PN ABW 676
96171

Review of the Covelo Foundation in Honduras and the Organizations It Supports

GEMINI Technical Report No. 83

GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814

DEVELOPMENT ALTERNATIVES, INC. • Michigan State University • ACCION International • Management Systems International, Inc. • Opportunity International • Technoserve • World Education

Review of the Covelo Foundation in Honduras and the Organizations It Supports

by

Robin Bell, Team Leader
Bruce Heatley

Development Alternatives, Inc.

March 1995

TABLE OF CONTENTS

SECTION FOUR

SECTION FIVE

LIST OF TABLES

EXECUTIVE SUMMARY

The U.S. Agency for International Development in Honduras requested a special assessment of the José María Covelo Foundation (Covelo), a second-tier technical assistance organization implementing a component of USAID's Small Business II Project. The team's task was (1) to review the administrative, management, financial, methodological, and project implementation issues that constrain Covelo and the nongovernmental organizations (NGOs) it supports from achieving outreach and providing cost-effective services and (2) to provide the Mission with comments and recommendations for future activities and strategies.

Although the program began by assisting 30 NGOs, assistance was reduced to 5 and then, this year, to 4 institutions. The program, although satisfactory in establishing an ongoing technical assistance service mechanism, has encountered difficulties in achieving viability targets because the credit component has not generated the income envisioned. Immense donor resources for microenterprise credit are available in Honduras at much more competitive terms and conditions.

As a service provider to NGOs, Covelo has established an important track record, and its activities are valued by its clients, NGOs, and other donors. However, its impact has not been as favorable as expected because of the NGOs' lack of commitment to implement necessary changes. Successes were often not achieved until major changes were made in the management team or the composition of the board.

Covelo's ratio of technical staff to NGOs is low compared with those of other apex institutions. This ratio is unlikely to improve unless personnel policies are modified. Staff are recruited with some technical capabilities, though not necessarily in micro and small enterprise (MSE) finance. They then receive considerable on-the-job training from the USAID-funded resident advisor. Once staff are trained, they leave for much higher salaries. Well-trained and capable personnel are essential to a technical assistance organization.

Active borrowers reached by the five NGOs number 15,147. According to current estimates of the size of the sector (approximately 165,000), the five NGOs reach only 9 percent of the market. The consultant team believes that the estimated size of the sector is in excess of 250,000 enterprises. Assuming this as the case, only 6 percent of the potential market is being reached.

VILLAGE AND INDIVIDUAL LENDING METHODOLOGIES

The NGOs supported by Covelo use different lending methodologies. The individual lending methodology used by Women Entrepreneurial Development Organization (ODEF), Institute for the Development of Honduras (IDH), and Honduran Brotherhood (HdeH) disburses loans based on character, capacity of repayment, and collateral (or guarantee) rather than on group guarantees. The concentration of the loan officers is primarily on loan approval and disbursement. In theory, credit monitoring, supervision, and collection by the loan officer are integral parts of the methodology. In practice, however, given the limited experience of the credit officer, monitoring and supervision are not significant parts of the officers' activity.

The outreach achieved by the Foundation for International Community Assistance in Honduras (FINCA) and by World Relief of Honduras (WRH), which use the village bank methodology, has been far greater than that achieved by NGOs using the individual lending methodology. The village banking methodology developed by FINCA (John and Marguerite Hatch, 1989) has been modified to reflect both the operating procedures of each of the organizations and the local economic, cultural, and social conditions of the target population. In number of active borrowers, village banking borrowers outnumber individual lending borrowers by a ratio of approximately 8:1. At the same time, the depth of village banking's reach into the community has been deeper. The average loan amount ratio relative to individual lending is approximately 1:9.

Experience with the village banking model has shown the following:

- A limited number of banks can *graduate* to the formal financial sector or *evolve* into self-financing village banks.
- Village banks are relatively easy to establish in communities that are relatively stable and cohesive, and very difficult to establish and maintain in the transient-filled urban areas.
- The keys to successful village banks are cohesion, leadership, and financial management.
- In Honduras, where illiteracy rates are quite high, substantial training efforts are required in addition to extensive supervision in the banks' early years.
- Internal account management, although considered key to the village bank methodology and its goals, has resulted in many cases of theft and financial mismanagement.

ORGANIZATIONAL FACTORS

The NGOs' boards of directors appear to be in either stage 1 or stage 2 of their evolution (Drake, Otero, 1992). That is, they are composed both of individuals with interest in development who set major parameters for operations but spend little time reviewing operations, and of private sector representatives oriented to self-sufficiency, but lacking strong leadership or visionary roles typical of an expansion-led approach.

The organizational structure of each of the NGOs consists of a head office supported by three to five branches in the regions they serve. The branch offices are small — a structure appropriate for geographic expansion. Internal audit departments are currently being established or strengthened in each of the NGOs. Generally, the organizational structure of each NGO appears to be adequate for its operations.

FINCA's and WRH's ratios of promoters to total personnel are strong. ODEF, IDH, and HdeH, in contrast, have excess administrative and supervisory staff. ODEF, IDH, and HdeH need to bring these ratios more in line with industry standards by expanding its operations or dismissing excess staff. Productivity of FINCA and WRH in terms of active clients is noteworthy; ODEF's productivity is adequate; HdeH and IDH have low productivity.

All of the NGOs have encountered problems in their credit procedures. Although some are clearly more efficient than others, each has its own bottlenecks. Covelo is working extensively with the NGOs to uncover and address such deficiencies.

With regard to financial management capacity, some NGOs clearly possess more than others; the financial management capacity of all the NGOs needs strengthening. All require some degree of ongoing assistance in financial planning and financial management, from consultants of the Inter-American Development Bank or Covelo.

Each of the NGOs, with the exception of HdeH, has demonstrated weaknesses in human resource management, and these weaknesses naturally resulted in considerable turnover rates. The personnel turnover, in turn, has had a demonstrable impact on overall performance. The tendency is to pay low salaries in an attempt to achieve self-sufficiency. However, the effect is likely the opposite, because the effect of turnover is increased cost in terms of lower productivity, higher delinquency, and so forth.

The computerized information system installed (or currently being installed) at each of the NGOs is, in its present state, adequate for the current level of operations, but not necessarily for a large-scale credit operation. This has been recognized by Covelo, which is in the process of reprogramming major changes in anticipation of the massification plan. Changes include putting the system on-line, creating network capability, and so forth. Despite the above weaknesses, perhaps the most notable is the inadequacy of the NGO personnel responsible for the systems. The accounting systems are not used uniformly or effectively by the NGOs. Financial statements can be generated in a timely manner, yet several NGOs often experience delays of one to two months. Moreover, there appears to be little review for accuracy on the part of the NGOs. Information generated by the portfolio administration system appears reasonably reliable.

Only WRH is operationally self-sufficient. WRH has no financial costs, and its level of loan losses and thus loss provisions was extremely low. If it were not for loan losses, and thus loss provisions, FINCA and IDH would have been very close to operational self-sufficiency (99 percent and 93 percent, respectively). Financial self-sufficiency of the NGOs, however, was 62 percent or less. If they are to achieve financial self-sufficiency with the current pricing structures, inflation must decline and the institutions must minimize their delinquency and loan losses and streamline their operations to become more operationally efficient.

RECOMMENDATIONS

The review team recommends that Covelo do the following:

- Review its current structure at all levels to streamline its costs.

- Improve its personnel policies to reduce high turnover rates.

- Reprogram its credit component. Options may include the following:

  - Establish a parallel direct lending program in Covelo using the solidarity group lending methodology; and

  - Establish an incentive plan that could be structured as a loan facility that capitalizes the NGOs; in other words, interest could be capitalized by the NGO and capital repaid to Covelo for use in its future activities, such as direct lending to MSEs, additional loans to NGOs, or technical assistance. Disbursement and/or approval could be contingent on meeting certain criteria established by USAID (performance incentives).

- Establish a fee-based service, and offer those services to other clients such as donors and funding institutions that require efficient and competent NGOs.

- Continue to assist the NGOs in scaling up their programs (also referred to as massification), with a particular emphasis on credit procedures, MIS, financial management, and human resource policies.

- Consider adaptations to the village bank model such as:

  — Incorporating small sub-groups within the village bank, particularly in the transient urban areas;

  — Delay the management of the internal account until the village bank has sufficient experience in effectively managing its operations. Minimum experience requirements should be at least one year;

  — Impose a minimum reserve requirement on the savings, not only to provide the NGO with collateral, but also to protect the depositors. Just as banks are required to maintain minimum reserves to protect their depositors, so should the village banks. The reserve requirement should be higher in the earlier stages and slowly decline as the village bank demonstrates its competence.

- Ensure that the NGOs report on their financial performance in accord with generally acceptable standards, particularly for loan loss provisions, write-offs, and so forth.

- Carefully review salary levels and consider incentive plans.

LESSONS LEARNED

Lessons learned include the following:

- The institutional capacity and system development in most NGOs were much lower than anticipated. Thus, during the course of the project, it became clear that the goal of self-sufficiency for the number of NGOs originally contemplated would not be feasible unless Covelo's human resource base was significantly expanded. As a result, it was decided to concentrate Covelo's resources on those few NGOs — five at any point in time — that offered the best prospects for effective use of the assistance proffered.

- The impact of technical assistance is clearly affected by the NGOs' commitment to implementing necessary changes. For example, the management's or board members' lack of understanding of the benefits flowing to MSEs from effective financial and credit policies delayed implementation of Covelo's recommendations. Moreover, management did not always get involved in the implementation process because of lack of capacity or interest. Excessive turnover among trained personnel or the assignment of unqualified personnel to important tasks also complicated the training process.

- The credit component was added to the project to increase Covelo's leverage with the NGOs and to improve its prospects for self-sufficiency. The loans made under the credit component were structured to minimize risk (through the re-discount mechanism) and were priced at a level sufficient to cover Covelo's operating costs and the devaluation effects of inflation (as required by USAID). However, at the same time, other donors were offering subsidized funds that were structured much more loosely. As a result, the amount of funds disbursed under Covelo's facility was much lower than expected; hence Covelo's self-sufficiency was much lower than expected.

- The conditions of the credit component permit credits of up to only $300; thus, Covelo's ability to provide assistance with USAID funds to other NGOs is limited to a handful of NGOs that use the village bank model.

SECTION ONE

INTRODUCTION

PURPOSE OF THE REVIEW

The U.S. Agency for International Development in Honduras requested a special assessment of the José María Covelo Foundation (Covelo), a second-tier technical assistance organization implementing one of the Small Business II Project's components. The team's task was to review the administrative, management, financial, methodological, and project implementation issues that constrain Covelo and the nongovernmental organizations (NGOs) it supports from achieving outreach and providing cost effective services; and to provide the USAID Mission with comments and recommendations for future activities and strategies. USAID/Honduras intends to use the assessment to formulate a project extension that will permit Covelo and selected NGOs to substantially increase their scale and outreach.

INSTITUTIONAL SETTING FOR MICROENTERPRISE ASSISTANCE IN HONDURAS

In the last few years, a great number of institutions have provided services to the micro and small enterprise (MSE) sector in Honduras. As in many developing countries, job creation in Honduras is, by far, one of the major socioeconomic problems. Although there is no real functioning national strategy for MSE development, a number of isolated initiatives have, in some instances, generated important results.

