculture: L778,600 for 94 seasonal jobs (L8,283 per seasonal job). In small business: L304,881 for 234 jobs (L1,303 per seasonal or permanent job). Forty-three percent of jobs created by small enterprise were permanent; zero percent of jobs created in agriculture were permanent.

Level of Self-Sufficiency

PTR is a component of CDI, and, consequently, PTR's and CDI's budgets are almost the same. CDI, however, has a narrower concept of development and a narrower government mandate than PTR.

PTR's image as that of government agency produces a reluctance among beneficiaries to repay loans. PTR is also wholly dependent on GOH funds from GOH and AID, and needs to seek other donors.

Loan policies and procedures need to be re-evaluated because interest rates are too high and not flexible. Other problems are high staff turnover due to government and political priorities, and high program cost. Although problems of coordination have decreased since the initiation of the project when a number of government agencies were directly responsible for implementation, financial procedures still are subject to delays. Little internal linkages within CDI; much duplication of efforts and administration.

Capacity to Expand

The major orientation is agriculture, with a decreasing focus on small business. There is a mechanism for using PVOs, private agencies, and banks as program implementors and a desire to expand this kind of operation.

WOMEN IN BUSINESS PROGRAM
(OEF)

Background

The program was initiated in May 1985 by OEF International, a U.S.-based PVO with offices in Honduras, as a regional program to be funded by AID/Washington.

Projects began in June 1986. Program linked to ODEF, a local PVO which represents OEF in Honduras.

Coverage

Presently work in Yoro and Cortes, excluding the city of San Pedro Sula because FUNADEH is serving it. Beneficiaries are individuals or groups divided into two groups. "First level" women have never had access to credit. They receive, therefore, training and technical assistance in addition to credit. To date, a total of nine loans have been granted; by June 1987, the total should rise to 32. Training is often extended before the credit. It is expected that by June 1987, 95 women will have received training. "Second level" women have access to technical assistance and marketing and may be from any part in the country. Sixty-one women were assisted in 1986.

Program Activities

Credit, training, technical assistance. Data Bank in Washington connected to the U.S. Department of Commerce and the Information Office of the Organization of American States. Publication "Intercambio" U.S. Delegations to provide assistance. Visits of beneficiaries to the United States.

Objectives

(1) Training women interested in participating in the project who are presently involved in a productive activity and have never had access to formal credit. Training consists of courses on feasibility studies, credit, and marketing so they may adequately manage their enterprises.

(2) Provide credit for fixed capital or working capital.

(3) Provide new job opportunities for women.

Operative Principles and Methodology

- All staff have to go through approximately three months of field training
- Socioeconomic survey of community where business is located done by OEF staff
- Beneficiary must do feasibility study assisted and trained by program. This results in an investment plan and a financial projection.
- Women must go through training modules on credit and marketing before submitting credit applications.
- Credit application submitted to Cred't Committee -- Central American Director, Honduran Director, Program Director, Representative of Banco de Occidente and the "Tecnica" (field person)
- Signs agreement with OEF -- no guarantee
- After approval, beneficiary goes to bank for first disbursement and opens a savings account to withdraw funds as needed.
- Bank handles documents and receives payments, sending each beneficiary account statements and informing the program of payments.
- Follow-up and supervision immediately after credit.
- Introduces technical assistance costs to the beneficiary from the beginning.
- Women are responsible for contributing something (e.g., lunch for outside technical assistance).

Capacity of Management

- Both the regional Director and Honduran Director actively support the program.
- Staff consists of nine people: a Program Director, two technical assistants, two Peace

Corps Volunteers, and four trainers (used by both programs). Staff exhibits high academic qualifications and experience in small business, economics, credit programs.

- Commitment to OEF methodology seems to be high.

Administrative Procedures/Effectiveness

- Four months from the beginning of the feasibility study to first disbursement -- time does not represent problem in rural areas

- Loan portfolio amounts to L200,000

- Sixteen percent interest; one year minimum, three maximum; grace period depends on economic activity; want to provide credit for 12-15 months to rotate fund faster

- Twenty-five percent of total costs are local administrative costs; 36 percent are OEF's Washington overhead

- No delinquency rate to speak of; one women two months late in payment

- Credit tied to training

Evaluation

First program evaluation conducted in April 1987. Methodology unknown.

Cost Effectiveness/Efficiency

(Not enough data to determine).

US$1.1 million grant for three years, expected to benefit 325 women first level, 155 second level, other indirect beneficiaries 375. ~~OEF reports a cost of US$450 per beneficiary.~~

Level of Self-Sufficiency

- Dependent on donations, often from local resources.

- In-kind donations from different agencies for services and technical assistance.

- Grant from ANDI/PYME for four trainers (L74,200).

Problems

- At first, tried to solve all credit needs at once, and granted loans up to L15,000
- Need to rotate the loan fund faster
- Currently discussing need to charge for technical assistance; such a charge may be deferred until the business has the capacity to pay

Capacity to Expand

- Personnel would have to be increased to accommodate any attempts to expand coverage
- Would like to support more women of second level
- Currently has the capacity to provide training to other institutions but does not have a marketing strategy for promoting it (a manual oriented methodology). Presently negotiating with FUNADEH and APRODIB. Methodology can be adapted to WID projects
- Discussing possibilities of including women with past business experience that are interested in re-establishing operations

PARTNERS OF THE AMERICAS

Background

Partners implements the Integrated Rural Development Project. For the first three years, the project focussed solely on agricultural development. A proposed three-year extension seeks to enlarge the focus of the project and to demonstrate the feasibility of assisting rural small businesses, and of addressing women/family development issues and agroforestry problems. Geographic coverage will shift from a concentration of activities in the Sabanagrande area to six areas serviced by Partners' branch offices.

Coverage

As of March 1986, the project's agriculture and income generation components covered 700 persons; 100 of these were women. The 700 included:

- 325 primary participants: small holding farmers receiving full agricultural training and services
- 375 secondary participants: small cultivators and producers assisted by primary participants

Some farm and off-farm producer groups targeted by the Partners Rural Integrated Development Project include:

- 25 vegetable farmers/marketers
- 15 plotters
- 15 fruit processors (women)
- 3 constructors of silos
- Flour and bread making

~~Beneficiaries live in 51 communities in ten geographic~~ areas in the Sabanagrande Region. The new national coverage proposed would include contiguous rural areas serviced by branch offices in Sabanagrande, Tegucigalpa, San Pedro Sula, Siguatepeque, Juticalpa, and Amapala. Beneficiary coverage for for the second three-years period will include a credit program limited to (a) Sabanagrande participants; (b) program participants in (CAPS) Vermont Training (from different regions); and (c) Amapala Fishermen Fund beneficiaries.

Principal Objectives

The Integrated Rural Development Program seeks to promote human and economic development in the rural areas of South Central Honduras by assisting smallholding families in agricultural and agroforestry techniques, thus, enabling them to increase their incomes. A goal recently introduced into the program, in addition to agroforestry/conservation and home/health improvement, is the development of small business opportunities in program areas.

The desired expansion, including the establishment of a credit loan fund of L500,000 to L1 million, is dependent upon the procurement of new funds, in addition to the funds arising from 1986-89 OPG agreement with USAID.

Operating Principles and Methodologies

The Partners' IPD program follows a "wholistic" program approach. It provides services gradually and expands the range of services only after close interactive work in a community.

- Agricultural assistance consists of: training of "tecnicos de campo"; experimentation and field testing through staged interaction with primary and secondary groups of beneficiaries

- Credit assistance consists of a small fund for farm supplies, provided through a farm store, in amounts of L100,000 to L200,000

The current IRD income-generating project components cover:

- Improvement of basic money management skills, and the development of two to three model small businesses to be implemented by participants

- Agricultural production and marketing activities such as establishing and promoting marketing outlets (road-side stands and cooperatives)

- Development of value-added processing and packaging techniques for local products

- A credit fund of L100,000 to promote "family-sized business" through short-term loans (maximum loan size of L4,000 to L5,000; total

interest 16 percent other terms, conditions, and methods for delivery and recovery are not specified)

The credit and technical assistance program to be extended to some six regions, and for which funds are being sought, contains the following elements:

- Micro-oriented
- Credit for short-term working capital or for specified construction and equipment (terms similar to those of the L100,000 fund)
- A package of technical services in: (a) management, (b) product design, and (c) marketing
- An attempt to continue the goals of AID's Artisans Project; promotion of exports to the U.S. through a U.S. firm; product design to attract both Honduran and U.S. markets
- Three regional offices, each with a staff of only two or three persons, a promotor (who provides needs assessments, loan application help, and ongoing technical assistance), a loan officer (who supervises loan distributions and collections), and perhaps a technical specialist
- Use of CAPS funding to send small business persons for training in the U.S.

Capacity of Management

Senior management is well-qualified in integrated rural development but has limited prior experience in loan portfolio management and procedures. Unless recruited from parallel organizations, the new regional "promotors" and loan officers will also be without experience in credit operations.

Administrative Procedures/Effectiveness

With regard to the 1986 beneficiary level in the current IRD Program in Sabanagrande:

- Ten trainer-promoters are working with a total of 700 small cultivators, or an average of 70

participants per promoter, with complementary assistance from 18 trained "tecnicos"

- Tecnicos are also providing basic AG skills training to 112 farmers, or a ratio of six participants per trainer

Overall Staff

The staff consists of thirty-three persons. The Head Office has a coordinator, an accountant, and four support staff (total 6) and Sabanagrande 18 promoters and eight support staff. Five Peace Corps Volunteers complete the training staff.

The 1986-89 LOP IRD Project Grant provides for a total of $1.4 million. A one-year budget (1986-87) provides for a total local currency operational budget of L563,000.

- Salaries are 40 percent of budget
- Operational variable costs as a percentage of all costs (excluding technical assistance and other outside costs in dollars) are 42 percent (239,400/563,000)
- Ratio of all costs to operational variable costs is 2.4 to 1

Evaluation

An external evaluation is currently being carried out. Internally, Partners does not evaluate specific project components as such, but does carry out data collection and analysis for beneficiary level impacts. Data on increased crop yields and increased income for craft producers exists and is utilized.

Cost Effectiveness/Efficiency

The project has determined that many small farmers have doubled or tripled corn and bean yields. Some micro producers (potters) have increased income.

Level of Self-Sufficiency

The project is wholly dependent upon grants. Projected loan portfolio revenues (i.e., interest income) are uncertain.

Partners would like to open a line of credit of L500,000 to L1 million in addition to the Partners IRD grant from USAID. The U.S. Coordinator indicated that an initial FOPRIDEH grant of L200,000 might be obtained, if IDB or other donors would agree to participate in the loan fund, and if ANDI/PYME would provide about L200,000 for technical assistance.

Problems

Apparent lack of experience and staff resources to manage a large loan fund or to provide parallel assistance and training related areas.

Capacity to Expand

Expanding the current smallholder/agriculture and community/home improvement/health activities appears to be primarily a budgetary issue and perhaps a budgetary/organizational issue insofar as Peace Corps staff resources are essential to carry out the program components. Expanding the program into new areas through small enterprises development may be feasible, if issues of relevant staff training, experience, and skills were resolved.

INSTITUTO NACIONAL DE FORMACION PROFESIONAL (INFOP)

Background

The National Vocational Training Institute (INFOP) was created in 1972 as an autonomous public institution, with a Directive Council consisting of representatives of the state, private sector, employers, and workers' organizations. Its operative apparatus includes fixed regional centers with technical training programs for the industrial sector, regional mobile centers to serve the agro-livestock sector, and a management training section operating cross-regionally. In 1979, INFOP created the Consulting Program for Small and Medium Industry (APYMI) in part due to the perceived indifference of small and medium industries to INFOP programs and in order to more fully utilize its capacity. Recent initiatives, in addition to participating in the competency-based job certification program under CADERH, involve official efforts to orient programs towards needs identified by business and trade associations and an increasing de facto collaboration with Honduran PVOs providing training for SSEs.