Donor involvement has been active, especially through institutions such as USAID, the Inter-American Development Bank (IDB), the European Union, and other regional initiatives through the Central American Integration Bank. Most of these sources have preferred working directly through NGOs. However, in some cases, fund administration and project management responsibility have been transferred to the Honduran Social Investment Fund (FHIS) which, in turn, has channeled the funds to NGOs for delivery to the MSE sector.

MSE finance has seen very little involvement from the formal financial sector and development finance institutions. Commercial banks have had access to rediscount mechanisms but it would seem, from both comments and information provided, that these financial intermediaries have shown little interest in attending the sector.

Thus, in Honduras, the NGOs have become important actors in MSE development. Although financial assistance to the sector has a long tradition in Honduras, some of the newer programs have had important and, in some cases, successful experience. One of the most important has been the village bank programs, which, under the auspices of USAID's Small Business II project, currently provide financial and technical assistance to 13,490 active village bank clients.

USAID's Small Business II project, which began in 1988, included as one of its components a grant to the National Association of Industrialists (ANDI) to support its operation as a second-tier institution working to strengthen NGOs involved in supporting MSEs. In the original project, the sustainability of ANDI was not contemplated. A project amendment, in April 1993, transferred administration to Covelo, established a $1.6 million credit fund, and extended the project to 1995. The amendment of September 1994 increased the credit fund to $3.0 million and extended the project to September 1996. The addition of the credit fund was intended not only to provide liquidity to the NGOs, but also to provide Covelo with leverage to use with the NGOs as well as a mechanism to achieve its own sustainability.

Although the program began by assisting 30 NGOs, this assistance was reduced to 5 and, as of this year, to 4 institutions. The program, although satisfactory in establishing an ongoing technical assistance service mechanism, has encountered difficulties in achieving viability targets at both the umbrella and the NGO level.

COMPOSITION OF REVIEW TEAM

The Development Alternatives, Inc. (DAI) review team was composed of two members:

Robin Bell, a permanent staff member of the Enterprise Development Group of DAI, is a finance and credit specialist in financial sector assessments, credit analysis, portfolio management, and business and project evaluation. She has consulted on projects in Asia, Africa, Latin America, and the New Independent States of the former Soviet Union. Prior to her work as a consultant, Ms. Bell provided financing to small and medium-sized businesses for more than 10 years as a commercial lending and venture capital officer. As Vice-President of MNC Financial, Inc. (NationsBank), she managed a commercial loan department with total funding commitments in excess of $300 million. As Assistant Vice-President of Perpetual Savings Bank, she originated a portfolio of joint venture investments that generated more than 40 percent of the division's profit.

Bruce Heatley, a financial sector, enterprise development, and related policy specialist has 25 years of professional and consulting experience in the United States, Central and South America, the Caribbean, Asia, and Eastern Europe. His extensive managerial, technical, and institutional development capabilities include all facets of the international financing system. Over a 25 year career in the United States and on long-term assignment in foreign countries, his professional experience has included senior management responsibilities for the planning, implementation, and operation of commercial banking and development finance institutions.

SECTION TWO

ACHIEVEMENTS AND PERFORMANCE OF COVELO

TARGETS

Institutional Strengthening

Technical Assistance and Integrated Assistance Projects (IAP)

The IAP program combined budgetary support with institutional support. During the project, it became clear that the goal of self-sufficiency for the number of NGOs originally contemplated was not feasible for the following reasons:

- Very low level of institutional capacity and system development in most NGOs, which greatly increased the level of effort required to reach this goal; and
- Limited human resource base at Covelo.

As a result, it was decided to concentrate Covelo's resources on those few NGOs that offered the best prospects for effective use of the assistance proffered. Thus, the IAP program has been directed at 5 NGOs, with a planned expansion over the life of the project to possibly 9. The NGOs participating in the IAP program are the following:

- Foundation for International Community Assistance in Honduras (FINCA);
- World Relief of Honduras (WRH);
- Women Entrepreneurial Development Organization (ODEF);
- Institute for the Development of Honduras (IDH); and
- Honduran Brotherhood (HdeH) — temporarily suspended as of December 1994.

Covelo has concentrated in providing assistance to NGOs using the village bank model as a means of targeting large numbers of clients. Given the conditions of the credit component that permit credits of up to only $300, there is really no alternative but to target these subsistence or very low income level enterprises. This situation has limited Covelo's ability to provide assistance with USAID funds to other NGOs that do not target this type of client. Its client base is thus limited to a handful of NGOs; given the current constraints, this is not likely to change.

Technical assistance services provided by Covelo cover strategic, tactical, and operational aspects. At the strategic level, Covelo technical personnel conduct institutional assessments, develop strategic and self-sufficiency plans, provide guidance in financial management, and, most recently, develop massification strategies for the four remaining NGOs. At the tactical level, Covelo provides guidance in operational planning, credit procedures, and portfolio management. At the operational level, assistance is focused on management information systems (MIS) and internal controls.

Covelo, as a service provider to NGOs, has established an important track record and its activities are valued both by its clients (the NGOs) as well as by other donors. However, its impact has not been as favorable as would be expected. This is not necessarily the fault of Covelo. For example, conflicting interests of the management and board members of the NGOs have delayed implementation of financial and credit recommendations. In addition, management did not always get involved in the implementation process because of lack of capacity or interest. Excessive turnover among trained personnel or the assignment of unqualified personnel to important tasks also complicated the training process.

Training

It was intended that Covelo would provide training to NGO staff and technical assistance in training methodology to NGOs. As of year end, 1994, 77 percent of the target had been met. (Refer to Table 1, Project Targets). However, the impact of training at both the NGO and borrower level is difficult to ascertain.

Training of NGO staff has received generally favorable remarks, although some elements may not have been well done. However, training impact has been greatly complicated by high turnover of both NGO and Covelo staff. Technical assistance and funding to the NGOs for training of their borrowers was basically suspended in 1993. This activity was more important in the earlier stages of the project.

Monitoring and Evaluation

Monitoring and evaluation of the institutions' activities have been adequate. The reports generated provide useful information to the management of the NGOs. Per the data provided by Covelo, in excess of 80 percent of the targets had been met by December 1994. There should be no problem in achieving the targets expected for 1996.

NGO Impact Targets

There are no precise figures as to the actual size of the MSE sector in Honduras. There are some estimates that Covelo has made that place the number at approximately 165,000. However, the consultant team feels that this number is grossly underestimated and that it likely exceeds 250,000. There is a market study project under way in Covelo that will provide more precise information as to the actual size of the market.

Based on current estimates of the size of the sector (approximately 165,000), the five NGOs are only reaching 9 percent of the market. If the size of the sector is in excess of 250,000 enterprises, then only 6 percent of the potential market is being reached. Thus, it would appear that there is ample room for program growth.

As of year end 1994, Covelo's records indicate that the NGOs had exceeded the employment generation target. Given the limited time frame and scope of this study, these results were not verified.

TABLE 1

PROJECT TARGETS

	Original Targets	Targets Met Thru 12/94	New Cum. Targets Thru 9/96	% of Targets Met
I. Internal Institutional Strengthening				
1. No. of NGOs Received TA/Loans	N/A	5	9	56%
2. NGOs Loan Portfolio (000's)Lps.	N/A	24,031	41,000	59%
3. Training Workshops	60	71	92	77%
4. Participant Training	150	1,185	1,570	75%
5. Monitoring Visits	150	139	174	80%
6. Annual Performance Evaluations	81	78	94	83%
II. Integrated Management and Financial Assistance Program				
	Original Targets	Targets Met Thru 12/94	New.Cum. Targets Thru 9/96	% of Targets Met
1. Integrated Assistance Projects (annual)	55	48	62	77%
2. Training/Technical Assistance Projects*	70	31	31	100%
3. Marketing Projects*	20	10	10	100%
III. NGO Impact Targets				
	Original Targets	Targets Met Thru 12/94	New Cum. Targets Thru 9/96	% of Targets Met
1. Employment Generation	9,000	11,162	11,000	101%
2. Cumulative Number of Loans	8,125	66,978	143,000	47%
a. Men	N/A	5,601	8,500	66%
b. Women	N/A	61,377	134,500	46%
3. Amount of Loans(Lps.000's)	N/A	85,038	209,000	41%
a. Men	N/A	23,332	51,000	46%
b. Women	N/A	61,706	158,000	39%
4. Active Loan Clients	7,500	16,391	37,000	44%
a. Men	N/A	1,970	2,300	86%
b. Women	N/A	14,421	34,700	42%

* These activities have been discontinued.

Impact targets achieved in number of loans, amounts disbursed, and active clients are in the range of 41-47 percent. With the massification plan, a significant proportion of the targets could be met. However, since the number of active clients will have to increase more than 100 percent (in 21 months), they are not likely to be fully achieved. The NGOs have indicated a commitment to the massification plan, but many are still consolidating their operations. Thus, the expanded outreach may not occur prior to September 1996.

Credit

A $1.6 million credit component was added to the project in 1993. This amount was later increased to $3.0 million in 1994. The credit fund was intended not only to provide the NGOs with liquidity, but also to provide Covelo with leverage to use with the NGOs as well as a mechanism to achieve its own sustainability. The credit fund has not been sufficiently used because of the amount of resources currently being placed in Honduras by the different donors and institutions at much more competitive (or subsidized, as the case may be) terms and conditions. In response, during 1994, Covelo embarked on its massification program for the four remaining NGOs. The program objectives included expanding the NGOs outreach and improving self-sufficiency of both the NGOs and Covelo. The expectation is that if the NGOs expand, they will require additional resources that could be provided by Covelo. This strategy, although in the right direction for the NGOs, does not seem realistic for Covelo in terms of its self-sufficiency expectations given the immense amount of competition. Competing donor programs include the following, listed by donor.

- **FHIS**. PROCATMER is a program targeted to rural microenterprises. Total funding available from the European Union is $8.0 million for this program. Until last year, PROCATMER also provided grants for up to 10-12 percent of the loan amount to the NGOs for institutional strengthening purposes. Loans are disbursed with relatively little difficulty and at rates lower than the Covelo funds (20 percent versus approximately 25-28 percent). Many of the NGOs assisted by Covelo have received funding from PROCATMER.

  The PASI program also functions under the auspices of FHIS; however, PASI and PROCATMER function independently. PASI provides resources for urban-based microenterprise credit programs. Approximately $4.8 million is available from this fund. The fund also offered a 10 percent technical assistance fund for the participating NGOs. The Covelo-assisted NGOs have also tapped funds from this source.

  The FHIS programs combined have approximately $12.8 million available, of which $7.3 million has been disbursed to more than 30 NGOs. Although the FHIS programs provide resources for technical assistance and institutional strengthening, they do not provide it directly. It would seem that they have benefitted from Covelo's program and are fully aware of this. They have indicated that they would consider a more coordinated approach in providing assistance not only to the Covelo-assisted NGOs, but to other NGOs assisted by FHIS. They would consider transferring resources for technical assistance to Covelo for this purpose.

- **IDB**. IDB has been active in Honduras in microenterprise credit through its small projects window. It has especially targeted three of the Covelo-assisted NGOs because they were viewed as the more reliable and stronger institutions. Two more projects are in the pipeline for this year. Although there have not been many advances under the Multilateral Investment Fund (MIF), it could potentially represent a significant source of funds for many of the credit programs in the future. The total portfolio that the IDB currently has in Honduras for microenterprise credit is approximately $11.0 million (including nonreimbursable technical assistance funds).