Coverage

Geographical coverage radiates principally from the three regional centers in Tegucigalpa, San Pedro Sula, and La Ceiba that provide industrial and commercial skills training. The eight mobile centers, divided strategically among the regions, provide agricultural, trade/vocational, and management development training. In 1984, INFOP enrollment accounted for 47 percent of all vocational industrial training (i.e., not including agricultural and office/commercial training).

Coverage by economic branch or activity is too lengthy to detail, but broad sectoral/functional coverage of INFOP training in 1986 included:

	Number Finished Courses	Approved Graduates	Hours/ Instructions (Courses)	
All industrial, trade, and artisanal	760	7,893	135,115	68 percent
Agro-livestock	696	7,799	46,716	23 percent
Economic administration and management	561	8,284	18,149	9 percent
Total	2,017	23,976	199,980	100 percent

SSE access to INFOP technical training can be seen in 1984 figures indicating graduates of INFOP training courses by enterprise categories:

Micro	Small	Medium	Large
17 percent	29 percent	44 percent	86 percent

Management Training/Consulting

In 1986, the San Pedro Sula Enterprise Training Section carried out 104 courses and 47 seminars for top level management of 23 private companies and public organizations. Two other recipient groups were "affiliates" and "beneficiaries" of FUNADEH and ANDI/PYME. These SME clients also figured among the 18 enterprise groups receiving on-site management "diagnosticos" and consultancies.

In 1983, INFOP stated that inasmuch as large enterprises received management training from private firms, its training would be reserved for "Strata I and II" or small and medium enterprises.

Principal Objectives

To contribute to increasing national productivity and socioeconomic development through vocational training, defined as any action to prepare, readapt, or promote an individual's performance of a job in any branch of economic activity.

Program Operative Principles and Methodology

Instructors, in addition to certification, must undergo two months of training in training methods, emphasizing active techniques, inductive and deductive modes, and simple visual materials. Extension mobile training in regions emphasizes a month of prior living in the target community.

Technical training programs are designed for on-site training in particular industries and are provided free of charge. In theory, training needs assessments are conducted at all levels/stages of production.

Management training is seen as a complement of assistance in technical and financial areas. INFOP management training, in theory, relies upon a diagnosis performed within the enterprise.

The Enterprise Training Section is formed by three units: (1) mid-level management, (2) in-plant administration/technical training, and (3) management development (for upper management and owners).

Capacity of Management

An evaluation conducted in 1984 with CADERH and USAID collaboration proposed a number of measures to increase managerial effectiveness. In 1986, INFOP had a total of some 670 employees, of which 270 were instructors. All indicators point to several layers of underutilized managerial and administrative staff. Of the total training staff of 280, the Enterprise (management) Training Section currently has a training/consulting staff of nine, all trained at the Licenciatura or Maestria level.

Administrative Procedures/Effectiveness

The global budget for INFOP in 1985 was L13 million and is now about L14 million. According to the 1984 evaluation, administrative costs represented 39 percent of all INFOP costs that year.

In 1986, an average of 14.8 weekly hours of instruction were provided by each INFOP instructor (training staff = 270, 50 weeks to a year). Courses per trainer averaged 7.5 for the year.

The 1984 evaluation pointed to a considerable underutilization of well equipped and competently trained staff in the training centers. Technical division for studies and training needs assessments were also underutilized.

Comparing 1986 plans to actual implementation, the San Pedro Sula Enterprise Training Section found the following:

- Courses and seminars realized = 156 / Courses and seminars foreseen = 193 — 81 percent
- Hours of instruction provided = 4,315 / Hours of instruction foreseen = 5,620 — 77 percent

Evaluations

INFOP training units have monthly and annual performance targets, which are reviewed by planning and management staffs and appear in periodic reports. Evaluation seems to be limited to numerical data. Post-course evaluation forms are

routinely administered. No other form of impact data analysis is done regularly.

Cost Effectiveness/Efficiency

Comparing the global level of the budget (L14 million) to the total number of hours of instruction in 1986, the cost per hour of instruction was 70 lempiras.

Level of Self-Sufficiency

Private sector support provides 90 percent of INFOP income (based on the 1 percent payroll levy); 8 percent from public and/or donor assistance; and 1 percent derived from sales of products of the various training centers. No consistent means are used to control production or establish sales prices.

Problems

Instructor and technical staff salaries are frequently too low to allow for staff retention and motivation. Despite the 90 percent private sector support (publicly enforced) for INFOP's budget, only 50 percent of its resources go to the paying private sector.

INFOP suffers from a poor reputation in many areas of training, both with regard to quality and relevance of training. Rules and norms are needed to control the identification and specification of training needs and objectives and the delineation of standards.

In the management/consulting area, further adaptation of training content areas, methods, and delivery mechanisms would be required to reach small and micro entrepreneurs. The relevance of INFOP training appears to be more readily perceived in technical and direct production-related areas.

Capacity to Expand

Vertical expansion, in terms of unit outputs, is probably possible with existing fixed resources and funding, given some indication of underutilized staff. Motivation is uncertain. Excess capacity probably exists more on the technical-vocational side, rather than in management and financial training and technical assistance resources.

Subsector Relevance

The unparalleled geographic and formal content coverage of INFOP training makes it relevant to small enterprise development. The key factor in producing results may be the interest of PVOs and other SSE support institutions in working systematically with INFOP.

INSTITUTO CENTROAMERICANO DE ADMINISTRACION DE EMPRESAS (INCAE)

Background

The Central American Institute for Business Administration (INCAE) was established in 1964, with AID assistance, as a private non-profit institution for higher education. With its main academic seats in Nicaragua and Costa Rica, INCAE is currently carrying out activities in several Central American countries. In addition to its mainstay MBA program, INCAE also offers a one-year certificate program, a four-week program of higher management, and short courses and seminars in a number of areas. In 1983, IDB provided INCAE with funds to initiate diagnostic studies and management training for small and medium enterprise support in five Central American countries, among these Honduras. In 1985, INCAE received an Inter-American Foundation grant for a further diagnostic study, enterprise case studies, and training for extension agents and entrepreneurs. These and other activities directed to the small and medium enterprise sector constitute the PYME program.

Coverage

Core INCAE activities are broadly directed toward the middle and upper management of large and medium enterprises, with some policy and strategy-oriented training directed to higher officials of government agencies, trade, and professional organizations. Coverage is described as follows:

	Graduates/Participants 1986		Participants 1964-85
	Region	Honduras	Honduras
MBA program (two years)	80	10	111
Program of functional management (nine months)	Unknown	3	6
Higher management (four weeks)	Unknown	30	279
Short-term courses (various)	Unknown	210	2,375

Training or activity coverage directed expressly at the small (and medium) enterprise sector is comparatively more modest:

	Nicaragua (FNI) 1985	Panama (ASEPADE) 1986	Honduras (Various) 1987
Diagnostic or study	1	1	1
Enterprise case studies	Unknown	Several	6
Seminars, etc. (no participants)	1 seminar/ 1 week (37)	1 workshop/ 1 week	
		1 semester/ 3 weeks (30)	1 semester/ 3 weeks (30)
	1 workshop/ 1 week (37)	1 workshop/ 1 day (19)	
	1 workshop/1 day		

Under the CAFS program, INCAE sent 140 small and medium business persons to four seminars conducted in Miami and 96 of these attended a follow-up workshop three months later.

IAF funds will provide for training for 30 Honduran entrepreneurs, and another seminar for extension agents of some 24 PVO and public sector organizations, among these: IDH, Banco de la Mujer, ASEPADE, INFOP, CDI, BCIE, ANDI, Colegio de Administradores de Empresas, UNAH, FOPRIDEH, FIDE, ACORDE, FEDECO, FONDEI, FUNADEH, ODEF, and Horizontes de Amistad.

Principal Objectives

Higher education, research, and consulting in the field of business administration in Latin America. A specific statement on small and medium enterprise sub-program objectives has not been obtained.

Program Operative Principles and Methodology

The basic teaching methodology for academic degree and short-term training is the case study method, adapted with ~~direct assistance from the Harvard Business School.~~ ~~Branch~~ offices of INCAE plan and execute special courses and seminars of interest to private and public sector groups in the country.

The Small and Medium Enterprise Program (PYME)

PYME is an experimental approach to training based upon the findings of national diagnostics and enterprise case studies in five countries, such as:

- Support institutions are "disarticulated," lacking coordination among themselves, or even between internal units, for credit, technical assistance, and training

- Agents follow a scheme of traditional consulting failing to comprehend the small entrepreneur as an active entity within the global context of the enterprise

INCAE's approach has been to develop the model of the "entrepreneurial extension agent," who acts as a liaison between the support institution and the small entrepreneur.

A second model currently being elaborated is that of the "extension-oriented entrepreneur" based on the abilities of entrepreneurial and "gremio" leaders. In the model, the extension agent or "extensionista" is an articulator and a facilitator of processes and solutions to problems. The entrepreneur remains an active participant, and, hence, makes all decisions for changes within the enterprise.

Capacity of Management

The Director of the Honduran Branch has an MBA and some ten years of experience. The PYME staff consists of five full-time professionals, all at the MBA and Ph.D. level of training. In addition to a Director and Deputy, three investigators carry out diagnostic studies and, together with the Director, constitute the staff of trainers.

Administrative Procedures/Effectiveness

No specific information; coverage is dependent on the annual budget of PYME for seminar-type training.

Evaluation

PYME has attempted to provide follow-up workshops on a regular basis to assess the impact of the training provided. Budgetary constraints have limited the application of such evaluation workshops, however. Participant questionnaire evaluations are routinely applied and there are follow-up visits in some instances.

Cost Effectiveness

Budgetary data was not available. With respect to PYME's short-term instruction, a three-day seminar carries an approximate cost of L400 per participant (L16.60 per hour of instruction). A three-week seminar in Honduras requires about US$1,500 per participant (US$100 per day or US$12.50 per hour of training).

Level of Self-Sufficiency

PYME activities have been grant supported since inception. The prospects for passing costs to clients are unlikely. INCAE works assiduously to diversify donor support and is currently requesting IDB funding of some US$350,000 over three years to experiment with the INCAE/PYME model in six countries and to further develop materials and replicable processes.

Problems

No indications of problems were provided; no external evaluations of the PYME program appear to have been conducted.

Capacity to Expand

Coverage of resource institution training ("Entrepreneurial Extension Agent") could double or triple with existing staff resources.

Sector Relevance

High. The focus is on the development of intermediary/-resource organizations and individuals.

GERENTES EMPRESARIALES ASOCIADOS DE HONDURAS (GEMAH)

Background

PVO established in 1980.

Coverage

Located in San Pedro Sula with an office in Tegucigalpa. Members and clients are urban, principally from San Pedro Sula and Tegucigalpa; a few members from La Ceiba.

A 1985 inventory of member enterprises indicates that 60 percent of of the enterprises are large and 40 percent medium, and that 8 percent of the individual members are women. Approximately 34 percent are service enterprises, 36 percent commerce, and 30 percent industry.

Potential market: estimate 607 enterprises in the four major urban areas and 3,035 executives.

Objectives

- Contribute to managerial and entrepreneur development through the application of new administrative techniques in Honduras; offer courses appropriate to the professionalization of managers and entrepreneurs; create a pool of knowledge for widespread dissemination
- Accomplish the above in an open and cordial environment that encourages each member to develop his/her personal abilities within and outside the enterprise
- Recruit the largest possible number of entrepreneurs and managers

Appropriate Technology/Operating Principles

Training and technical assistance coverage in 1986 amounted to 98 courses on 21 different topics. Forty-two percent of the courses were on management by objectives; 6 percent on professional selling techniques; 7 percent on developing leadership capacity; 8 percent on modern administrative techniques. Sixty percent of the courses given in Tegucigalpa to 58 percent of total participants; 40 percent in San Pedro Sula to 42 percent of total participants. A total

of 1,491 persons trained. Twenty Honduran instructors currently hired; 20 more to be trained in 1987. Coordinates classes with other institutions; in 1985, co-sponsored courses with six management training institutions (INTAE, CADERH, CURN/UNAH, Dale Carnegie, University of San Pedro Sula, and Mendieta y Asociados).

Management/Administration

Centralized. Administration closely watched by the Board of Director. Twelve people in San Pedro Sula office and four in Tegucigalpa. Nine members on Board of Directors; all members elected for two years; two members selected to be the oversight committee.

Evaluation

Monthly internal evaluation. Semester evaluation by AID. Annual plan and budget (approved by the Board of Directors).

Cost Efficiency/Effectiveness

Approximately L15-L25 an hour per participant for a management by objective course.

Self-Sufficiency

As of October 1986, capable of self-sufficiency. In December 1985, was 77 percent self-sufficient (no AID funds).

Problems

No major problems. Has a good image and a high potential for survival.

Capacity to Expand

Can accommodate a larger coverage of the present target group. Needs to change if expansion were to include micro and small enterprise.

CENTRO ASESOR PARA EL DESARROLLO DE LOS RECURSOS HUMANOS (CADERH)

Background

The Advisory Council for Human Resources (CADERH), was established with funds from USAID to promote private sector growth by strengthening the quality and job market relevance of vocational training. CADERH has since undertaken other industry-related human resources support and information activities with the support of USAID. The main focus has been on establishing a performance-based job certification system along formal and informal lines. Trade areas currently covered by the system are welding, precision mechanics, wood/carpentry, and bookkeeping. Additional funding, under the three-year extension of PACD, will allow the trade areas to increase to ten. Another focus has been on supporting and improving the training provided by INFOP.

Coverage

The principal component is carried out in association with trade advisory committees that represent large or at the very smallest, medium-sized industry.

Insofar as INFOP training comes under this program, skills upgrading may ultimately reach SME beneficiaries: in 1986, some 16,000 people were trained by INFOP in non-agricultural, vocational-technical and commercial areas, and as many as one-third of these may have been employees of small enterprises.

Other project studies and services, identified below, may have marginal sub-sector impacts. The Productivity Project under CADERH, however, may carry more immediate benefits. In 1984, a CADERH/USAID study examined some 55 vocational/technical training institutions, including three major and 14 lesser ones in the INFOP complex, and some 35 private and/or PVO-run centers. The study estimated that (1) approximately 43 percent of the private centers produced more "graduates" annually than the government centers and INFOP combined, and (2) in serving small workshops and informal sector businesses, the private centers also had a higher rate of successful job placement.

Objectives

In addition to the focus on job market relevance and quality of training of 15 institutions, a concurrent CADERH

objective is to advance budgetary self-sufficiency of the assisted training centers through integrating commercial production activities with instruction in order to recover the operational costs of the centers. Specific goals for assisted centers include a trainee retention and graduation rate of a minimum of 80 percent; an increase of the job placement rate to a minimum of 80 percent of graduates; recurrent costs recovery rates of 50 percent for private vocational educational institutions, and, for public sector institutes, self-sufficiency for purchases of material and equipment maintenance.

The Productivity Project is expected to benefit SMEs; however, neither formal project objectives/outputs nor CADERH attention focus specifically on SME subsector impacts.

Program Operative Principles and Methods

Productivity Project

With a local currency fund of L7 million for technical assistance, and additional funds to upgrade fixed assets, this CADERH program is to assist 15 private and public vocational-educational training centers that service small enterprises, among others. Features of the CADERH program include:

- Grants (up to L350,000) and technical assistance, based upon a formal proposal submission and entry criteria, including CADERH membership and job certification participation

- Pre-grant technical assistance, for proposal preparation through GEMAH and "Management by Objectives" seminar (two days) at level of Center Administrators

- Training -- essentially manuals and curricular materials/media support, training of trainers for certification

- Additional grants (15,000 to 10,000) to establish revolving funds for production and additional loans from CADERH revolving funds for production materials and outlays, at 15 percent annual interest.

- Fund for loans to students for room and board costs at 10 percent annual interest

INFOP

Past instances of assistance to INFOP include the provision of training (through the competency-based instruction and Advisory Committee System) and follow-up studies of INFOP graduates. Currently, INFOP is being provided: (a) funds to equip a computer training center; (b) funds and technical assistance to carry out a national level study on employment and the impact of training; and (c) funds to contract an audit/study of accounting reforms within the Institute.

International Marketing and Commerce Program

With US$3 million and an eye on the CBI, this CADERH-assisted program will work with FIDE and FEPROEXA to identify activities with export potential that need additional training (from the U.S.). CADERH will be responsible for host country contracting and will assist in industry-specific training needs analysis.

Assistance to Management Training Organizations

The original goals were (1) to coordinate the diverse activities of many training centers, (2) to set up informational meetings, and (3) to publish a calendar and description of management-related courses on a biannual basis. The calendar is now being produced with some regularity.

Funding has also been provided through CADERH to carry out the training of management trainers. Some 20 instructors are currently in training and another 60 have participated in one or more training modules.

Assistance to ITEC, the Technical Institute of the Accountant of the Colegio de Peritos Mercantiles

Assistance to ITEC, through Central Texas College, is to support the development of a program for bookkeepers, with individuals and businesses as beneficiaries.

Studies Realized under CADERH

Two pre-project studies were carried out in 1984 by outside groups or individuals. The first study was undertaken by the American Management Association. It examined the management training needs of "small, medium, and large enterprises," and the training resources of 16 institutions, including universities, associations, consulting firms, and individuals. The other study, cited above, reviewed 73

vocational training programs (55 industrial/artisanal) in Honduras.

Capacity of Management

CADERH staff includes some 20 persons of whom eight are professionals. Six of the professional staff have expertise in non-formal education, vocational education, and related human resources areas. Two of the professional staff, including the Executive Director, have experience in private sector management and ties to industry. Overall, management is reputed to be sound. Results of an evaluation currently underway are not yet available.

It is apparent, however, that CADERH does not have the institutional interest or focus to provide enlarged human resources-related services expressly to small businesses. CADERH probably does have the management capacity to provide local and host country contracting services to USAID. Contracts and/or grants should be relatively small and involve only minor performance oversight or technical qualifications to assure performance. Currently funded studies (U.N.A.H., etc.) and, to a lesser extent, training of trainers (G.E.M.A.H.) provide examples of the feasible. USAID should not look to CADERH as an "umbrella" mechanism for training on technical assistance services to small enterprises.

Administrative Procedures/Organizational Effectiveness

Insufficient data prevent conclusions regarding organizational effectiveness. It may be noted, however, that CADERH staff obtain good results from approximately seven objective oriented programs, with district target groups.

Some indications have already been provided concerning the Productivity Project, and some further observations are made below. Other CADERH activities (with the exception of the assistance to ITEC) are probably marginal in terms of impacts on small enterprises, except insofar as labor productivity promotes development, presumably beneficial to small enterprises.

The other exception involves INFOP, to which CADERH is providing minor assistance currently. In 1983, the 8,700 INFOP participants were 47 percent of all vocational-training participants, not including another 12,700 and 8,500 enrolled in agricultural and commercial office training, respectively. CADERH-channeled assistance may not provide sufficient means to affect the quality, coverage, or job market orientation of INFOP's programs.

Cost Efficiency/Effectiveness

CADERH manages a number of implementation contracts and grants with an annual operational budget of approximately L500,000. New three-year funding will provide some L7 million in local funds only. If this includes L5.5 million in program activities (11.8 million/year), then the ratio of administrative to program costs is something over one to three.

Level of Self-Sufficiency

Self-sufficiency appears altogether unlikely. It should be noted that CADERH management already complains of USAID insistence on self-sufficiency; membership and service fees from CADERH's 165 members (large and medium enterprises, as well as individuals) fall short. Services to small enterprises should be viewed outside a cost-recuperative framework.

Problems

The Productivity Project will be potentially useful to the SSE subsector, though it would be helpful to know how proposals will be reviewed rather than assume subsector servicing. It might be possible to examine the Center's willingness to provide training program flexibility (after-hours instruction, duration, fees) to reach working employees of small enterprises. It should also be noted that insofar as grants subsidize center production (price, or quality competition), existing small enterprises may be affected. Institutional "cost recovery" is not neutral toward enterprise market shares. Some advantages to small enterprises may come through access to the revolving fund for "student loans."

Technical assistance services to management training organizations are unlikely to provide for any income or even (membership-based) cost recovery. The semi-annual catalog is useful, primarily for large and medium enterprises. Otherwise, all users will go to the source. "Coordination" of management institutions and programs is unrealistic (CADERH has known better than to really try), and providers will continue to jostle over management philosophies (the AMA/GEMAH formula, etc), and market shares; it is best to let users sort this out on the paying end of the enterprise spectrum.

Capacity to Expand

The capacity to expand direct services is limited. No technical direction of use to the SME subsector is likely without new staff and some reorientation of objectives.

CADERH will continue to provide useful manpower-related studies, such as the 1984 Vocational-Education Study cited earlier.

CENTRO DE INNOVACION DE DESARROLLO EMPRESARIAL (CIDE)

Background

The Center for Entrepreneurial Development and Innovation grew out of the efforts of various faculties at UNAH to replace sterile B.A. thesis requirements with group problem solving exercises. The "Centros de Estudio y Trabajo" (CETAE) identified problem areas of small business development for the Business Administration Branch of the Faculty of Economic and Administrative Sciences.

In 1984, with the idea of turning unemployable graduating students into self-employed entrepreneurs, CIDE started to provide SSE-related services.

Coverage

Projected target populations/outputs for the instruction component of the project:

	Year 1 (1988)	Year 2 (1989)	Year 3 (1990)
Business administration students taking the initial formulation and evaluation of projects course	120	160	180
Of these, opting to enter the CIDE program for entrepreneurial development	36	48	54
Small business projects started	18	24	27
Training of instructors	6	6	5

Projected CIDE coverage in extension services is indicated below:

	Year 1 (1988)	Year 3 (1990)	Year 4 (1991)
Enterprises receiving internal consulting	50	100	150
New projects evaluated	30	50	75
New projects (small enterprises) initiated	9	9	9
Number of participants	135	225	225

Geographic coverage theoretically includes all regions; effective consultation and project evaluation services are limited to the Tegucigalpa area.

Principal Objectives

To promote economic growth and employment in Honduras through (a) the development of educational programs focussed on engendering entrepreneurial skills ; (b) assistance to ongoing businesses through an outreach program intended to improve the rate of survival and the performance of small enterprises; (c) consultation to individuals or groups planning new, job-creating business ventures that incorporate innovative strategies and practices; and (d) general research of interest to the small entrepreneur.

Program Operating Principles and Methodology

The program combines academic learning with group exercises and less formal activities. Emphasis is on practical outputs; each student must conduct a feasibility study of a potential enterprise (from the development of a business plan, to the arrangement of financing).

The motivational component includes entrepreneurship workshops, guest lectures, role models, business simulations and games (computerized).

Extension services: free, on-site, services to be provided by advanced students in the CIDE program; no credit link.

UNAH seminars and workshops constitute a collective training approach. Networking with existing PVOs and support institutions is proposed.

Capacity of Management

The two principal promoters of CIDE are both members of the Faculty of the Department of Business Administration and hold private sector positions. The BA department has some five years of experience in managing a quasi-academic program of work and study groups (CETAE) and in carrying out some management and SSE-related studies.