- **BCIE-Danida.** This program funded by the Danish government and implemented by the Central American Integration Bank (BCIE) functions as a loan mechanism for MSEs. It was established initially with $2.0 million in credit and $500M (M=1,000) for technical assistance. FINCA, IDH, and HdeH have accessed these funds. Additional funding of $7.0 million is expected this year.

- **Others.** There are other sources of funds available to the NGOs from international institutions such as the Inter-American Foundation (IAF) and from U.S.-based NGOs such as FINCA, World Relief, or Katalysis. The institutions themselves are also looking for other resources that, in many cases, are comparatively cheaper than the Covelo funds.

It would seem then that the availability of resources for microenterprise credit in Honduras will not be a bottleneck for the NGOs. The main constraint will be the capacity of the NGOs to use these resources effectively — a concern mentioned by all of the donor institutions.

For Covelo, however, this situation does pose a problem because their funds are not competitive with those offered by the other donors. Covelo's current pricing policies results in interest rates higher than most of its competitors. Moreover, the discount mechanism is much more burdensome on the NGOs. Interviews with the NGOs indicated that the discount mechanism was as much of a factor in their decision not to use the Covelo funds as its higher interest rate.

INSTITUTIONAL REVIEW

Operational Structure

Organizational Structure and Productivity

Covelo's personnel structure includes an executive director, 7 credit/technical staff members, 3 systems department staff members, and 6 administrative/general services staff members.

The services provided by Covelo's staff have undoubtedly played an important role in facilitating growth in the NGOs. However, Covelo's ratio of technical staff to NGOs is too low. In other apex institutions, this ratio would be above 2.5, that is, more than two institutions per staff member (for example, AGS of Colombia and Corpomicro of Ecuador). Many studies are conducted by the personnel and, perhaps, during the initial stage of massification, this ratio would be justified. However, in the future, it would be important to streamline its procedures and more closely match the monitoring and technical assistance provided to that actually demanded by the NGOs.

Another area that requires a closer analysis is Covelo's efficiency and relative impact in the systems area. Covelo offers technical assistance to the NGOs in systems development. This is undoubtedly a crucial area for the NGO programs, but the NGOs have not assumed sufficient responsibility in establishing efficient management systems. Currently there are three people in the systems area. The personnel may be required although considerable reprogramming is under way.

However, in the future, if it were more of a consulting and technical assistance task, then only one person would be required.

Efficiency and productivity in most apex organizations is as important as generating income from the services provided. Covelo must review its current structure at all levels to streamline its costs and increase productivity ratios. Moreover, as discussed below, it must review the technical capabilities of its staff if it is to increase its revenue generating capacity.

Governance and Board of Directors

Administration of the project was transferred from ANDI to Covelo in April 1993. The board of directors consists of members from the ANDI board. ANDI is reportedly highly regarded, and the board members are undoubtedly politically connected. However, the board has not appeared to demonstrate a particular vision with respect to Covelo's future beyond the life of the project. The program, and Covelo, appear to be entirely dependent on USAID. If USAID assistance were terminated, the sustainability of the institution would be questionable.

Human Resources

The personnel recruitment and training policies of Covelo appear to be adequate given the salary structures. Staff are recruited with some technical capabilities, albeit not necessarily in MSE finance. They then receive considerable on-the-job training from the USAID-funded resident advisor. However, policies that contribute to ongoing staff satisfaction, such as good salaries and benefits (from a local perspective), are deficient. As a result, Covelo experiences considerable turnover in the technical and MIS areas. Once staff are trained, they leave for salaries often twice that paid by Covelo. Although this may not result in loan losses and delinquency, as in the case of the NGOs, it certainly affects productivity as well as long-run viability. Moreover, it only increases Covelo's dependence on the USAID-funded resident advisor. Well-trained and capable personnel are essential to a technical assistance organization. Without well-trained personnel who can truly offer something of value to the NGOs, there will be no demand for its services.

MIS

A review of the reports prepared by Covelo and the quality of its financial reporting indicate that its system is both useful and adequate. The only deficiency relates to the financial information maintained on the NGOs. Adjustments are often made to financial statements without a particular audit trail. Thus, each person who analyzes the statements makes different adjustments. As a result, there are multiple versions of "adjusted financial statements." With the high level of turnover, nobody knows who prepared what or how reliable the information is, so they often start over and generate yet another version. In short, there is not a single reliable source document that subsequent analysts can use. Moreover, once the audited statements are submitted, there is no review or reconciliation.

Sustainability

During 1994, 95 percent of Covelo's income was from USAID donations. Admittedly, they had significant net income at year end. Adjusting for the surplus, income required from USAID to cover operating expenses represented 92.5 percent of total expenses.

The credit component has not generated the income envisioned, thus sustainability has not been a reality. Covelo embarked on its massification program with the objectives of expanding outreach and improving self-sufficiency of both itself and the NGOs. The expectation was that if the NGOs expand, they would require additional resources that could be provided by Covelo. This strategy, although in the right direction for the NGOs, does not seem realistic for Covelo in terms of its self-sufficiency expectations. An immense amount of funds is available from other sources at much more competitive terms and conditions.

SECTION THREE

PERFORMANCE OF NGOs ASSISTED BY COVELO

VISION/MANDATE

FINCA, a nonprofit organization, was established in December 1990 under the direction of FINCA International (FINCA/I). It operates as an independent unit but maintains close relations with FINCA/I. The mission of FINCA is to improve the standard of living of the poor by providing financial services, technical assistance, and training to groups formed under the village banking methodology.

WRH, a nonprofit, evangelical private voluntary organization, was established in July 1981 under the direction of World Relief Corporation (WRC). It operates as an independent unit but maintains close relations with WRC. The mission of WRH is to improve the standard of living of the poor, with a particular emphasis on mothers and children under the age of five. To that end, it has implemented programs to alleviate hunger and illnesses as well as economic development programs. In 1991, WRH initiated its village banking program in an attempt to improve the income generating capacity of women participating in its infant survival and community health programs. The village banking program has been very closely linked to WRH's health programs. An estimated 80 percent of the village banks have been established with women participating in WRH's health programs or other government health programs. Most of the remaining village banks have been established through local churches.

ODEF was established in November 1985 with its main office in San Pedro Sula. Its primary goal is to improve the standard of living of the poor, particularly women, by providing support in credit and technical assistance. Originally established as a source of credit for individual entrepreneurs, ODEF expanded its methodology to include village banks in 1989.

IDH was established in 1979 to serve the needs of individual entrepreneurs, many of them in the agricultural sector. To diversify and expand outreach to the disadvantaged microenterprise entrepreneur in Honduras, IDH made the decision to include village banking in its operations in 1990.

FINCA, WRH, ODEF, and IDH have all indicated a willingness to participate in Covelo's massification program. However, although all intend to expand their operations and increase their outreach over the coming years, each will proceed with great caution. FINCA, ODEF, and IDH are continuing to "put their houses in order" and WRH is only now putting in operation a computerized portfolio administration system.

HdeH is located in the city of San Marcos, one of the poorest areas of the country. HdeH is active in community development, particularly in health and technical assistance to the agricultural and agroindustrial areas. Lending operations are limited to individual entrepreneurs. Despite the fact that it operates in a very poor area, HdeH has not demonstrated a particular willingness to expand its operations significantly or to reach out to poorer levels of society. Given HdeH's distance from Tegucigalpa, its access to financial and technical assistance resources from IDB, and its relatively limited expectations of growth, the relationship with Covelo was temporarily suspended by Covelo at the end of 1994.

METHODOLOGY

Individual Loans

ODEF, IDH, and HdeH offer individual clients financing for working capital and fixed assets. Loans can fluctuate from $57 (Lps. 500) to $6,900 (Lps. 60,000) depending on the type of client and the size of its business. Loan terms range from 6 to 36 months and payments are generally required monthly.

Loans are approved based on character, capacity of repayment, and collateral (or guarantee) rather than on group guarantees. The credit officers, based on the information provided, review the credit application, inspect the business, evaluate its feasibility, and make recommendations for approval or rejection of the loan request. The loan officers concentrate primarily on disbursement. In theory, credit monitoring, supervision, and collection by the loan officer is an integral part of the methodology. In practice, however, given the limited experience of the credit officer, these areas are neglected. Thus, the institutions have hired separate collection officers for nonperforming loans as a measure to more effectively manage their delinquency problems.

Each of the NGOs has established different modalities of charging interest rates depending on the loan amount. Rates are appropriately higher on smaller loan amounts as reflected in Table 2:

TABLE 2

INDIVIDUAL LENDING INTEREST RATES

	ODEF	IDH	HdeH
≤ $2,300 (Lps. 20,000)	26% on loan amount; 2% commission	30% on loan amount; 3% commission	27% on loan amount; no commission
> $2,300 (Lps. 20,000)	26% on outstanding balance; 2% commission	30% on outstanding balance; 3% commission	27% on outstanding balance; no commission

Village Banking

Description of Model

Four of the NGOs are currently using variations of the village banking methodology developed by FINCA (John and Marguerite Hatch, 1989). The models has been modified to reflect both the operating procedures of each of the organizations and the local economic, cultural, and social conditions of the target population.

The basic model promotes the establishment of community-managed village banks. Seed capital is lent to the newly established bank that on-lends the money to its members. All members sign the loan agreement to offer a collective guarantee. The maximum loan amount for first loans is typically $50 and the initial loan term (cycle) is four months. The village bank collects weekly loan installments and savings deposits from the borrowers (internal account). The village bank repays the NGO at the end of the cycle (external account).

During each loan cycle, members deposit savings into the village bank's internal account. The internal account is used by the village banks to finance new loans and income generating activities. Members receive a share of the village bank profits; no interest is paid on savings. The village bank determines the terms and regulations for all internal account investments. The external account acts as a catalyst to stimulate the development of the internal account and of members' personal savings.

When the external account loan is repaid to the NGO, a subsequent loan is made with amounts increasing in accord with member savings to a maximum of $300. The subsequent loan can equal the previous loan amount plus the cumulative amount of savings. For example if a member saves $10 on a $50 loan, the second loan would be $60. If the member saves another $12 on the second loan, then the third loan would equal $82 ($60 + $22). By the ninth cycle, if the borrower has saved the stipulated amount, the borrower will have reached the maximum loan amount.

Management of the village bank is assumed by the bank's elected committee and members are self-selected. The model assumes that once the village bank is created and trained (four weeks), very little assistance from the NGO is required (Holt, 1991).

Variations of the model implemented by the NGOs are summarized in Table 3.

Experience with the Village Banking Model in Honduras

Loan Limits. FINCA has incorporated elements of its experience in Costa Rica into its methodology. It provides loan amounts in excess of $517 (Lps. 4,500) to its members that have grown and require larger loan amounts. These loans are granted within the village bank structure, but such loans require a co-guarantor or collateral rather than the village bank solidarity guarantee.

WRH has contemplated making individual loans to better serve those borrowers who have grown and require larger loan amounts and longer loan terms. However, WRH is somewhat nervous about venturing into individual lending. Rather, it is interested in exploring adaptations to the village banking model similar to those made by FINCA.

Social Dimensions. In outreach, the village banking model has demonstrated its ability to serve the *poorest of the poor*, especially women. Although not all of the village bank members represent the poorest of the poor, they undoubtedly are poor.