The CIDE management plan calls for an authority line of from the Dean's Office to the Director of CIDE, with an Advisory Committee overseeing all operations. No judgment can be made regarding capacity to manage an extension services

program. The principal Promoter of CIDE is tenacious and committed.

Administrative Procedures/Effectiveness

The first year of CIDE operations is to be dedicated to academic program strengthening; to searching for financial assistance for CIDE and for the student projects; and to establishing a network of entrepreneurial assistance among resource groups and institutions. Extension services and training activities to widen the SME and institutional audience is to be begin in the second year (1988).

The first graduates from the work/study program are expected toward the end of 1987.

Proposed five-year budget for CIDE, including departmental salary costs for six full-time and six part-time instructors, other administrative and equipment costs, is L3,589,400.

For years one to five, recurrent administrative and overhead costs as a percentage of all costs is 56 percent.

The ratio of variable activity costs (extension, seminars, outreach) to administrative recurrent and overhead costs is 78 percent.

Cost Effectiveness/Efficiency

No data are available to examine the unit cost of training. In the proposal, the BA student consulting services appear to be offered without fees to users -- this may be a questionable assumption.

Level of Self-Sufficiency

No income-generating activities or fee structure has been indicated. CIDE is interested in examining possibilities for diversified outside donor support.

Problems

The component for student entrepreneurial development has only recently begun and program support is still partial. The proposal, moreover, equates the success of the program with the number of successful, post-graduation, entrepreneurial starts (a 50 percent success rate). Starts, however, are

uncertain long-term bets and the program should include other evaluation criteria as well.

The training/extension component is uncertain since the mechanisms for promotion and delivery are not linked to a credit or other service program.

Capacity to Expand

For 1986-91, new enrollments in the business administration department (where the entrepreneurial development program is located) are projected to increase at no more than 2.5 percent per year.

Sector Relevance

The entrepreneurial development component is a novel approach for a formal educational institution. While the curriculum of the B.A. department is likely to retain its academic orientation (i.e., remain a B.A. program geared to medium and large enterprises), CIDE can increasingly introduce in it practical exercises to promote interest in small business development.

The impact and coverage of extension activities, however, are likely to be quite limited and have a medium enterprise focus.

INSTITUTO DANIEL DE ENSENANZA ADMINISTRATIVA (IDEA)

Background

Honduras suffers from the lack of appropriate training in accountancy and financial and database management. In the private sector, very little skilled manpower is available except for two sorts. On the one hand, there are the graduates of the "Perito Mercantil," who are little more than bookkeepers with two years of technical training; on the other, there is a group of costly U.S.- (or INCAE-) trained BAs or MBAs. UNAH "bachillerato" holders are scarcely more qualified than "Perito" graduates, and graduates of private universities are too few to meet the demand. In the public sector, the manpower situation is even worse because of the low levels of compensation.

IDEA was established to train people in business administration and business-related computer skills at a reasonable cost. It is a private, for-profit venture, and has already obtained some measure of success by procuring accreditation from the Ministry of Education. The first year of instruction, covering five modules, will start in March 1987. Other programs and specialized seminars are being planned.

Coverage

The initial market targeted for coverage includes private sector industrial and commercial firms, PVOs, and individuals seeking to gain or upgrade their skills through computer and software instruction. Entrance requirements for the degree program will limit coverage to those holding one of the following degrees -- titulo, commercial education, bachillerato, business administration, or computers. Scheduling classes at night, however, will open coverage to current full-time job holders. The target number for the first class is 30. Other, more tailored courses are to be offered in the future to meet needs of special markets, private development organizations, among others.

Principal Objectives

IDEA has been organized as a for-profit venture, but "not necessarily to make a lot of money," as explained by one of two investment partners.

The program is designed to strengthen professional capacities and satisfy existing labor market demand in "informatica administrativa," as well as to offer self-

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improvement and job promotional opportunities to those unable to enroll in university programs. A related objective is to offer to private enterprises and organizations the technical manpower skills contributing to their institutional development. The program includes the following courses, each with its own set of teaching objectives:

(1) Accounting sciences -- basic principles, managerial accounting, and analysis

(2) Exact sciences -- basic mathematical and statistical skills to facilitate the learning of administrative, accounting, and database processes

(3) Administration -- basic understanding of administrative process, firm types and models, as well as project management and marketing

(4) Management of information systems -- applied database management, information systems, languages, and use of different types of software packages

Program Operative Principles and Methods

The degree program will offer evening instruction, with self-scheduled laboratory work and computer time, to be scheduled at flexible times during the day and on weekends to allow currently employed persons and employees the possibility of attending.

The course is arranged in a series of modules, each eight to twelve weeks in duration. The modules may be taken separately, thus allowing individuals to choose specific short-term training at different levels.

As compared to rote and theoretical formal instruction elsewhere in Honduras, this approach uses the case study method, and thus tries to emphasize analytic accounting and business skills.

Participants from the PVO community are to be recruited ~~primarily through networking and promotional workshops. For~~ example, an 11-day seminar in "automated accounting systems" presented by IDEA in September 1986 attracted accountants from organizations such as ANDI, FOPRIDEH, IDH, and CEDEN. The seminar also developed a combination of participatory discussions, lectures, and group exercises of use for future workshops.

Capacity of Management

Insufficient data for conclusions

Administrative Procedures/Effectiveness

Information is limited. However, the investment in plant, equipment, and peripherals has been completely carried out. Projections of labor and administrative costs have been included in a comprehensive business plan that incorporates break-even calculations.

Plans have been made to use the center's training capacity (and equipment, consisting of eight IBM-compatible PCs) for other income-generating activities during down-time.

Cost Effectiveness/Efficiency

The September course in "automated accounting systems" (offered in September provided approximately 60 hours of instruction over 11 days at a cost of US$300 (L600), or L10 per hour of instruction. Turnout in this instance was sufficient "to cover costs."

The full year course will average 22 hours of instruction per week over 46 weeks. At an estimated total of 1,012 hours of instruction, and a total program cost to the student of L3,100, the per hour cost is L3.06.

Evaluation

Plans for formal evaluation procedures were not stated. This is an enterprise whose standards of evaluation will be the number of participants it attracts, and the participants' response to the training provided.

Level of Self-Sufficiency

Self-sufficient, according to the business plan. Projected project cost is L60,000. The break-even point is about 20 students, with other sources of income (individualized seminars and consulting, for example) to covering the modest fixed overhead costs. As in any business, one key to self-sufficiency will be the efforts applied to marketing and the market share captured.

Capacity to Expand

The maximum number of students in the year course is approximately 30. Perhaps twice this number could be reached

if day instruction were to be arranged; this would require additional staff resources.

NATIONAL ASSOCIATION OF INDUSTRIALISTS (ANDI)

Background

ANDI, established in the early 1950s, assumed the role of Business Assistance Coordinator for the USAID Small Business Development (SBD) Project in June 1984. The components of the SBD project include: (1) grant financing to NGOs that support SMEs, (2) training programs, mostly coordinated through INFOP, and (3) an information network.

Through the grant financing program, ANDI has funded almost every NGO actively supporting small and micro enterprises in Honduras, and has strengthened the institutional capacity of ANMPI, the National Association of Medium and Small Industries.

In addition to overseeing the SBD Project, ANDI maintains a legal assistance program, a lobbying presence, and close ties with the University (UNAH) business school internship program.

Concerns

1. Relatively recent SBD program operation
2. Management capability is still in question
3. Program experience is limited to grants and to sponsoring training
4. USAID/H relationship
5. Lobbying group

Advantages

1. Linked to the private sector
2. Control outside of implementing organizations
3. PVO experience
4. Experience in support of SMEs
5. Are not program implementors

INDUSTRIAL DEVELOPMENT CENTER (CDI)

Background

CDI was created in 1978 pursuant to Decree 687 as a semi-autonomous government institution to contribute to the economic and social development of Honduras by providing financial and technical assistance to small and medium industry and artisans. The Board of Directors includes: representatives from the Ministries of Economy, Natural Resources, Interior, Public Credit, Culture, and Tourism; the Executive Secretary of Consuplane; and representatives from ANDI, ANMPI, and ANAH, the industrial and artisan trade associations in Honduras.

A recent institutional analysis carried out by CDI, in an attempt to improve its institutional capacity and operations, reveals the following problems.

Technical Assistance

Few results at enterprise level. No strategy to provide assistance; overly involved methodology. Technical assistance to industries with loan delinquencies rather than to firms with marketing and financial problems not yet in debt to improve health of the firm to prevent debt. Beneficiaries' reluctance to receive technical assistance; insufficient training course attendance. Initial promotion only two days before course; sporadic visits; no follow up afterwards. Insufficient human and material resources; 20 staff members to provide assistance to 650 enterprises. Staff turnover after training problematic; counterparts assigned where they cannot put training into practice. No vehicles for technical assistance staff. No industrial profiles regarding new products for domestic or export market.

Credit Lines

Limited and low availability of funds; inflexible guidelines. Since 1978, 841 loans for L7,650,000; 1986, 187 loans for L1,900,000.

Eleven to 17 percent interest rates, depending on credit line. Slow moving fund due to strict requirements and lengthy time to process application. IDB fund totally disbursed three years ago. Low recuperation rate. Fifty-three percent arrearage on interest and capital; 29 percent on capital alone. No periodic collection. Little contact with client. No analysis to reschedule debt. No computerized operations. Lack of technical assistance. Saturation of specific lines of credit,

i.e., for specific types of production. No control; credit applications delayed for recuperation of on-lent funds. Duplication of functions regarding credit analysis. Ten staff members, but no credit collector and no supervisors.

Artisan Program

Little coverage of beneficiaries. No support from training program graduates. Practical training is oriented towards developing traditional products.

Marketing

Artisan shops are not self-sufficient; no participation in international events.

Concerns

1. Efficiency, image, bureaucracy
2. Staff turnover and motivation
3. No proven methodology in credit, technical assistance, and training
4. Has its own operational programs
5. PVO link, AID link, other institutions
6. Exclusive clientele base by law
7. Coordinating experience debatable

Advantages

1. National coverage
2. Experience is small industry support
3. Semi-autonomous government agency with state budget support

CHAMBER OF COMMERCE AND INDUSTRY OF CORTES (CCIC)

Background

The Chamber of Commerce and Industry of Cortes (CCIC) is a voluntary membership association of businessmen located in the Department of Cortes (San Pedro Sula). Recognized as the strongest and most powerful Chamber in Honduras, CCIC provides assistance to the business community to resolve state-generated and business development problems. The range of service offered to members (on a fee basis) includes arbitrage and concilliation, access to a marketing data bank, national and international seminars and conferences on a broad range of subjects, information and library services, export contacts, trade fair information, and export market profiles. Membership dues range from L11.25/month for small businesses to L287.50/month for large businesses, with membership fees being adjusted according to assets size. CCIC is currently on a membership drive and plans to increase membership by 600 over the next 11 months. To do this, CCIC will rely on recruiting members from the small business community. CCIC is now expanding its facilities so that FUNADEH, GEMAH, and Horizontes de Amistad can have permanent residence in the same building.

Concerns

1. Geographic bias
2. No small/micro direct experience or interest, except through FUNADEH and to increase membership
3. Favor interest of large business
4. Lobbying group
5. Not familiar with organizations implementing programs for SMEs, mainly PVOs

Advantages

1. Links to the private sector
2. Access to information and business services

3. Strong organization

4. Includes industry, commerce, service, and agroindustry

HONDURAN FEDERATION OF PRIVATE DEVELOPMENT ORGANIZATION (FOPRIDEH)

Background

FOPRIDEH was organized in 1982 by a group of PVOs subsequent to a seminar conducted by Planning Assistance on the relationship between USAID and Honduran PVOs. In 1985, AID provided FOPRIDEH with a three-year grant consisting of L10,000,000 for project support and L2,000,000 for administrative costs, in addition to US$500,000 for offshore technical assistance and hardware. Currently, FOPRIDEH has 22 members representing both rural and urban based PVOs, with programs in all areas of development. FOPRIDEH expects its membership to reach 35 by the end of 1987. FOPRIDEH's program, mostly grant financing to date, has been in operation 14 months.

Coverage

Grants have been provided to the following organizational types: 48 percent to affiliates; 16 percent to non-members; 16 percent to coops; 7 percent to trade organizations, and 10 percent to neighborhood groups. FOPRIDEH coverage is wide and diverse. Forty-one percent of 22 current organizational members consider the support of small business a priority area of activity. Since its initiation, thirty percent of FOPRIDEH's total portfolio has gone to support small business development projects; 13 percent for credit to micro enterprise; 10 percent to small industry; 5 percent to agro-industry; and 1 percent to workshops. Ten percent of the total grant portfolio was granted to members for small/micro business development.

Concerns

- Membership restrictions
- Internal policies/institutional structure
- Focus on small business; no small business specialization, sector strategy, or policies for support of small business development
- Youth of organization
- Capacity to expand
- Knowledge of overall sector
- Training/credit knowledge

- Only grant financing; technical assistance and training programs envisaged, but grant financing is the only developed program area

Advantages

- Some (limited) experience in managing/administering discrete projects
- No project implementation
- Working on data bank, library, technical assistance program components
- Existing umbrella organization comprised of PVOs active in development programs in Honduras

APPENDIX C

APPENDIX C. MULTI- AND BILATERAL DONOR SUPPORT OF THE SECTOR

By: Elisabeth Kvitashvili

1. Most programs are OPGs and/or grants to Honduran organizations on a request basis; in that context, most have no strategy or priority for SSE development.

2. Large credit programs seem to be the basic ingredient in multilateral programs.

3. Target group is mainly small and medium industry throughout Honduras.

4. Each donor's objectives are slightly different ranging from PVO institutional strengthening (IDB, UNIDO), to making sufficient amounts of credit available (IBRD, EEC).

5. Programs are designed to increase both production (industrial/manufacturing, agriculture) and create new employment opportunities.

6. None of these donor institutions are cooperating with each other and indeed indicate a need for some type of "donor coordination."

7. Assistance varies with respect to both institutions and individual beneficiaries. Where needed, technical assistance is provided as a means of institutional strengthening.

8. Donors do not use specific packages of assistance. When needed, technical assistance and training are provided, but they are not considered as important as sufficient amounts of credit.

9. Each donor interprets "small" differently, e.g., IBRD -- fixed assets of up to $50,000.

10. Bilateral donors consider the provision of technical assistance and training more critical than credit. Access to credit is seen as the critical problem. Nearly all bilateral donors work with "small" groups. AID seems to be the only donor with any program assistance to micros.

11. Bilaterals concentrate in the rural areas (working mostly with coops) and with two exceptions (not including AID), assistance is directed to the individual beneficiary. Project goals are similar: increasing agricultural production, improve standard of living of rural Hondurans.

	Credit	Training	Technical Assistance	Other
DC		1	2	
SPS			1	
Other cities	1	3	4	
Rural	1	1	1	
All Honduras	4	5	7	1

Conclusions

1. Total lack of coordination and donor focus. Three main themes emerge: provide increased amounts of credit, increase agricultural production, grantees must establish importance of SSEs for development.

2. Micros are not receiving much donor assistance, especially in the urban sector.

3. The various programs are throughout Honduras and rarely do donors carve out an area just for their programs. In other words, donor one could be providing credit to a rural coop that donor two might later provide training to. On the other hand, because of the large SSE population, there is little real overlap except that some PVOs receive small grants once or twice from various windows.

4. Institutional strengthening (of banks, coops, local PVOs) is considered necessary, with AID and the IDB leading the way in the provision of financial assistance. Most donors prefer to have assistance go directly to the beneficiary, or their grassroots

organizations (IAF, Dutch) rather than get lost in either a public or private sector entity.

5. AID is the only donor with substantial personnel and resources directed to this entire (sub)sector. But the EEC has a major project coming on stream.

6. Not one institution, according to donors, stands out in development. Yet, donors do not seem to look for any particular quality when selecting institutions to work with.

7. Donor support for this target group is not likely to increase significantly above present levels.

Recommendations for AID

AID should serve as a catalyst in donor coordination and seek to:

- Establish a donor's interest in and financial commitment to urban versus rural assistance
- Small versus micro. I don't think it's possible for the donor community to come up with a unified definition of "micro" or "small"
- Decide whether regional/sectoral responsibilities are necessary. Are donors overlapping with each other without knowing? It seems that way.
- AID should work with IDB in institutional strengthening efforts (such as ASEPADE) in order to get most out of assistance.
- Channel European technical assistance to SSEs attended by AID-supported PVOs.

Bilateral Organizations

Donor	Program name	Institutional collaborator(s)	Donor/institutional counterpart contribution	Geographic focus	Objectives/nature of program
1. GDR - CIM (Centro de Migracion y Desarrollo Internacional	Assistance for Industrial Coops	FEHCIL	$100,000* to date 6,000 based on yearly increments	All Honduras	Industrial Development
- Fundacion Friedrich Naumann	IFC Institutional Strengthening	Instituto de Investigacion y Fomento Cooperativo (IFC)	$2,800,000 $650,000	All Honduras	Assist IFC to serve as an intermediary between coops and financial institutions
2. Switzerland COSUDE	Milk Production Project (Proyecto Fomento Lechero-FOMECH)	MNR	$195,000 $210,000	Olanchito, Yoro; Juticalpa, Olancho, Comayagua	Increase diary product production towards self-sufficiency
	Agricultural Mechanization (PROMECH)	MNR, INFOP, ENA	$1,000,000 $800,000	Catacamas, Olancho; Tegucigalpa, Valley of the Angeles, Choluteca	Develop and popularize improved agricultural methods (hand and animal) as well as increase utilization of existing technology
	Post Harvest Loss Reduction for Basic Grains	MNR	$100,000 $33,000	All Honduras	Reduce Post Harvest loss in basic grains
	PVO Support Project	ASEPADE, FEHCOCAL, IHDER	$830,000	All Honduras	
	Yoro Integrated Rural Development	Various GOH institutions	$1,800,000 $575,000	Yoro	Improve standard of living for small farmers and ag. reform coops in Yoro
3. CANADA SID (Societe de Development International Desjardins)	Rural Coop Development	FECORAH	$4,000,000	All Honduras	Improve/increase ag. production of selected coops
4. USA Interamerican Foundation (IAF)	Income Generation Project	--	$500-700,000 ($30,000/project)	All Honduras	Income generation in rural areas

Bilateral

Donor	Institutional vs. beneficiary assistance	Target group	Sub-sector focus	Approach characteristics	Sequence package	Management operations
1. GDR - CIM	Both	Worker run industries; service coops. and small business members	Industry	TA to FEHCIL intermed and members	--	Lack of vehicles
- FFN	Both-primarily to institution	Small rural coops (ag. production, ag. reform)	Service coops	TA, training	TA, training	- IFC lack of self sufficiency - Staff salaries too low
2. COSUDE	Both-primarily too beneificiary	Small, medium and large dairy farmers	Production	TA, training	--	--
	Beneficiary	Farmers; farm machine operators and repairmen	Service industry	TA, training	--	--
	Beneficiary	Small and medium independent producers; ag. coops; small rural artisans	--	TA, training	--	--
	Both	1,500 farmer families	Coops	TA, training, credit	--	--
	Beneficiary	Small farmers and and coops	Production	TA, training, credit	--	--
3. CANADA - SSD	Beneficiary	Small rural coops	Production coops.	TA, training	Depends on indivdual coops.	--
4. USA - IAF	Beneficiary	Grass roots ag. groups	--	Small grants which may include TA, training, etc.	--	--

Multilateral Organizations

Donor	Program name(s)	Institutional collaborator(s)	Donor/institutional counterpart contribution	Geographic focus	Objectives/nature of program
1. EEC	Strengthening Agrarian Reform and Integrated Rural Development	MNR	$17 m $800,000	El Paraiso, Dali	- Increase ag. prod. through provision of credit - Promote small rural groups/ enterprises through diversification/alternate income sources
	Program of Technical and Financial Assistance for Small and Medium industrial enterprises of Central AMerica	Banco Centroamericano de Integracion Economica (BCIE) (CABEI)	$20 m	Honduras (all), El Salvador, Guatemala, Nicaragua, Costa Rica	- Strengthen existing small-medium industries oriented to domestic market
2. UNIDO	Assistance and Development of Small and Medium Industries	Centro de Desarrollo Industrial (CDI)	$700,000 $560,000	Tegucigalpa, San Pedro Sula, La Ceiba Choluteca,	- Strengthen capacity of CDI to provide TA to its loan recipients - Create new employment opportunities for small-medium industries
3. IBRD	3rd Industrial Credit Project	FONEI, CDI	$37 m (3 1/2 yrs) $10-15 m	All Honduras	- Make working and fixed asset credit available to small and medium sized industries; institutional strengthening of local banks - (*fixed assets of up to $50,000)
4. IDB	Small OPG Projects Program	FEHCIL ASEPADE AHDEJUMUR APRODIB FEPROEXAAH Planned: ANMPI, FUNADEH, UNISA	$500,000 $500,000 $500,000 $500,000 $500,000	All Honduras	- Institutional strengthening with credit for micro-small business

Multilateral Organizations

Donor	Institutional vs. beneficiary assistance	Target group	Sub-sector focus	Approach characteristics	Sequence package	Management operations
1. EEC	Both	Agrarian Reform coops, women, youth small farmer groups 150-200 people	Industry, retail service	Credit, training TA	Simultaneous	--
	Institutional (BC and private banks) and beneficiary	Small-medium industries	Manufacturing, agro-industrial	Credit,* TA, training *Provided a market rate; loan guarantee fund	Credit w/options for TA/training as needed	--
2. UNIDO	Institutional then beneficiary	Small-medium industry	Industry manufacuturing (wood, metal, food processing leather, ceramics)	TA management production	--	CDI vs. UNIDO priority of provision of credit vs. TA
3. IBRD	Both	Small-medium industry	Manufacturing	Credit, TA	--	--
4. IDB	Both	Small and micro	Rural, urban retail, industry	Credit	Credit-TA	PVO management is

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APPENDIX D

APPENDIX D. USAID SUPPORT OF THE SECTOR: PROJECT DESCRIPTIONS

By: Elisabeth Kvitashvili

Rural Technologies (522-0157)

The purpose of this project is three-fold: (a) to increase effective utilization of labor and small farms through the use of improved light capital farm implements and systems which will increase the income of the small farmer; (b) to increase small-scale rural industrial production and employment through the introduction of improved production and management systems and the establishment of new enterprises; and (c) to increase utilization by the rural poor of low-cost appropriate technologies or products designed to improve the quality of life. Major components are: adaptive research and information networks, rural industrial extension services, agricultural extension training of small farmers and entrepreneurs, and project coordination and management. The implementing agencies are Center for Industrial Development (CDI) and the Ministry of Natural Resources (MNR). AID funding is $9,000,000 (grant). Over 12,000 families are already benefitted from the technologies disseminated.

Key

- Beneficiaries located throughout Honduras.
- Local currency credit ($4 million) is being provided.
- Technical assistance provided on limited basis to PVOs/coops.
- Coops not limited in size or type, but beneficiaries must be small farmers. Most coops range in size from seven to 20. They are all considered small. The project defines the term "small cooperative" by the cost of the project

and the income from the project. They try to keep the cost of the project per member at $100.00 each. If they have ten members and they want to build a factory, they can spend $10,000.00.