Experience has shown that village banks are relatively easy to establish in relatively stable and cohesive communities. Such has been the case for the NGOs in areas outside of the major urban centers. Establishing and maintaining banks in the transient-filled urban areas have proven to be much more difficult. In this situation, the use of peer pressure to encourage repayment has not functioned well. In response, FINCA has adopted the hotly debated policy that members of village banks in Tegucigalpa need to own a house. The purpose is to limit the problems associated with transient members.

TABLE 3
VARIATIONS OF THE VILLAGE BANKING MODEL

FINCA	WRH	ODEF	IDH
External Account			
• Interest rate - 3% per month on loan amount; 1% commission. • Initial loan limit - $92 (Lps. 800); Maximum loan amount with solidarity guarantee- $517 (Lps. 4,500). With co-guarantor, loan amount can be larger. • Borrowers make weekly payments to the village bank. External account payments are made weekly (urban) or monthly (rural). • Loan cycles vary from four to six months.	• Interest rate - 3% per month on loan amount up front; no commission. • Initial loan limit - $57 (Lps. 500); Maximum loan amount - $345 (Lps. 3,000) • Borrowers make weekly payments to the village bank. External account payments are made weekly • Loan cycles vary from four to six months.	• Interest rate - 2.167% per month on loan amount; 2% commission. • Initial loan limit - $57 (Lps. 500); Maximum loan amount - $241 (Lps. 2,100) • Borrowers make weekly payments to the village bank. External account payments are made monthly. • Loan cycles vary from four to twelve months.	• Interest rate - 2½% per month on loan outstanding; 3% commission. • Initial loan limit - $57 (Lps. 500); Maximum loan amount - $345 (Lps. 3,000) • Borrowers make weekly payments to the village bank. External account payments are made monthly. • Loan cycles vary from two to twelve months.
Internal Account			
• Rural banks can use internal account from the first cycle; urban banks can use the internal account from the second cycle. • Recommended Credit Policies: maximum loan amount equal to the amount saved; interest rate of 5% per month on the amount loaned to members and 10% per month on amount loaned to nonmembers; loans to nonmembers should have guarantee; member borrowers should have good payment record; payments at least monthly; loan should mature prior to external account loan. • Reserve requirement of amount equivalent to 2 payments in urban areas and 1 payment in rural areas.	• Banks that have completed their third cycle are permitted to use the internal account . • Recommended Credit Policies: maximum loan amount equal to 2 times the amount saved; interest rate of 3-4% per month on the amount loaned; payments at least monthly; only members with good payment record are eligible to borrow; terms are 6-12 months. • Reserve requirement of 50% of the savings. The remaining can be used by the village bank for loans.	• Banks can use internal account from the second cycle • Recommended Credit Policies: no maximum loan amount -depends on savings level and demand; interest rate of 5% per month on the amount loaned to members and 10% per month on amount loaned to nonmembers; loans should have guarantee or collateral; loan should mature prior to external account loan. • No reserve requirement. Members who do not wish to have savings invested, can maintain savings in commercial bank account.	• Banks are not allowed to use internal accounts; savings are deposited in commercial banks; serve as collateral until external account loan is retired.

Evolution. Although the goal of graduation has generally been abandoned, FINCA, WRH, and ODEF have had a limited number of banks that have *graduated* to the formal financial sector (Occidental Bank) or have *evolved* into self-financing village banks. Fourteen of FINCA's village banks have opted for financing at Occidental Bank, which offers lower interest rates. Savings accounts serve as collateral. Other banks have retired their external accounts and now finance their members' financing needs from savings and its generated income. No IDH banks have graduated.

Organization and Management. At the NGO level, the model did not envision extensive support beyond the initial training and creation of the bank. However, as with any financial intermediary, significant investments need to be made in promoters, accountants, administrative staff, management information systems, and so forth. Although the village bank programs do spend considerably more than envisioned in the model, they do not seem to spend adequately in areas necessary for the successful operation of the programs such as human resources.

The keys to successful village banks are cohesion, leadership, and financial management. If a village bank is unable to resolve conflicts or manage its accounts, it will likely disintegrate. In the context of the Honduran environment where illiteracy rates are high, substantial training efforts are required in addition to extensive supervision in the banks' early years. Approximately 10 percent of FINCA's village banks disintegrated during 1994, most in early cycles. Although this occurrence may be partially attributable to the poor economic environment, it is more likely attributable to inadequate promotion and supervision efforts.

Another issue affecting village bank management is the degree of membership turnover, both voluntary and involuntary. This not only has considerable implications for the NGO but also for the village bank. In the case of WRH, loan terms in the internal account extend beyond those of the external account. This makes it considerably more difficult to expel members from the group for nonperformance. Voluntary turnover also poses problems when too many members withdraw their savings.

Supervision and Risk Management. The village banking model does not anticipate outside supervision after initial training and does not discuss risk. The basic assumption is that the community will be self-regulating. This is especially true in *female* programs, since women are perceived to be more responsible than men (Hatch and Hatch, 1989). In the case of FINCA, this philosophy has translated into a policy of minimum supervision and regulation of the internal accounts — funds available to the village bank to be managed as they see fit. This is largely because the internal accounts are considered key to the methodology and its goal of empowerment. The result has been numerous cases of theft and financial mismanagement.

Although WRH has also had occurrences of fraud and financial mismanagement, it has incorporated measures to minimize risk, in addition to frequent monitoring. First, it does not permit village banks to manage the internal account until after the third cycle. Second, it requires that village banks maintain at least 50 percent of the savings in a bank account. However, it should be noted that many banks have disregarded the reserve requirements.

ODEF and IDH play a role in controlling the use of the internal accounts since the promoter's signature is required in addition to that of the president and treasurer to withdraw savings from the commercial bank account. FINCA permits greater latitude, but approval of subsequent external account loans can be delayed if internal account delinquency is greater than 5 percent.

The extent of losses incurred by the village banks could not be ascertained. However, delinquency rates were reviewed. A random survey of 20 of WRH and FINCA village banks showed delinquency rates ranging from 0 to 100 percent with a median of 18.5 percent. FINCA's internal account statistics as of November 1994 indicated an overall average delinquency rate of 13.75 percent. In reviewing the records, some banks obviously appear considerably more capable than others. With proper training and supervision, village banks have demonstrated that they can effectively manage the internal accounts without excessive delinquency.

INSTITUTIONAL PERFORMANCE

Scale and Outreach

Each of the NGOs serves both rural and urban populations. FINCA's village banking program operates from offices in Tegucigalpa, Siguatepeque, Choluteca, Copán, and San Pedro Sula. WRH operates from offices in Tegucigalpa, Catacamas, Juticalpa, and Danlí. ODEF's village banking and individual credit programs operate from offices in San Pedro Sula, Santa Bárbara, Villanueva, and Choloma. IDH operates in Tegucigalpa, San Pedro Sula, Siguatepeque, Danlí, Choluteca, and Olancho. HdeH's operations are located in San Marcos, Santa Rosa de Copán, and Tambla. Although coverage is not national, it is indeed widespread.

The number of active borrowers reached by the five NGOs combined totals 15,147. The outreach achieved by each of the NGOs supported by Covelo is presented in Table 4. Overall, the outreach achieved by the NGOs using the village bank methodology has been far greater than that achieved by those using the individual lending methodology. In terms of active borrowers, village banking borrowers outnumber individual lending borrowers by a ratio of approximately 8:1. At the same time, the depth of village banking's reach into the community has been deeper. The average loan amount ratio relative to individual lending is approximately 1:9.

Active Borrowers and Outstanding Portfolio

All of the NGOs, with the exception of IDH, experienced significant growth during the period between 1992 and 1994. However, only WRH has had consistent performance. FINCA has experienced significant growth and has achieved the greatest outreach in absolute terms. Nonetheless, 1994 represented a very difficult year for them. Growth occurred in 1994, but at a much slower pace because of disintegration and the loss of many banks to other competitors. Poor personnel performance was the likely cause of problems in Choluteca, but in Comayagua (Siguatepeque) and Tegucigalpa the transient nature of the population served and personal security issues were the source of much difficulty. These areas still represent challenges for FINCA; thus, they expect to focus their expansion on the rural areas where cohesion is easier to achieve and staff turnover is lower.

TABLE 4

OUTREACH

	FINCA	WRH	ODEF	IDH	HdeH
Village Banks	248	168	48	25	---
Active Clients -Village Banks -Individual Loans	 6,538 ---	 5,440 ---	 1,012 750	 500 395	 --- 512
-Average Annual Growth (1992-1994)	45%	93%	107%	-32%	62%
Outstanding Portfolio (US$000's)	466	379	508	520	400
-Average Annual Growth (1992-1994)	28%	93%	35%	-19%	29%
Average Loan Outstanding (US$)*	71	70	288	581	781
-Average Annual Growth (1992-1994)	-12%	0%	-31%	13%	-25%
Delinquency -Payments >30 days -Portfolio-at-Risk > 30 days	 6.12% 8.03%	 1.97% 3.35%	 4.33% 19.15%	 10.05% 20.79%	 0.5% 2.2%

* Portfolio divided by number of active clients.

WRH has experienced considerable growth during the past three years. However, given its excess liquidity, it would appear that its stance toward the creation of village banks has not been aggressive. This is likely due to the limitations of its *manual* portfolio administration system. Now that it is installing computerized systems, WRH expects to continue expanding its number of active borrowers and to more effectively serve those borrowers that have grown and require larger loan amounts and longer loan terms.

For both FINCA and WRH, the growth in the portfolio has been slower than expected. This is due not only to disintegration, in the case of FINCA, but also to the slower than expected growth in the average loan amount. The average loan amount in lempiras has grown, but not necessarily in terms of US$, given the devaluation of the lempira. This is the result of several factors: the capacity to absorb additional loan amounts has been limited by many borrowers given the difficult economic situation of Honduras, many borrowers in the older banks are reaching their loan limits, funds from internal accounts are available, there are seasonal fluctuations in loan demand, and the rotation of members is high.

ODEF has experienced relatively high average annual growth, but its achievements in the years prior to 1994 were not particularly noteworthy in total portfolio and the number of active borrowers. From a relatively low base of 412 borrowers in 1992, ODEF increased the number of clients to 1,762, of which 1,012 were village bank members (48 village banks).

IDH's outreach has been particularly poor. Prior to 1990, its major thrust was individual lending. With the inclusion of a village bank program, the focus has moved somewhat from individual lending. Unfortunately neither program has been successful. The number of individual borrowers has declined from 1,367 in 1992 to 395 at the end of 1994. During the same period the number of village bank clients declined from 594 to 500. By the end of 1994, its total number of village banks was 25, of which only 10 were active. The remaining banks were in an extremely high-risk situation and at the point of disintegration.

HdeH's has shown considerable growth in percentage terms, but not necessarily in absolute terms. Individual borrowers totaled 512, up from 195 in 1992. Its growth was most notable in 1994. This would suggest that HdeH has become more aggressive in its promotion efforts, but only for individual lending. It has resisted group lending models. Although the degree of coverage in its market area cannot be estimated at this time, one would expect that the potential for lending to large numbers of microenterprises in Ocotepeque is limited.

Delinquency

During 1994, FINCA experienced a considerable increase in its delinquency and loan default — a problem for which it was not prepared since delinquency had not previously represented much of a problem. At year end, the total delinquency rate for payments more than 30 days past due was 6.12 percent. The portfolio-at-risk (more than 30 days past due) was 8.03 percent. FINCA's delinquency rates may be comparatively higher than WRH in part because FINCA's village banks pay the total amount due, not just the amount remitted by the borrowers. Thus, if enough borrowers have not paid, the village bank does not make its payments. On the other hand, it should be noted that FINCA's delinquency rate was lower at year end since it had written off approximately $27,100 (Lps. 236M).

WRH has been comparatively successful in managing its delinquency and loan default. Prior to participating in the program with Covelo, WRH didn't monitor delinquency of the weekly payments, because all of its loans at the village bank level were paid in full prior to the end of the loan cycle. Thus, from their perspective, they had no delinquency. During 1994, they began to monitor delinquency during the loan term. At year end, the total delinquency rate for payments more than 30 days past due was only 1.97 percent. The portfolio-at-risk (more than 30 days past due) was only 3.35 percent. It should be noted that WRH experiences significant delinquency of less than 30 days. This is primarily due to the method of payment: the village banks remit weekly the amount that is collected from the borrowers for principal and interest, not the total payment due from the village bank. The vast majority of the banks have delinquency less than 30 days since at least some of their borrowers are behind on their payments.

Delinquency has represented even greater problems for ODEF and IDH. The management and staff at both ODEF and IDH, until 1993/4, viewed their operations as social programs and had little concern for repayment. Efforts were made to reverse their downward spiral and, by the end of 1994, the delinquency ratios for both were considerably reduced — in part because of improved collection efforts and in part because of the write-offs of loans more than 180 days past due. It should be noted that historically more than 25 percent of the loans written off have subsequently been recovered. ODEF's write-offs of nonperforming loans during 1994 totaled approximately $36,400 (Lps.316.6M). IDH's write-offs of nonperforming loans during 1994 totaled approximately $69,000 (Lps.600M); this amount included loans that had been past due since 1992. Even after the write-offs, their delinquency and portfolio-at-risk ratios are comparatively higher, but the loan terms are considerably longer than those of village banks. Delinquency and portfolio-at-risk ratios for loans more than 90 days past due are considerably lower.

HdeH's delinquency and portfolio at risk ratios are quite low (0.5 percent and 2.2 percent, respectively), and are within internationally acceptable ranges.

Credit Procedures

All of the NGOs have encountered several problems in these areas. Although some are clearly more inefficient than others, each has its own bottlenecks. Covelo is working extensively with the four NGOs that will be participating in the massification program to uncover and address such deficiencies.

Promotion, Analysis, and Approval

The requirements of managing scale efficiently leave little room for variation in processes. Activities must be highly standardized and efficient. FINCA and WRH have been consistently using a defined methodology with relatively few changes in the past couple of years. ODEF and IDH, on the other hand, have had to change their village bank methodology significantly. They are now implementing models much more closely aligned with that of FINCA. Methodological issues aside, the credit promotion and analysis process itself has not been uniformly applied in any of the NGOs. Despite the existence of stated policies, they have often been disregarded. For example, members' activities were not verified, the existence of members or village banks were not verified, groups were hastily formed that lacked cohesion, and so forth. Measures are being taken at all of the NGOs to improve the promotion and credit analysis procedures.

The credit analysis and approval processes for individual lending appear to be adequate in each of the NGOs given that they were essentially developed by Covelo. Loans are approved based on character, capacity of repayment, and collateral (or guarantee). However, in the case of IDH, the processes, which they in theory have in place, have not been adequately used.

Despite the progress made, the credit approval processes of the NGOs still exhibit certain bottlenecks that will need to be addressed to increase efficiency. As part of the massification plan, Covelo is working with each to streamline and improve its loan approval process. For example, despite FINCA's relative efficiency, its credit approval process can be somewhat lengthy and time consuming. All loan approvals are made at the head office and, as mentioned above, if the village bank loan is greater than $2,300 (Lps. 20,000), it has to be approved by the credit committee that includes outside board members. The effect is that approval of subsequent loans (the third) ironically takes longer than initial loans.

Documentation and Disbursement

Loan documentation and disbursement appear adequate in each of the NGOs. However, it should be noted that in some cases the disbursement processes represent insufficient control or deficiencies. For example, in rural areas where transactions at the village bank level are conducted in cash, reportedly because checking accounts require a minimum balance of $115 (Lps. 1,000), there is greater exposure. This not only represents a risk to the village bank for security reasons, it represents exposure for the NGO when viewed in relation to the general lack of supervision and internal audits. Another example is inadequate control over loan disbursement; who, in other words, is responsible for preparing and signing the checks.

Supervision, Follow-Up, and Collection

Under the village banking model, the board of directors fulfills the role of supervising and collecting payments from its members. The promoter is responsible for supervision of the village bank and collection of the loans at the NGO level. The promoters have been widely criticized for their inability to manage groups, their deficiencies in forming groups with sufficient cohesion, and so forth. However, supervision at all levels has represented a problem for the NGOs. Although measures are being taken to improve the situation, much needs to be done, including but not limited to increased training of personnel. In addition, one would think that it must be very difficult to supervise and support field operations with no telephones in the field offices. Management is forced to rely on periodic visits or staff meetings, and thus only the offices with the "largest fires" receive visits or support.

Collection at the village bank level has been problematic in some cases. IDH tended to focus its collection efforts more on the individual level than on the village bank board of director (group) level. FINCA would appear to be moving in this direction as well. Prior to 1994, FINCA had not experienced significant delinquency problems and thus it was ill equipped to deal with them. However, the temptation to overreact should be resisted — the focus of collection efforts should remain at the board of director level.

With respect to method of payment, WRH's promoters, with few exceptions, collect the payments. The promoter issues the bank an original receipt for amounts received. This lack of control has resulted in fraud and improper behavior of some promoters such as failure to turn in cash receipts or to deposit savings on behalf of village bank. With the exception of FINCA, the NGOs have resisted *requiring* the village banks to make payments at their commercial banks. FINCA's system has its costs in terms of the borrowers' transaction costs and so forth, but the costs of not having it can be considerably greater.

Supervision, follow-up, and collection for individual lending has not been without its problems. Supervision of the borrowers has often been weak in the case of ODEF and IDH, partially because of the technical deficiencies of the credit officers who did not have the necessary experience to analyze the situation of the borrower objectively and make appropriate recommendations. Collection procedures in these organizations, which had been seriously deficient, has shown marked improvement as is evidenced by the improvement in their delinquency rates. This has been achieved by hiring separate collection officers for nonperforming loans since the credit officers were ill-equipped to deal with delinquency.

Operational Structure

Organization and Productivity

The organizational structure of each of the NGOs consists of a head office supported by three to five branches in the regions they serve. The branch offices are small — a structure appropriate for geographic expansion. Departmental functions, for the most part, include the executive director, the department of finance and administration, and the program/credit department. Internal audit departments are currently being established or strengthened in each of the NGOs.

The organization of each NGO appears to be adequate for current operations, but needs to be strengthened prior to expansion. Lines of authority seem appropriate. However, the established hierarchy and organizational verticality might be hindering efficient internal communications. An example of this might be the highly centralized operations and decision-making procedures of the institutions that grant almost no authority to the lower chain of command or operational staff. ODEF refers to its branches as "application takers." FINCA's senior management approve all loans less than Lps. ($2,300) (amounts greater than this must be approved by the credit committee that includes two board members).

Successful programs have adopted structures that incorporate the following:

- A characteristic pattern of small, standardized, and replicable retail outlets;
- A head office that acts simultaneously as a service provider and as a control mechanism;
- Decentralization of many routine functions, including loan approval authority;
- Efficient internal communications that constantly review policies and procedures based on feedback from internal sources (staff) as well as from external sources (clients); and
- Training and logistical support of branch personnel so that authority can be extended to this level. (Rhyne, Rotblatt, 1994)

The relationship between the organizational structure and productivity is presented in Table 5.

TABLE 5

STAFF PRODUCTIVITY

	FINCA	WRH	ODEF	IDH	HdeH
Number of promoters*	24	21	4	2	---
Number of individual loan officers**	---	---	6	12	6
Total staff	38	32	29	40	22
Village banks per promoter*	10.33	8	12	***12.5	---
Number of active clients					
-per total staff	172	170	60	22	23
-per promoter*	272	259	253	***250	---
-per individual loan officer	---	---	188	33	85
Active portfolio (US$000's)					
-per total staff	12.3	11.8	17.5	7.6	17.7
-per promoter*	19.4	18.0	15.7	14.5	---
-per individual loan officer	---	---	109.4	23.0	65.2

* Includes supervisors that directly manage village banks.
** Includes 2 collection officers that directly assist loan officers (ODEF, HdeH).
*** Overstated — actually only 10 banks are active or 5 per promoter.

FINCA's staff at year end totaled 38 (plus two nonpermanent IDB advisors). Its ratio of promoters to total personnel (63 percent) is strong and overall productivity is noteworthy, even though it is below its own targets: 12 village banks per promoter in Tegucigalpa and 14 village banks for areas outside of Tegucigalpa. The caseload of the supervisors also appears to be low. The supervisor in Tegucigalpa oversees approximately 80 village banks whereas several of the rural supervisors oversee considerably less. Efficiency must be emphasized at all levels, not just at the promoter level, and the head office needs to play more of a role of support rather than just one of control.

WRH's staff at year end totaled 32. Its ratio of promoters to total personnel (66 percent) is strong and overall productivity is noteworthy despite the fact that it is below their own targets. WRH is currently undergoing a modest restructuring mostly as a consequence of the installation of a computerized portfolio administration system. In the past, the program manager's effectiveness and support to the field operations was greatly hampered. The recent promotion of a senior promoter to supervisor and the installation of a management system should greatly improve his ability to monitor and support the operations — to manage delinquency or monitor performance of promoters and regions, for example. It is also expected that the field staff will become more efficient since they will no longer be required to maintain the manual system.

ODEF's staff at year end totaled 29 (plus 2 advisors). Productivity of the promoters and loan officers appears adequate. However, ODEF has excess administrative and supervisory staff — promoters and loan officers account for only one-third of total personnel. As ODEF expands, this ratio should come more in line with industry standards.

ODEF has been undertaking a major restructuring, a move that is beginning to indicate a return to acceptable practices. The executive director who died was replaced by a member of the board of directors. Other staff changes were made, including the addition of a credit department advisor funded by IDB. New procedures and controls were put in place.

IDH's staff at year end totaled 40. Productivity at every level is extremely low. The productivity ratio of the village bank promoters is distorted by the fact that IDH actually has only 10 active village banks. IDH needs to bring its ratios more in line with industry standards either by expanding its operations or dismissing excess staff.

IDH has encountered considerable problems during the past few years because of the lack of competent management as well as the general disregard of systems and control put in place with the assistance of Covelo. In management and supervision, IDH had no executive director during the first six months of 1994 and was without a deputy director for four months during the same period. In June, a new executive director who was previously a member of the board of directors was appointed. Shortly thereafter a new credit department supervisor was hired who also acts as the deputy director. With assistance from Covelo, IDH has been undergoing a major restructuring of its entire operations. Although progress is being made, IDH is in the early stages of transition with considerable restructuring to be done before an upward trend can be determined.