- About 726 small businesses have been incorporated into project as producers of the new technologies (the project defines the term "small enterprise" (same as small cooperative above) in regions of Olancho, Ocotepeque, Choluteca, Danli, Atlantida, Olanchito, and Comayagua.

- Goal: income and employment generation.

Small Farmer Organization Strengthening (522-0252)

The project purpose is to establish a viable mechanism for delivering the productive inputs (credit, technology, market services, management skills) to growers in order to increase agricultural productivity and diversify the production base. The project will attempt to strengthen and upgrade the administrative, management, planning, and capital formation capabilities of the participant organizations (coops), in order to facilitate an expansion of their service delivery capabilities, in addressing the access problems which have inhibited the growth and productivity of the agricultural sector. The implementing agencies are the Ministry of Economy, and The Directorate of Cooperative Development. AID funding is $7,500,000 (grant) and $8,500,000 (loan).

Key

- Basic plan behind this project is to recapitalize rural coops providing them with investment and working capital.

- Employment will be maintained/generated under the project.

- Loans will be provided to rural coops whose members may be small farmers.

- Impact to the small business sector has been negligible to date due to implementation problems.

- The range of the size of the cooperatives is based on the membership. They could be 12-

whatever (1,000, 3,000, etc.). The term "small cooperative" is defined depending upon their (cooperative members') participation in the cooperative's capital. If a cooperative has L1,000 income, it is considered small; if it has L10,000, it is considered medium; and if it has more than L100,000, it is large.

- The savings and loan cooperatives (credit unions) are the most developed cooperatives. By development we mean number of people, equity capital, and maybe loan portfolio. They have a large membership, as well as a high degree in member capital participation. They also have a big loan portfolio.

- The agricultural cooperatives have a large membership, a small degree of member capital participation. They have a big loan portfolio (external financing; high loan delinquency rates). There are five agricultural service cooperatives, a small membership, high degree of member capital participation. They have a big loan portfolio and controlled loan delinquency rates. The coops are located in Marazan, Yoro, Copan, Choluteca, Comayagua, and Intibuca.

Small-Scale Livestock Development (522-0251)

This grant to the Overseas Education Fund (OEF) is being used to promote small-scale swine operations by groups of women, mostly housewives, (average size 15) in small rural communities (Cofradia and Choloma near San Pedro Sula). The project helps organize the groups, trains the individuals, assists them in securing financing for initiating operations, and provides follow-up technical support during the initial phases of production. The project currently has six women's groups producing swine, three groups in the loan application state, and four groups in formation with a total of 143 women currently involved. AID funding is $437,500 (grant) and L594,000 (LC). Technical assistance is provided by OEF; a credit guarantee fund through Banco Occidente; average loan size L40,000.

Natural Resources Management (522-0168)

This project strengthens institutional mechanisms through which the GOH manages the country's natural resources, and will undertake an action program in the Choluteca watershed to

increase farmers' income and to conserve the natural resources of soil and water through the introduction of modified agriculture and forestry practices. The chief components are: natural resources policy and planning, natural resources data gathering and analysis, and watershed management of selected river drainage basin. The implementing agencies are the Ministry of Natural Resources (MNR) and the Executive Directorate of Cadaster (DEC). On the average, the recipient families have doubled their productivity and substantially increased crop diversification. New interventions in soil conservation include over 7,000 hectares protected by agroforestry and soil conservation techniques and 3.0 million trees planted. Four thousand participants have been involved in training. AID funding is $5,000,000 (loan) and $750,000 (grant).

Key

- The link to small business is incidental, even considering the rural nature of the project. The only activity supporting small business is possibly the processing of unsold vegetables and thinning of firewood forests where production could be sold. However, "assistance" would be purely technical in nature and minor to the overall project.

Small Business Development (522-0205)

The project is designed to increase production and employment in small- and medium-scale enterprises. The project will develop a source of accessible financial and technical assistance for Honduras' small- and medium-scale entrepreneurs. Under the project, a small business finance company, the Financiera Industrial y Agropecuaria (FIA), provides loans to small- and medium-sized businesses which normally lack access to commercial bank credit. FIA is owned by five Honduran private banks. It can borrow up to eight million lempiras (GOH counterpart funds) from FONDEI to supplement its own sources of loan funds. FIA's activities are complemented by technical and managerial support provided by organizations participating in a Business Assistance System coordinated by the National Association of Industrialists (ANDI). ANDI coordinates existing small business service organizations, strengthening them through budgetary support, personnel training, financing of dollar costs of technical assistance, and in establishing monitoring and evaluation systems. The implementing agencies are FONDEI (Central Bank of Honduras), The National Association of Industrialists

(ANDI), and The Financiera Industrial y Agropecuaria (FIA). AID funding is $600,000 (grant).

Key

- ANDI brought several new organizations into its network and approximately 150 small entrepreneurs benefitted from training and technical assistance provided by the participating organizations.

- FIA continued cautious expansion of its portfolio, approving nine new loans, for a total of 35 loans, with a value of 4.6 million. Though these numbers are low compared to planned targets, the employment generation impact has been greater than originally projected.

Microenterprise Development (522-0319)

The project purpose is to enhance the productivity, employment, and income generation potential of entrepreneurs in the informal sector. The project purpose will be accomplished through the institutional strengthening of ASEPADE (local PVO), which will provide increased access to credit and technical assistance so that the enterprises can develop or expand as microenterprises. Accion Internacional/AITEC, working primarily in conjunction with ASEPADE, will carry out a credit and managerial assistance program directed to microenterprises in the areas of services, manufacturing, small vendors, and businesses. Similarly, Accion/AITEC will work with other institutions, groups, or small businesses to be identified by AID during the life of the project. At the same time, through the provision of technical assistance and training, Accion/AITEC will strengthen the institutional capabilities of ASEPADE to carry out the credit and managerial assistance program beyond the life of the grant period. AID funding is L650,000.

Fundacion Nacional para el Desarrollo de Honduras (FUNADEH) (522-ESF-0263)

FUNADEH is developing a program of credit and management assistance to small-scale enterprises in San Pedro Sula over a three-year period. As of September 30, 1986, FUNADEH has approved 176 loans totaling L1,269,500, mainly to family workshops involved in sewing apparel, shoemaking, tire repair, machine tool shops, and food industries. To date, 303 new jobs have been created and 677 existing jobs maintained as a result of this project. FUNADEH is being developed along the

lines of the Pan American Development Foundation model of small enterprise development. Technical assistance and training are provided by PADF to FUNADEH and are funded by a separate grant of $132,000 made directly to PADF. FUNADEH grew out of the initiatives of a group of Rotarians concerned with preserving the democratic system of government and strengthening private enterprise in Honduras. The implementing agency is FUNADEH.

Cooperative Housing Foundation (OPG) (522-0317)

The purpose of this project is to encourage and facilitate the mobilization and investment in shelter and community services for low-income families by private sector organizations such as TSOs, credit unions, mutual savings and loan institutions, commercial banks, business, and insurance companies. The operating premise of the Guarantee Fund is that by offering to guarantee all or a portion of a given investment by such institutions, they will be induced to direct a portion (or an increased proportion) of their capital to the lower income market. The scenario further assumes a positive loan recovery experience by the participating institution which will lead to a willingness to continue and expand such investments in the future, without the CHF Guarantee. Of the total $5.6 million of the initial grant which is destined for loans, grants, and guarantees, CHF proposes to utilize approximately $1 million as a guarantee reserve to induce local organizations to invest in sub-projects. This period of the CHF will normally range from three to five years.

Key

- Assistance to small business to date has not occurred. However, CHF, with USAID concurrence, is developing a new component to the project which will provide technical assistance and credit to small business who would, in turn, make needed housing construction materials. The coverage of this component would be nationwide. Planned financial assistance is $2 million.

FOPRIDEH (522-0266)

The purpose of the project is to provide support for the PVO Federation Assistance Project (FOPRIDEH) in order to create a mechanism to evaluate and fund development projects, while simultaneously providing assistance in institutional strengthening to both FOPRIDEH and the PVO community. The implementing agency is The Honduran Federation of Private

Voluntary Organizations. AID funding is $500,000 and L10,000,000.

Key

- To date, FOPRIDEH has provided financing to 23 projects, most of which benefit micro and small entrepreneurs throughout the country. The majority of the programs have been the establishment of credit lines.

- Problem: In considering this institution as a mechanism to possibly replace or supplement assistance to ANDI/PYME, we must be aware that FOPRIDEH's self-sustainability is a serious question. FOPRIDEH survives on AID grant funds and as yet has no plans for self-financing.

CADERH (522-0257)

The project purpose is to increase employment and improve balances of payments by promoting the active involvement of the private sector in identifying training needs and defining their priorities. Through the three project activities (trade certification/curriculum development, training needs analyses and industry-specific training, training materials bank), training will be made more responsive to private sector needs. A planned amendment will be an expansion of the current project grant. With the grant, the project will provide technical assistance and other resources necessary to establish mechanisms that will respond to private sector training needs by: (1) providing job entry level skill training, certification, and job placement for a minimum of 6,500 people; and (2) providing skill upgrading training to certify and increase the productivity of 8,500 existing employees by a minimum of 15 percent. Project activities will directly impact on the stated objective of generating employment opportunities. Beneficiaries will include the business community, which will help increase export earnings, the employees of businesses and industries, who will upgrade their job skills and productivity, and unemployed youth and adults, who will obtain job entry level skills through training programs.

Key

- Depending on the definition of "small," upward to 35 percent of CADERH's training is provided to small businesses. The potential for continued employment generation for small business is excellent.

- A specific component of the Project (#6) provides support to strengthen the institutional capabilities of a minimum of 15 vocational training centers, the majority of whom respond to needs to micro entrepreneurs outside of Tegucigalpa and San Pedro Sula.

GEMAH (522-0256)

The project purpose is to assist GEMAH to become a self-financing institution capable of providing quality management training services essential to its members and to Honduran managers in general. AID financing to date has been $1 million.

Key

- Only about 10 percent of GEMAH's clients can be considered small businesses, again, depending on the definition of small.

- GEMAH is planning to submit a proposal to AID outlining the creation of a private sector training unit for micro-small business.

Hermandad de Honduras (522-0306)

L254,000 grant to HdH to work in San Marco, Ocotepeque. Project purpose is to enhance the nutritional education capacity and community development around San Marco with an estimated 3,480 beneficiaries. The project design is one of a small-scale integrated rural development program with three components: technical assistance, community development, and nutritional education. Among activities underway to meet the goals are technical assistance to develop small enterprise skills, such as shoemaking, brick laying, housing construction, and manufacturing of children's clothing. This component will have about 1,700 beneficiaries.

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APPENDIX E

APPENDIX E. USAID CURRENT STRATEGY IN SUPPORT OF SMALL BUSINESS SECTOR

By: Elisabeth Kvitashvili

As we all know, there is no current strategy. Only two offices (PSP/RD) have active projects that directly or indirectly provide support to this subsector. The other offices reviewed either do not have any current/planned programs directed to small business or have programs with random assistance (i.e., secondary to the program objective).

PSP	RD	Other
Small Business Development	Rural Technologies	FOPRIDEH
Microenterprise Development	Rural Scale Livestock	Cooperative Housing Foundation[1]
FUNADEH	Small Farmer Organizational Strengthening	GEMAH
	Natural Resources Management[1]	CADERH
		Hermandad de Honduras
		ESF Program[1]

1. Incidental support to small business activity. Reforms eminating from the ESF program include increased credit expansion and increased amounts of dollars for imports.