HdeH's staff at year end totaled 22. Productivity of the promoters and loan officers appears low, but given that its operations are predominantly rural, productivity may not be as low as appears at first glance. HdeH also has excess administrative and supervisory staff — loan officers account for only 27 percent of total personnel. HdeH needs to bring this ratio more in line with industry standards either by expanding its operations or dismissing excess staff.

Governance and Board of Directors

All of the NGO boards appear to be in either stage 1 or stage 2 of their evolution, as described in *Alchemists for the Poor: NGOs as Financial Institutions*. Stage 1 is described as a homogeneous board composed of individuals with interest in development and volunteerism; boards set major parameters for operations, but spend little time reviewing operations; and governance issues for boards are not well defined. Stage 2 is characterized by some private sector participation on boards; with few exceptions, boards do not exhibit strong leadership or visionary roles, but are oriented toward self-sufficiency and long-term viability (Drake, Otero, 1992). FINCA's board is oriented toward self-sufficiency and long-run viability, but does not exhibit the strong leadership or visionary roles typical of an expansion-led approach. WRH's board demonstrates characteristics of both stages 1 and 2. The other boards appear to be fundamentally in stage 1 with some characteristics of stage 2.

FINCA's board of directors consists of the executive director of FINCA/I and other professionals from the rotary club, credit granting NGOs, and the formal financial sector. The board meets each month, but the president (FINCA/I) only attends once every three months. From conversations with the board, they appear to actively oversee FINCA's operations. They are oriented to self-sufficiency but are cautious and nervous about the proposed massification plan.

WRH's board of directors is comprised of professionals from its general assembly (principally ministers, doctors, agronomists, and other development professionals). Only one member has a background relevant to credit, the director of IDH. The board participates in approving plans, controlling costs, and so forth, but is generally not involved in operations. Meetings occur every 2-3 months.

ODEF's board of directors approves major issues but the board members are not otherwise active. Two exceptions include a Tegucigalpa attorney who has direct access to donor agencies, particularly IDB. The other is a San Pedro Sula resident who signs on ODEF's bank accounts and is at ODEF's main office on a daily basis. Meetings occur every three months unless otherwise required. One issue that might be reviewed concerns the role of one member of the board who is also a staff member working as a technical advisor to ODEF's USAID-funded environmental sub-project.

IDH's board of director, like that of ODEF, reportedly plays a very small role in the management of the NGO and otherwise provides little support. Given the financial deterioration and overall performance of the institution, this is not surprising. HdeH's board of directors, according to the executive director, is particularly active and supportive of HdeH's activities. However, they are not particularly oriented toward self-sufficiency.

Financial Management Capacity

The financial management capacity of all the NGOs needs strengthening. All require some degree of ongoing assistance in financial planning and financial management be it from the IDB consultants or Covelo. The assistance required extends beyond planning for self-sufficiency per se. As is evident from the above, liquidity management has not been particularly effective.

Despite some of FINCA's weaknesses, its financial management capacity appears to be the strongest among the NGOs. However, a potential cause for concern is the planned transfer of FINCA's manager of finance and administration to FINCA/Mexico in late March. The administrator will assume the manager position, the accountant will become the administrator, and the accounting assistant will become the accountant. A mitigating factor in this transition is the IDB financial management consultant who provides them with hands-on assistance in financial planning, monitoring and evaluation, and accounting.

WRH's financial management capacity is limited and needs to be strengthened prior to scaling up. The manager of finance and administration appears to be knowledgeable of the operations and competent, but will need additional assistance to effectively manage the financial operations of a large-scale credit program. WRH relies on Covelo to prepare most of its financial plans and projections. Undoubtedly, the self-sufficiency plan has had support of top management and has been an important instrument in management, but management does not prepare its projections. Nor have they made projections to determine financing needs for expansion. Admittedly, WRH has excess liquidity at the moment, but there is little long-range planning.

The progress made by ODEF to turn around an institution drifting toward financial extinction would indicate that current management has some financial management capacity. Although the executive director does not have extensive financial experience, she reportedly takes an aggressive approach to ensuring effective control. The IDB credit advisor (who will become permanent staff in April) does have previous financial experience and is well grounded in the financial and administrative issues of ODEF. However, despite their capabilities, they too lack the necessary training to effectively manage the financial operations of a large-scale credit program.

With IDH in the middle of a reorganization, it is difficult to judge the management's financial capacity. As stated previously, new management is in place and systems are now being utilized, but it will be some months before there are discernable results. The new executive director, an economist by training and an accountant by profession, may have the capability to effectively oversee the restructuring of internal operations, but not necessarily that required to manage a large-scale operation. Interviews with management gave the team the impression that all efforts are currently being directed to internal activities. The search for new financing, for example, appears to be on hold until current activities are stabilized. Although this is certainly warranted, the goals of expanded outreach and sustainability will remain out of reach until additional resources are secured to expand the loan portfolio.

HdeH's financial management capacity was not assessed because of the limited time for interviews. However, it is expected that capacity is adequate for the limited size of its operations. Any weaknesses will likely be addressed by the IDB advisors who provide technical assistance to HdeH.

Human Resource Management

Personnel recruitment policies of successful microenterprise finance institutions show a preference for young recruits with relatively good educational achievements. In-service training of recruits is provided through programs that mobilize the existing staff to convey knowledge, particularly the corporate values and job-specific procedures. Policies that contribute to ongoing staff satisfaction include good salaries and benefits (from a local perspective), good career prospects, and effective systems for dealing openly with staff as well as for detecting and dealing properly with any fraud by employees. Together these policies result in high morale and low turnover rates (Rhyne, Rotblatt, 1994).

Based on the experience of successful institutions, it is easy to see the important link between human resource policies and overall institutional performance. Each of the NGOs assisted by Covelo, with the exception of HdeH, has demonstrated weaknesses in human resource management and this has naturally resulted in considerable turnover rates. The personnel turnover, in turn, has had a demonstrable impact on overall performance — on, for example, delinquency, productivity, and sustainability.

FINCA has experienced relatively low turnover in administrative and managerial staff. Key management has been with the organization for several years. Thus, FINCA has developed a comparatively strong financial and operational managerial capacity. The turnover at the promoter level, on the other hand, has been excessive and has undoubtedly contributed greatly to FINCA's problems in 1994.

Previously, FINCA tended to hire promoters with experience. They were expected to manage 24 village banks each and were paid, on average, $138 (Lps.1,200) per month. When FINCA took the decision to decrease the workload to 12 village banks, salaries of new promoters were reduced to $69 (Lps. 600). At this salary level, promoters with no experience were hired. Turnover became rampant. In response, FINCA began to hire more experienced promoters at higher salary levels. Those at the lower levels are naturally requesting raises. The salary issue has undoubtedly demoralized many promoters and will continue to do so in the foreseeable future.

It should be noted that the salary policy was not the only factor contributing to the turnover at FINCA. Female promoters in Tegucigalpa, for example, are continually exposed to personal security risks when taking public transportation to the marginal neighborhoods. In addition, sufficient training on corporate values and job-specific procedures was not provided to the promoters, nor were they adequately supervised. To its credit, FINCA has attempted to provide career opportunities to some of the better promoters by promoting them to supervisor. But good promoters have not necessarily made good supervisors. Efforts are now being made to provide training to the supervisors.

WRH has experienced significant turnover in both its administrative staff and its field staff. Key management has been fairly constant for several years with the exception of the manager of finance and administration, who left but then returned in 1994. In the Tegucigalpa office, three of the administrative staff members and eight of the promoters have been with the company for less than six months. Although some of the staff have resigned, others were forced to leave because of fraudulent or improper behavior or inadequate performance during their two-month "legal" probationary period.

ODEF and IDH have also experienced significant personnel turnover prior to and during 1994. Their restructurings have resulted in new executive directors, who were previously members of their respective board of directors, as well as new credit department managers. Staff turnover at other levels, although not excessive, has had an impact on the quality of the financial management as well as the management information systems. On several occasions, Covelo has provided training in the systems area, but each time an employee leaves, Covelo again has had to provide training.

The salary levels of WRH, ODEF, and IDH are competitive with other NGOs. Although NGO salary scales were not formally compared with other private sector jobs, anecdotal evidence suggests that the NGO salary scales are considerably lower — in some cases, as much as half. Thus, NGO personnel have had access to other opportunities.

MIS

The computerized information system installed (or currently being installed) at each of the NGOs is, in its present state, adequate for the NGOs' scale of operations, but not for a large-scale credit operation. This has been recognized by Covelo, which is in the process of reprogramming major changes in anticipation of the massification plan. Changes include putting the system on-line, creating network capability, and so forth. Despite the fact that changes need to be made, the portfolio administration system and impact statistics module of the system, if properly used, can serve an important function. For example, delinquency reports can be generated by region, fund, program, promoter, economic activity, type of credit, amount, and year approved. The limitation is that they aren't available on a daily basis, because the system is not on-line.

Obviously, computerization alone does not make an effective information system. Effective information systems require the following elements: accuracy, timeliness, relevance to management decisions, and availability to the people who need them (Rhyne, Rotblatt, 1994). Based on these criteria, the NGOs' information systems, with the exception of FINCA, are inadequate.

Accounting/Financial Statements

Covelo has installed a fund accounting system in each of the NGOs with the exception of WRH. The installation at WRH is expected to occur shortly. The weaknesses detected in the accounting systems are at the human level; the NGOs do not use them uniformly or effectively. Another weakness is that summary statements are not generated by activity, given the complexities of combining this with fund accounting. This makes it difficult for management to quickly assess the performance of a specific program such as credit or training.

Financial statements can be generated in a timely manner, as is evidenced by FINCA. Yet the other NGOs often experience delays of 1-2 months. Moreover, there appears to be little review for accuracy by the NGOs, again with the exception of FINCA. They prepare the financial statements for donors rather than for managerial purposes. Although HdeH is responsive to Covelo's recommended corrections, subsequent statements consistently have new errors. ODEF's and IDH's statements also continue with errors despite the fact that they appear to have capable accountants.

All of the NGOs adopt accounting policies that distort their financial situation. For example, at the recommendation of Covelo, each of the NGOs wrote off loans during 1994. However, loan loss provisions and write-offs are not made according to internationally accepted standards. Write-offs and loan loss provisions during 1994, for the most part, were applied directly to equity and were not reflected as provision expenses on the income statement. This treatment may be justifiable for loans that were **nonperforming** and should have been classified as losses in previous years, but not for losses generated by loans that only became nonperforming in 1994. A key difference between FINCA, ODEF, and IDH is that write-offs for IDH and ODEF included delinquencies (losses) from several years, whereas FINCA's write-offs were, for the most part, 1994 losses. Another example is the overstatement of balance sheet assets and liabilities. Because each NGO has a fund accounting system, they register as accounts receivable (or accounts payables) funds lent (or borrowed) from one "fund" to another.

Other examples of accounting policies peculiar to particular NGOs that distort the financial situation include the following:

- FINCA's accounts for capitalization of interest income received on earlier FHIS loans by applying it directly to the equity account. Said amounts are not registered as income on the income statement; and

- WRH's statements, at present, do not conform to generally accepted accounting principals and are inadequate for a credit program. The income statement is a flow of funds system — it registers all inflows, including loan repayments, and outflows, including the purchase of fixed assets. The balance sheet does not include any fixed assets reportedly at WRC's direction;

Portfolio Administration System

The current weaknesses of the Covelo portfolio administration system have been described above. FINCA, ODEF, and IDH each use this system with adequate results. Although there are frequent input errors, these are resolved at month end. Information generated by the system seems to be reasonably reliable.