Observations

- Projects rarely address skills training for women.

- Projects do not exhibit a regional bias. The "rural" projects number eight and are located throughout Honduras; the "urban" projects number six. Credit is provided under seven projects; technical assistance and training under seven.

- PSP's mainly urban-based projects use employment/income generation as a major objective. RD's rural focus has distinctly production/income generation focus. RD does not focus on SSE development, although there are elements in its projects which could be considered under this strategy exercise.

- Credit, technical assistance, and training are all provided; RD projects provide all three; PSP's projects provide a combination; however, the education projects focus on training. There is no preferred package or sequencing.

- Marketing activities receive little if any attention.

- Organizational/institutional strengthening and beneficiary assistance are both provided.

APPENDIX F

APPENDIX F. POLICY CONSTRAINTS TO THE DEVELOPMENT OF HONDURAN SMALL AND MICRO ENTERPRISES

By: Margaret Membreno

There is ample evidence that the growth of small and micro enterprises in Honduras has been inhibited by a policy environment which if not overtly hostile is at least substantially biased against the small business subsector. Such evidence coincides with findings based on research done in other developing countries throughout the world (Haggblade, Liedholm, Mead, March 1986).

Job creation can be increased and the development of small and micro enterprises accelerated by altering Honduran Government policy towards supporting these aims. While policy reform may be a necessary condition, it in itself is not a sufficient condition to assure that all other constraints (e.g., negative social and cultural attitudes, insufficient credit, and technical assistance) will be remedied. Therefore, well chosen policy dialogue activities must be combined with appropriately designed program interventions if small and micro enterprise development is to be achieved.

A wide range of GOH policies come into play to influence the price of capital, labor, material inputs, structure of demand for products, and profitability of various categories of producers. While there is no evidence of a deliberate attempt by the Honduran Government to impede the growth of small businesses, the government's lack of understanding of the importance of the subsector and its insensitivity to the impact of laws on the subsector has resulted in the gradual growth of a complex policy environment which constitutes a tremendous constraint to the growth of the subsector.

We can use the inventory of policy areas which impact on small businesses developed by Haggblade, Liedholm, and Mead as a reference list. A copy of the list is marked to show those policies which have greatest negative impact on SME in the

Table 1. Inventory of Policies, by Functional Groupings

1. Trade Policy
   a. import tariffs
   b. import quotas
   c. export taxes or subsidies
   d. foreign exchange rates
   e. foreign exchange controls

2. Monetary Policy
   a. money supply
   b. interest rate
   c. banking regulations

3. Fiscal Policy
   a. government expenditure
      -- infrastrucutre
      -- direct investment in production, marketing or service enterprises
      -- government provision of services
      -- transfers
   b. taxes
      -- corporate income
      -- personal income
      -- payroll
      -- property
      -- sales

4. Labor Policies
   a. minimum wage laws
   b. legislation with regard to working conditions, fringe benefits, etc.
   c. social security
   d. public sector wage policy

5. Output Prices
   a. consumer prices
   b. producer prices

6. Direct Regulatory Controls
   a. enterprise licensing and registration
   b. monopoly privaleges
   c. land allocation and tenure
   d. zoning
   e. health

Note: Policies with a negative impact on SME development are underlined.
Authors: Haggblade, Liedholm, Mead

Honduran context. Specifically, we hear from small entrepreneurs that:

- Overvalued exchange rates impact negatively on the price competitiveness of consumer goods produced by SMEs and gives rise to contraband.

- Foreign exchange controls set by the Central Bank produce a nightmare of complicated document requirements that a SME rarely can comply with. SMEs also lack the right connections to assure priority treatment for their foreign exchange requests. They are left at the end of the line and often never receive foreign exchange requested, thereby, losing the potential benefits of cheaper direct imports.

- Because the Superintendency of Banks has not developed an effective bank examination system, its review of bank portfolios for soundness consists of reviewing the collateral guarantees requested by banks. Banks are often pressed into requiring urban real estate or similar assets as collateral under the threat of their loans being classified substandard, doubtful, or loss. The reserves which must be made for classified loans impact directly and negatively on earnings. SMEs do not usually have that kind of collateral, so again, lose access to formal sources of credit.

- Labor policies were most frequently cited as causing problems for SMEs and large firms alike. Most businesses try to skirt the law by hiring and firing people at short intervals so as not to be liable for severance pay and other benefits. The problem is so acute that the COHEP has suggested an emergency law to suspend certain provisions of the labor code for the period of one year to stimulate the generation of employment.

These macro policies are of less importance to micro enterprises or businesses operating in the informal sector. Municipal laws and regulations have more immediate impact on them and constitute the policy framework for that group. Some examples are:

- Basic Law of Municipalities dates from 1928 and is general need reform.

- Double taxation exists for small merchants. Take Tegucigalpa as an example. They must pay a municipal tax on the volume of sales (regardless of profit or loss on sales) and a national sales tax of 6 percent.

- Businesses must be licensed to operate in a municipality. This is in addition to national legal registration requirements to identify the nature of the business (sole proprietor, partnership, or corporation).

- An annual fee is imposed for placing a sign to announce the type of business in which one is engaged.

- Obtaining stalls in the municipal markets is subject to connections and bribes.

A list of Honduran laws that were designed to protect, support, and motivate the manufacturing sector as a whole is included here. By talking with a number of small entrepreneurs, it is evident that this set of laws favors larger enterprises and fails to stimulate the development of small businesses due to negative biases inherent in the laws. Some specific examples are:

- Decree Law 681 is specifically directed to provide incentives for the development of artisan, small, and medium industries. It provides exemptions for import duties, consular fees, consumer taxes, and income taxes for those enterprises that classify. The procedures for classification are so complicated and costly, however, that in the period 1980-85, from a total of 336 firms classified, only 86 (26 percent) small and five (one percent) artisan industries were classified. There are thought to exist some 45,000 artisans in Honduras.

- The COHDEFOR Law (Decree 103) and export registration procedures make it impossible for small wood producers to export.

- FONDEI has developed a loan portfolio benefitting mostly large industrialists, due to the use of commercial bank intermediaries, are the own FONDEI collateral rules. Credit approved

to date: Large, L162 million; medium, L17 million; small, L8 million.

Lack of information and data on the policy environment in which small Honduran firms operate inhibits the process of informed analysis and decisionmaking. Specific policy dialogue activities can only be identified after a study of the policy environment is completed. In the long run, AID's best contribution may be to build up national capacity for policy analysis and to strengthen private sector institutional capabilities to lobby for policy reforms in its interest. It is preferable that the public and private sectors jointly formulate policy reform activities, leaving AID in a passive role.

APPENDIX G

Appendix G. Analytical Summary - Business Assistance Organizations in Honduras

by
Beto Brunn

1. Geographical coverage of the 24 organizations for which some information was available

	Number of organizations offering these business assistance services				1987 micro & SSE coverage assuming overlap (very rough estimate)
	Credit	Training	TA	Total operating	
DC	9	11	13	15	2,800
SPS	7	7	7	12	1,700
Siguat, Danli Olancho, Chol	8	9	7	14	1,600
Otras ciudades	5	7	5	11	1,600
Rural	3	7	6	10	1,000
					Total 8,700 (less than 20% of micro and SSE population)

2. Most business development organizations offer only some business assistance services; only 10 offer a package of credit. TA and training, even then training is usually optional, and TA is provided as needed, without a prior plan made when requesting a loan.

3. Few of these organizations work collaboratively; each has its own target group in its operating space.

4. Funding:

   - 9 have received grants from ANDI/PYME
   - a somewhat smaller number have received grants from FOPRIDEH
   - at least 7 have been recipients of OPGs, or other AID funds directly

5. Credit portfolios in general have low arrears rates, but loans are adequately secured.

6. Few organizations have a truly national coverage:

   - Partners of the Americas has a nation impact through its SSE training program with participants recruited by Peace Corps Volunteers throughout the country.
   - FEHCIL reaches some 2,000 SSEs through 40+ coops.
   - FACACH has a somewhat smaller coverage and is emphasizing agroindustrial development with German government support.
   - IDH and ASEPADE have regional offices.
   - IFC and Fund. F. Ebert provide services throughout the country on a request basis.
   - INFOP offers training on an almost national basis.

7. Gender considerations:

   Few organizations exclusively focus on women as enterpreneurs: ASPADE (market vendors), FUNDEMUH (Banco de la Mujer), UNISA, and ODEF. All other organizations offer services to women, and their participation as entrepreneurs is around 15-30 percent.

8. Most training focuses on business management practices, particularly bookeeping; training in marketing is generally nonexistent, and training production techniques is generally at too high a level for these businesses. There is almost no followup to the training offered; the business person has to decide what to apply and how to get those practices incorporated into the business.

9. TA is generally offered on an as needed basis; little effort has been made to develop industry-wide interventions (see FEHCIL).

10. Most non-cooperative NGOs are run by a small group of development professionals, e.g., ASEPADE and IDH; only two have broad based private sector support, Partners of the Americas with an advisory committee in six cities, and FUNDEH; only FUNDADEH has actively sought private sector funding and management oversight. FUNDEMUH is developing a local dues-paying membership base (28 to date). ODEF has a local advisory committee and board in SPS.

11. There does not seem to be any systematic evaluation. Impact is not monitored afterwards. If a loan is repaid, the assumption is that the SSE has made sufficient money to repay the loan. No checks are made to see if the SSE has borrowed elsewhere in order to repay the loan.

12. Programs are not market oriented. In other words rather than checking what the market needs in the way of products, every and all types of SSEs are supported. Are we supporting too many tailors, seamstresses and shoemakers? Does the market need different types of products that are currently in short supply?

25 Organizations Working in the Development of Urban, or Non-Farm SSEs

Organization	Program name, if any	Target group (micro, small, etc.)	SSE coverage/86	Geographic coverage	Program FOCUS sequence of components	Funding sources	Membership approximately December/86	1987 projections
Cooperative Associations (5)								
AHAN Artesans	Fairs	Artesans	50	DC	Set-up fairs	PYME PADF volunteer minimal memb dues	150	Cred.-FOPRI Trg & TA - PYME 100 in all H
ANMPI	Credit	Small-scale	20	DC	Mini-credits, short-term loan fund	FOPRIDEH, PYME interest to support	100-DC 120-SPS	60 more in DC 60 in SPS
	Acct. TA	Small-scale	25	DC-15 SPS-10	Acctg. serv + TA in financial analysis	PYME	--	Phase II: Trg + TA 100 in DC Member fees and PYME
	Comprehn TA	--	12	DC	Busn. Diag + TA 20 days in 3 months	PYME	--	30-40 in DC 10? in SPS
	Prep. credit applications	--	25	DC-15 SPS-10	Profes. serv.	PYME Member fees	--	50? in DC 30? in SPS
FACACH	Personal loans	Not defined	--	--	Credit	Member savings	--	--
	Agroind. fund	Not defined	Lps. 1.7 million 600-1,000 loans	All	Credit only	German govt.	--	--
	Industrial fund	Not defd.	Lps 11,000 5? projects	All	Credit only	Member savings	--	--
OFRANEH (graifunas) w/ ASEPADE as implem. agency	Commty stores: food stuffs clothes	8 stores (communities)	100-150 women	North coast	Cred + TA + Trg	COSUDE - funds ASEPADE - TA reinvested earnings PYME via ASEPADE	1,000 + garifunas	Consolidatn
	Prodn clothes	1 coop	20 women	near La Ceiba	Trg + credit + TA + Trg	COSUDE, ASEPADE PYME via ASEPADE	--	Consolidatn