WRH's portfolio administration system, on the other hand, has been entirely manual until very recently. The computerized system is only now becoming integrated into its operations. This should greatly enhance WRH's capacity to expand. HdeH uses a system installed by PROCATMER. According to Covelo, this system has several deficiencies. Covelo has attempted repeatedly to install its system, but until now, HdeH has resisted. Given that they have a fairly small portfolio with low levels of delinquency, are receiving technical assistance from IDB, and are no longer receiving technical assistance from Covelo, there is really not much cause for concern.

Financial Aspects

To analyze the financial performance of the NGOs, data was gathered from both the NGOs and Covelo: three years of financial statements, portfolio reports, and so forth. Although the supporting documentation tends to contain many errors, audits have indicated that the statements reflect operations in all material respects. That said, several adjustments were required. First, although the balance sheet reflects the total assets and liabilities of the organization, the income statement does not include costs associated with other programs such as health or community development. Other adjustments required were those related to loan loss provisions and reserves (FINCA, ODEF, IDH, and HdeH). The policies of the NGOs with respect to setting provisions were erratic: for example, 1 percent of outstanding portfolio in 1992/3, then 5 percent (FINCA). Thus, Covelo's recommended policy of 3 percent of the outstanding portfolio was applied to smooth out the required loss provisions. Loan write-offs taken by ODEF and IDH in 1994 were evenly spread across 1992-1994 because the write-offs actually represented losses from previous years; the exact amount for each year was unavailable, and thus the proxy was used. Imputed capital costs — the cost of maintaining the value of equity and subsidies from concessionary loans, net of fixed assets, from the devaluation effects of inflation — were calculated. The assumed inflation rate for 1994 was 28.6 percent (the difference between the year end CPI index for 1993/4 divided by the base year of 1993). Financial statements for 1992-1994 are presented in Annex A.

Financial Structure

Leverage. At present, the financial structure of all of the NGOs consists of equity (generally funded by donations) and loans from local sources such as FHIS. Donations have funded operating costs, fixed assets, and investments in the portfolio. Loans from local sources have been at interest rates above or reasonably proximate to the average inflation rate. Although the rates charged have been lower than commercial interest rates, such loans cannot really be considered "quasi-equity." They are using the NGOs to channel funds. They are not capitalizing them in the manner that the IDB does, in other words, by providing loans with a 40-year term, 10-year grace period, 1 percent commission plus 2½ percent administration charge, and so forth. To the contrary, they have imposed interest rate ceilings on the loans with allowable spreads insufficient to cover the NGOs' operating costs. Although funding from these sources represent leverage, it is not on commercial terms and conditions.

For a financial intermediary of any sort, one of the most important measures is the relationship between its capital (equity) to both liabilities and assets. The institution must maintain sufficient capital to absorb any losses it incurs. At the same time it must also be able to accumulate liabilities as a means to on-lend resources to clients, that is, leverage their capital base. In many instances, banks or other financial intermediaries can leverage their capital up to 10 times or more. An NGO must also be in a position to leverage capital for it to grow; however, not in the same magnitude as a bank. The capital ratios at year end for the NGOs are reflected in Table 6.

Liquidity. Liquidity management is an important and decisive area in any financial institution, because there must be adequate management of assets and liabilities to effectively meet the needs of the institution, particularly its credit demand. The surest way to undermine a credit program is to suspend credit disbursements because of a liquidity crisis. On the other hand, excess liquidity negatively affects profitability as well as outreach, given that the funds can be more productively used by investing them in a *performing* portfolio.

TABLE 6

CAPITAL RATIOS

	FINCA	WRH*	ODEF	IDH	HdeH
Liabilities to Equity	.44:1	.04:1	3.72:1	3.63:1	2.14:1
Equity to Total Assets	69%	96%	21%	22%	32%

* As of November 1994

The liquidity of each of the NGOs is presented in Table 7. In terms of liquid assets to total assets, WRH would appear to demonstrate excess liquidity. However, a portion of the funds clearly pertain to other programs. Such is the case for each of the NGOs that, at any point in time, have a significant amount of unearned income — donations funded for a particular purpose that have not yet been spent (earned). Thus, liquidity is far lower than it would appear at first glance.

In other cases, such as in that of IDH, $296M is restricted in its utilization. IDH received funds from IAF for on-lending to agricultural cooperatives at 7 percent. Only a portion of these funds have been disbursed, partly due to delinquencies on loans already disbursed. Although the balance is carried on the books as "portfolio in trust," it is held in an interest bearing account for the sole benefit of IDH. According to the agreement with IAF, IDH retains only 3.5 percent of interest earned on loans disbursed; the balance is paid to another entity that provides technical assistance to the cooperatives. Interest from undisbursed funds (currently 18 percent) is not shared with the other entity nor is penalty interest earned on payments past due but subsequently collected.

The current ratios for the NGOs are relatively high not only because "restricted" funds are included, but because much of the portfolio is short term. The NGOs that make individual loans do not separate the short-term from the long-term loans; thus their ratios are clearly overstated. The only NGO with a dangerously low current ratio is HdeH. A relatively high level of debt must be repaid this year. Although $48,275 pertains to a construction loan, approximately $139,000 is payable to FHIS. Presumably, the portfolio financed by FHIS will be refinanced with the IDB donation.

TABLE 7

LIQUIDITY

	FINCA	WRH*	ODEF	IDH	HdeH
Liquid Assets to Total Assets	6%	37%	12%	17%	11%
Current Assets to Current Liabilities	4.8:1	12.6:1	2:41:1	3.46:1	1.78:1

* As of November 1994

Self-Sufficiency

The self-sufficiency ratios and the relationship between income and expenses relative to the NGOs' average portfolio is presented in Table 8. The method of calculating average portfolio (adding the beginning balance and ending balance, then dividing by two), perhaps distorts the results somewhat, but not necessarily the conclusions. Given that write-offs, for example, were mostly taken at the end of the year, monthly adjusted balances were not available.

Operational self-sufficiency is defined as total income from operations divided by actual financial and operating costs (including loan loss provisions). Financial self-sufficiency includes the imputed capital costs, that is the costs of inflation. Based on the above, only WRH is operationally self-sufficient. WRH has no financial costs and its level of loan losses, and thus loss provisions, was extremely low. If it were not for loan losses (and thus loss provisions), the operational self-sufficiency ratio for FINCA, ODEF, and IDH would have been 99 percent, 74 percent, and 93 percent, respectively, in 1994. HdeH did not have write-offs and thus its operation self-sufficiency would be unchanged (46 percent).

TABLE 8

FINANCIAL PERFORMANCE

	FINCA	WRH*	ODEF	IDH	HdeH
Average Yield on Portfolio**	39.0%	42.7%	40.7%	21.5%	21.0%
(-) Actual Financing Cost Ratio*	7.3%	0.0%	6.6%	2.7%	11.5%
Gross Financial Margin	31.7%	42.7%	34.1%	18.8%	9.5%
(-) Operating Cost Ratio*	43.8%	44.7%	56.9%	29.0%	40.9%
Operating Margin	-12.1%	-2.0%	-22.8%	-10.2%	-31.4%
(-) Imputed Capital Costs*	22.2%	31.4%	27.5%	30.0%	18.7%
Net Margin (Inflation Adjusted)	-34.3%	-33.4%	-50.3%	-40.2%	-50.1%
Operational Self-Sufficiency**** Financial Self-Sufficiency	87% 61%	105% 62%	69% 48%	80% 41%	46% 34%

* As of November, 1994. ** Includes only financial income from loans *** Expressed as a percentage of the *average* portfolio (beginning balance plus ending balance divided by 2) **** Includes total income from operations

To evaluate break-even levels, two variables are considered — the required yields (interest rates) and the portfolio outstanding. Based on the current cost levels, both the break-even portfolio and the required yields have been calculated and are presented in Table 9. The break-even portfolio is calculated by dividing current operating costs (plus imputed capital costs in the case of financial self-sufficiency) by the gross financial margin. The required yield is simply the sum of the cost ratios presented above.

With the exception of HdeH and ODEF, the NGOs' theoretical effective interest rates could technically cover all of their operating costs as well as most if not all of the imputed capital costs. However, in practice, the actual yields will always be lower because of delinquency (slowness of payments), loan losses, idle funds, and so forth. Thus, although their current pricing policies may be adequate for operational self-sufficiency, assuming they decrease their operating costs, particularly their loan losses, they will not be adequate for financial self-sufficiency unless the inflation rate decreases. Unless HdeH changes its pricing policy, it will not likely achieve even operational self-sufficiency.

TABLE 9

BREAK-EVEN ANALYSIS

	FINCA	WRH	ODEF	IDH	HdeH
Required Yield on Portfolio					
- Operational Self-Sufficiency	51.1%	44.7%	63.5%	31.7%	52.4%
- Financial Self-Sufficiency	73.3%	76.1%	91.0%	61.7%	71.1%
Current Portfolio	466	379	508	520	400
Break-Even Portfolio (US$ 000's)					
-Operational Self-Sufficiency	623	287	525	798	1,193
-Financial Self-Sufficiency	939	489	778	1,625	1,738

SECTION FOUR

CONCLUSIONS AND RECOMMENDATIONS

COVELO

Programs

- Based on the analysis of the institutional setting as well as the funding sources available for MSE credit in Honduras, MSE assistance is expanding mainly through the participation of specialized NGOs and funding mechanisms are in place to promote and finance these varied initiatives. Moreover, sufficient market demand exists to justify Covelo's massification strategy.

- Covelo as a service provider to NGOs, has established an important track record and its activities are valued both by its clients, the NGOs, as well as by other donors.

- As of year end 1994, the NGOs had exceeded the employment generation target. Impact targets achieved in number of loans, amounts disbursed, and active clients are in the range of 41-47 percent. With the massification plan, a significant proportion of the targets could be met. However, because the number of active clients will have to increase more than 100 percent (in 21 months), they might not be fully achieved by September 1996.

- An immense amount of donor resources for microenterprise credit exists in Honduras. Access to credit will not likely be a bottleneck for the NGOs, and thus Covelo's resources will not be demanded given that they do not have competitive terms and conditions. Instead, the main constraint will be the capacity of the NGOs to utilize these resources effectively — a concern mentioned by all of the donor institutions.

Operational Structure

- Efficiency and productivity in most apex organizations is as important as generating income from the services that it provides. Covelo must review its current structure at the technical, systems, and administrative levels to streamline its costs. Although the technical and systems personnel may be required during the initial phases of the massification plan, their productivity ratios need to increase in the medium term.

- Policies that contribute to ongoing staff satisfaction, such as salaries and benefits, are deficient. As a result, Covelo experiences considerable turnover. Once staff are trained, they leave for salaries often twice that paid by Covelo. Although this may not result in loan losses and delinquency, as in the case of the NGOs, it certainly affects productivity as well as long-run viability. Well-trained and capable personnel are essential to a technical assistance organization. Without well-trained personnel who can truly offer something of value to the NGOs, there will be no demand for its services. Thus salary policies should be revised.