Organization	Program name, if any	Target group (micro, small, etc.)	SSE coverage/86	Geographic coverage	Program FOCUS sequence of components	Funding sources	Membership approximately December/86	1987 projections
Cooperative Associations (5) (continued)								
FEHCIL	Credit for coop raw material stores	SSE Auto-gest.	1,500 SSEs 30 stores	All Honduras	Long-term, low-interest cred Trg & TA in coop admin	BID IAF Coop memb fees Int. paid	42 coops 2,000 SSEs 10-15 med employee-run businesses	5 new coops
	Mrtg TA + Trg Pilot stage	SSE-shoemakers	20	DC	Training + TA	PYME, Coop educ fund FEHCIL - logis.	--	60-80 in DC & Siguat.
	Prod TA + Trg Pilot stage	SSE-shoemakers	60	DC-48 Siguat - 12	Trg + TA	PYME, Coops, FEHCIL - logist.	--	40 in DC, & Siguat
	Prodn TA 1st attempt	1 carp. auto-gest busn (15 membs)	--	Dist. Cent.	TA only	BID	--	4-8 coops
PVOs Run by Honduran Third Parties (10)								
Accion Cult Pop Hondurena	--	--	Information not available	--	--	--	--	Peace Corps vol
APRODIB	Credit	Market women	373 groups 1,792 benefs 2,649 loans	DC-105 emps SPS-57 Chol-1,630	Mini-credit, trg opt.	AID loan int.	Small prof group	Some increase
	CRED Indiv	Micro	300 benef 400 loans	DC, SPS chol	Credit trg opt.	--	--	Some increase
FUNADEH	Credit	Small-scale	100	SPS	Med. term cred opt. training some IESC TA	AID busn county PYME Peace Corps vol IESC	150 busn and prof community	200 benefs training followup
FUNDEMUH	Banco de la Mujer	Micro	165 benef 300 loans	DC	Minicredits short-term limited TA	FOPRIDEH PYME lim. busn Peace Corps vol	28 prof women	800 loans 400 new benefs training

Organization	Program name, if any	Target group (micro, small, etc.)	SSE coverage/86	Geographic coverage	Program FOCUS sequence of components	Funding sources	Membership approximately December/86	1987 projections
PVOs Run by Honduran Third Parties (10) (continued)								
FUHRIL	--	Handicapped	--	DC	Some TA	Peace Corps vol	PVOs	Credit too
IFC	Coop dev	Coop busn	--	All Hond	Design TA mgmt training	Coop fees Fund. F. Neuman Peace Corps vol	--	--
IDH	Credit	SSEs	189	DC, Siguat Danli. Olan	Med. term cred opt. training limited TA	BID loan int Intl. vol. serv.	12 persons in Protestant community	207 + benefs training?
ODEF	Women in busn	Small, med	20?	SPS and nearby	Training + med. term cred + TA	AID PYME OEF Peace Corps vol	Busn/prof community	30? more
UNISA	Women in busn	Small, collec-vely run	1 busn 20 benefs	DC Chol	Credit + TA	Holland, IAF Peace Corps vol	--	3 busns 36 + benefs
Government Organizations (4)								
Banco Municipal	--	--	0	Rural communities	--	Credit funds being sought Peace Corps vol	--	Loans to $5,000
CDI	Cred & TA	Small indus	--	DC SPS Chol La Ceiba	Credit - med to lrg amounts opt. TA	--	--	TA from UNIDO Improved loan guar. fund
INFOP Form. Empresas	Training	Small, med businesses	50 + courses 1,000 + busns	All Hond.	Training in mgmt & mktg	Busn tax ILO - TA Spain - TA UNIDO	--	70 + courses 1,200 + busns
	Busn diag.	Small, med	15	DC	Intensive TA	PYME	--	30-40?
DIFOCOOP	Cop dev	Coop busn	--	All Hond	TA - coop mgmt TA - prep. sml projs	Peace Corps vol	--	--

Organization	Program name, if any	Target group (micro, small, etc.)	SSE coverage/86	Geographic coverage	Program FOCUS sequence of components	Funding sources	Membership approximately December/86	1987 projections
PVOs Run by International Entities (6)								
Cooperative Housing Fndtn	Barrios marginales	--	0	--	--	w/FENCOVIL	--	Not avail.
EEC-BCIE	--	Small, med industries	0	--	Diag + credit + TA	EEC	--	Lps 4 million thru banks
Fundacion F. Ebert	--	grass roots orgs, coops	Not avail	All	TA w/donations	German Soc-Democ party	--	Not avail.
Partners of the Americas	Training	Micro	160	All Hond	2 weeks in Vermt	CAPS Peace Corps vol	150 busn/ prof Amapala, Sabanagrande, DC, SPS, Siguatepeque	100
	Loans	Small-fishermen	5	Amapala	Credit + opt. TA	--	--	--
	Rur Dev	--	--	Sabanagrande	Training	--	--	Training + cred + TA: for Amapala, Sabanagrande Verm. trg. grd.
Pueblo a Pueblo	Artesan	Rur fams	60	Sta Barb 50 DC-8-10	Trg with TA	Peace Corps Vol	--	Consolidtn
		Carp. coop	6	DC	Trg with TA	--	--	Consolidtn
Save the the Children	--	Information not available	--	--	--	--	--	--

Organization	Program name, if any	Target group (micro, small, etc.)	SSE coverage/86	Geographic coverage	Program FOCUS sequence of components	Funding sources	Membership approximately December/86	1987 projections
PVOs Run by Honduran Third Parties								
INHBIER	Cred + TA	Small farmers	200	Foo Marazan	Training grp formatn	PYME	20 busn/ prof	Credit-125 trg + TA
IDH	Ag credit	Small farmers	119	Siguat, Dahli Olanco	Credit. opt. TA, trg	see above CDI/PTR	see above	131 loans
APROCAFE	Diversif.	Sm. coffee growers	--	All Hond	Cred + TA bens	Memb fees CDI/PTR	2,000 coffee growers	--
PVOs Run by International Entities								
Meals for Millions	--	Sml farmer families	--	Olancho	Credit, trg,	Peace Corps vol	--	Not avail.
Partners of the Americas	Rur Dev	Small farmers	100	Sabanagrande	Trng + credit + TA	AID	see above	150
Pueblo a Pueblo	Cashew	6 colec proces. plants	60	Choluteca	Trg with TA, mktg assit	IBOS - Holland Peace Corps vol	Adv comm of 6	Consolidtn
Plan en Honduras	--	--	--	--	--	--	--	--
Government Organizations								
CDI	PTR	Agroind	44 loans 60 benef	All Hond.	Cred + TA	AID	50 loans Lps 500,000 for PVOs	--

APPENDIX H

APPENDIX H. SCOPE OF WORK
SMALL BUSINESS SECTOR REVIEW

Introduction

The Honduran small business subsector strategy review has been conceived as an innovative effort relying upon the combined efforts of USAID Mission staff and Robert R. Nathan Associates, Inc. consultant specialists. In cooperation with USAID staff, and with specified analytic and written collaborative inputs from USAID staff members, the consultants will be responsible for the final preparation and delivery of a sector strategy document which is described below.

Rationale

The consultants will describe and analyze the socioeconomic contributions of small scale enterprise (SSE):

1. Review of Literature

2. Honduran Context

Socioeconomic environment: cultural factors influencing target beneficiaries' participation; gender issues; employment/underemployment/unemployment; income/income distribution; urban/rural considerations major sectors of the economy/role of small business sector within larger industrial sector/contribution to exports; financial intermediation/capital markets; and financial and economic return of small businesses. (NOTE: The economic return analysis will differ from the financial analysis in that the former uses prices that reflect the opportunity cost to the society of allocating resources for production in these terms.)

A key objective for the consultants is to determine the relative importance of small enterprise development as a means of generating new productive employment in Honduras. To this end, the consultants will use available data to determine how

much capital is needed to create a new productive job in Honduran small enterprises and the nature of such jobs.

Policy Framework

The consultants will identify policy and regulation related biases which negatively affect the small businesses, the importance of such biases, and the benefits to Honduras of the correction of the biases.

Profile of the Sector

The consultants will describe and analyze general information on the overall size of the sector, its composition, and contribution to GDP. Subsequently, they will address issues at the enterprise level, including:

- Entry costs
- Production and organization at the enterprise level
- Labor and skill level, access to training and technical assistance
- Market (domestic, Central America, export)
- Competition (contraband, large industry)
- Capital
- Access to production inputs and other resources

The profile section should conclude with a summary of key problems affecting small businesses and why resolution of these problems is important to development of the sector.

Current Support to Small Business Sector

The consultants will survey multilateral and bilateral donors to determine which are working with the Honduran small business sector or have no projects planned in the near future.

The consultants will identify those institutions representing the small business community or providing a service (e.g., credit, technical assistance) to them and describe the benefits in working with these institutions.

The Mission, in consulting with the team, will select a minimum of six intermediary institutions working with the small business sector in income or employment generation activities. The consultants will assess the strengths and weaknesses of the models or approaches being used by the intermediaries. Factors to be reviewed include:

- Characteristics of the target group
- Management organization and functions
- Administration of credit
- Technical and management assistance programs
- Level of self-sufficiency

The consultants will draw conclusions on the various approaches to small business development being employed currently in Honduras, providing an overview of the trends, gaps, problem areas, and successes, and compare the Honduran models to selected experiences in other countries.

USAID/H Current Strategy in Support of the Small Business Sector

The consultants will:

1. Review in the context of Action Plan/Central American Initiative goals, the effectiveness of current Mission activities in the small business subsector in achieving these. The consultants will look at relevant activities of the offices dealing with small and micro enterprise support projects.

2. Summarize the existing objectives and portfolio of activities of the Mission regarding small business development.

3. Lead a series of working sessions with Mission officers, in the fourth week of their field work, to jointly develop various strategy options (including some to be presented by USAID staff), review and prioritize these options, and then select the final strategy recommendations.

Recommendations for USAID/H for A Small Business Sector Strategy

The consultants will:

1. Develop a working definition of micro and small-scale enterprise in the Honduran context that will serve as the basis for the strategy to be developed

2. Identify the major contributions of micro and small-scale enterprises to Honduras' development

3. Identify, analyze, and prioritize major problems confronting small enterprises in Honduras

4. Specify a rationale for USAID assistance to small enterprises

5. Formulate key objectives of the strategy and list the human and institutional resources required

6. Elaborate strategy options or scenarios, with pros and cons of each

7. Elaborate final strategy recommendations

8. Develop implementation actions or useful next steps to take

Reports

The consultants will present the Mission a draft summary report in-country to be discussed at an oral briefing near the conclusion of the fifth week of field work to provide information for the Mission FY 1989 Action Plan.

The final report, in English, prepared in the U.S., must be submitted to USAID/H within five weeks of departure. The report must include an executive summary which, as a separate document, will be translated into Spanish.

APPENDIX I

APPENDIX I. LIST OF CONTACTS

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Orlando Hernandez, DP
Gene Szepesy, DP
Juan Butari, EPA
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San Pedro Sula: Business Panels
(Representative Listing of Attendees and Enterprises

Organizer: Lic. Miguel A. Sabillon

Attendees: Don Roques, Transportation/Wholesaler
Elay Page, Banker
Margarita Castellano, Money Lender
Hugo S. Valladares, Consultant/FUNADEH
Pedro F. Ganshuati, Furniture Manufacturer
Juan Agustin Sosa, Electrician
Blanca Suyapa de Sosa, Dentist
Luis Alfonso Licona, Taxi Driver
Isabel de Membreno, Clothing Manufacturer
Trejo Auselenco, Small Store Operator

CADEHSA

Managing Director
Treasurer and Accountant
Assistant to the Director
Board Member, Original Membership

CANADIAN EXECUTIVE SERVICE OVERSEAS

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Daniel S. Coleman, Senior Manager

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APPENDIX J

APPENDIX J. BIBLIOGRAPHY

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