Sustainability

- During 1994, 95 percent of Covelo's income was from USAID donations. Adjusting for the surplus at year end, income necessary from USAID to cover its operating expenses represented 92.5 percent of its total expenses.

- The credit component has not generated the income envisioned and thus sustainability has not been a reality. Covelo embarked on its massification program with the objectives of expanding outreach and improving self-sufficiency of both itself and the NGOs. The expectation was that if the NGOs expand, they will require additional resources that could be provided by Covelo. This strategy, although in the right direction for the NGOs, does not seem realistic for Covelo in terms of its self-sufficiency expectations, given the immense amount of funds available from other sources at much more competitive terms and conditions. Therefore, the credit component should be reprogrammed. Options may include some of the following:

  — An alternative proposed by USAID is to establish a parallel direct lending program in Covelo using the solidarity group lending methodology. This proposal poses a potentially problematic issue in that the NGOs will likely perceive Covelo as a disloyal competitor (as well as ANDI and USAID) if it targets the same market segment. Thus, care must be taken to target a different clientele — for example, loans greater than $300 or male entrepreneurs; or

  — Establish an incentive plan that could be structured as a loan facility that capitalizes the NGOs. Interest could be capitalized by the NGO and capital repaid to Covelo for use in its future activities such as direct lending to MSEs, additional loans to NGOs, or technical assistance. Disbursement and/or approval could be contingent on meeting certain criteria established by USAID (performance incentives).

- USAID dependency has limited Covelo's program diversification and growth as well as its viability. It would seem from interviews with personnel at other donor organizations that they would welcome Covelo participation in institutional strengthening activities and that they would consider channeling resources either directly or indirectly to them. It is the consensus of the evaluation team that a dramatic change in Covelo's strategy is required that builds upon its strengths as an apex organization and incorporates income generating mechanisms for the technical assistance services it provides. In that regard, Covelo needs to rethink its role and, especially, how it will package its services, at what cost, and who will or should be its clients.

  The need to establish a fee-based service is crucial to Covelo's future. There is a perceived need for its services and the institutions must be motivated to pay for this. A mix of services — technical assistance services, workshops, and training — would mean sources of income for the institution. Technical assistance services could be provided in such areas as systems development, the role and composition of the board of directors, strategic planning, organizational structures, financial administration, cost controls, and portfolio management.

  Other donors and funding institutions require efficient and competent NGOs. Thus, there seems to be an important role that Covelo could play in providing institutional strengthening. This would obviously assume that these institutions would be willing to fund the technical assistance initiatives. Covelo should aggressively look for ways to tap into these sources.

Covelo also needs to promote its services among other clients. Many NGOs in Honduras provide financial services to MSEs, and they could take advantage of Covelo's services in systems development, training, and so forth.

NGOs

Methodology

- The individual lending methodology used by ODEF, IDH, and HdeH disburses loans based on character, capacity of repayment, and collateral (or guarantee) rather than on group guarantees. The concentration of the loan officers is primarily on loan approval and disbursement. In theory, credit monitoring, supervision, and collection by the loan officer are an integral part of the methodology, but in practice they are not priority activities, given the limited experience of the credit officer. Thus, the institutions have hired separate collection officers for nonperforming loans to more effectively manage delinquency problems. In most successful microenterprise programs, loan officers are responsible for the entire cycle. Strengthening along these lines should be considered.

- The village banking methodology developed by FINCA (John and Marguerite Hatch, 1989) has been modified to reflect both the operating procedures of each of the organizations and the local economic, cultural, and social conditions of the target population. The methodology, as adapted by FINCA and WRH, has been far more effective than early variations used by ODEF and IDH. In 1994, ODEF and IDH revised their methodology to one more closely aligned to that of FINCA. This should improve their performance.

- Although the goal of graduation has generally been abandoned, FINCA, WRH, and ODEF have had a limited number of banks that have *graduated* to the formal financial sector or have *evolved* into self-financing village banks. None of IDH banks have graduated.

- Experience has shown that village banks are relatively easy to establish in communities that are stable and cohesive. Such as been the case for the NGOs in areas outside of the major urban centers. Establishing and maintaining banks in the transient-filled urban areas have proved to be much more difficult. In this situation, the use of peer pressure to encourage repayment has not functioned well. A recommended adaptation would be to incorporate small sub-groups within the village bank.

- The keys to successful village banks are cohesion, leadership, and financial management. If a village bank is unable to resolve conflicts or manage its accounts, it will likely disintegrate or have excessive membership turnover. In the context of the Honduran environment where illiteracy rates are quite high, substantial training efforts are required in addition to extensive supervision in the banks' early years.

- Internal account management is considered key to the village bank methodology and its goal of empowerment. The result has been many cases of theft and financial mismanagement. The extent of losses incurred by the village banks could not be ascertained. However, delinquency rates were reviewed using NGO records and the records of 20 village banks. In reviewing the records, some banks obviously appear considerably more capable than others.

Recommended adaptations to the internal account methodology would be the following:

— Delay the management of the internal account until the village bank has sufficient experience in effectively managing its operations. Minimum experience requirements should be at least one year; and

— Impose a minimum reserve requirement on the savings, not for the purpose of providing the NGO with collateral but for the purpose of protecting the depositors. Just as banks are required to maintain minimum reserves to protect their depositors, so should the village banks. The reserve requirement should be higher in the earlier stages and slowly decline as the village bank demonstrates its competence.

Scale/Outreach

- The total number of active borrowers reached by the five NGOs combined totals 15,147. Based on current estimates of the size of the sector (approximately 165,000), the five NGOs are reaching only 9 percent of the market. The consultant team believes that the estimated size of the sector is in excess of 250,000 enterprises. Assuming this as the case, only 6 percent of the potential market is being reached.

- The outreach achieved by the NGOs using the village bank methodology has been far greater than that achieved by those using the individual lending methodology. In terms of active borrowers, village banking borrowers outnumber individual lending borrowers by a ratio of 8:1. At the same time, the depth of the village banking's reach into the community has been deeper. The average loan amount ratio relative to individual lending is approximately 1:9.

- FINCA, WRH, and HdeH have achieved high rates of repayment, with levels of delinquency (portfolio-at-risk ratios less than 10 percent) and low levels of long-run loan losses. ODEF and IDH, on the other hand have had higher long-run loan losses and delinquency ratios.

Credit Procedures

- All of the NGOs have encountered several problems in these areas. Although some are clearly more efficient than others, each has its own bottlenecks. Covelo should continue working extensively with the NGOs to uncover and address such deficiencies.

- Methodological issues aside, the credit promotion and analysis process itself has not been uniformly applied in any of the NGOs. Despite the existence of stated policies, they have often been disregarded. Measures are being taken at all of the NGOs to improve the promotion and credit analysis procedures.

- Loan documentation and disbursement generally appears adequate in each of the NGOs. However, in some cases, the disbursement processes represent insufficient control or deficiencies — conducting transactions in cash or designation of approved check signatures, for example. If in the rural areas transactions at the village bank level are going to be conducted in cash, it is recommended that the NGO adequately supervise and audit their operations to protect against fraud.

- In the case of village banking, the promoter is responsible for supervision of the village bank and collection of the loans at the group level. The promoters have been widely criticized for their inability to manage groups, their deficiencies in forming groups with sufficient cohesion, and so forth. However, supervision at all levels has represented a problem for the NGOs. Although measures are being taken to improve the situation, increased training of personnel is recommended.

- In some cases, promoters/loan officers receive the payments and savings from the borrowers. Only FINCA's borrowers consistently make their payments at FINCA's commercial bank. Such a system has its costs in terms of the borrowers' transaction costs and so forth, but the costs of not having it can be considerably greater. It is recommended that the promoters or loan officers, under no circumstances, receive cash payments from their borrowers.

Operational Structure and Productivity

- The organizational structure of each of the NGOs consist of a head office supported by three to five branches in the regions they serve. The branch offices are small — a structure appropriate for geographic expansion. Departmental functions, for the most part, include the executive director, the department of finance and administration, and the program/credit department. Internal audit departments are being established or strengthened in each of the NGOs.

  Generally, the organizational structure of each NGO appears to be adequate for its current operations, but needs to be strengthened prior to expansion. However, the established hierarchy and organizational verticality might be hindering efficient internal communications. An example of this would be the highly centralized operations and decision-making procedures of the institutions that grant almost no authority to the lower chain of command or operational staff. Some degree of decentralization should be considered by the NGOs.

- FINCA's and WRH's ratio of promoters to total personnel (63 percent and 66 percent, respectively) is strong. ODEF, IDH, and HdeH, on the other hand, have excess administrative and supervisory staff. Their ratios of promoters to total personnel are 34 percent, 30 percent, and 27 percent, respectively. ODEF, IDH, and HdeH need to bring these ratios more in line with industry standards either by expanding operations or dismissing excess staff.

  FINCA's and WRH's productivity in terms of active clients is noteworthy, despite the fact that the number of village banks per promoter is below their targets. The productivity of ODEF's promoters and loan officers is also adequate. HdeH's productivity ratios appear low, but since there operations are rural-based, it may not be possible to increase them as much as those of the other NGOs. Productivity of IDH's promoters and loan officers appears extremely low.

- The NGOs' boards of directors appear to be in either stage 1 or stage 2 of their evolution (Drake, Otero 1992). That is, the boards are composed of individuals with interest in development who set major parameters for operations, but spend little time reviewing operations; or the boards consist of private sector representatives oriented toward self-sufficiency, but exhibiting no strong leadership or visionary qualities typical of an expansion-led approach. Active and effective boards are essential to successful microenterprise programs. Thus, to the extent possible, it is recommended that the boards be strengthened.

Financial Management Capacity

- Although some NGOs clearly demonstrate more capacity than others, the financial management capacity of all the NGOs needs strengthening. All require some degree of ongoing assistance in financial planning and financial management be it from the IDB consultants or Covelo.

Human Resources

- Each of the NGOs, with the exception of HdeH, has demonstrated weaknesses in human resource management and this has resulted in considerable turnover rates. The personnel turnover, in turn, has had a demonstrable impact on overall performance. Salary levels should be carefully reviewed and incentive plans should be considered. The tendency is to pay low salaries in an attempt to achieve self-sufficiency. However, the effect is likely the opposite, since the effect of turnover is increased costs in terms of lower productivity, higher delinquency, and so forth. Adequate training of personnel is also recommended.

MIS

- The computerized information system installed (or currently being installed) at each of the NGOs is, in its present state, inadequate for a large-scale credit operation. This has been recognized by Covelo and it is in the process of reprogramming major changes in anticipation of the massification plan. Changes include putting the system on-line and creating network capability.

- Computerization alone does not make an effective information system. Effective information systems require the following elements: accuracy, timeliness, relevance to management decisions, and availability to the people who need them (Rhyne, Rotblatt, 1994). Based on these criteria, the NGOs' information systems, with the exception of FINCA's, are inadequate.

  The accounting systems are not used uniformly or effectively by the NGOs. Financial statements can be generated in a timely manner, as is evidenced by FINCA. Yet the other NGOs often experience delays of 1-2 months. Moreover, there appears to be little review for accuracy by the NGOs, again with the exception of FINCA. Information generated by the portfolio administration system is reasonably reliable. In addition to improving the quality and consistency of their information, it is recommended that the NGOs report on their financial performance in accord with generally acceptable standards, particularly with respect to loan loss provisions and write-offs, for example.

Financial Aspects

- The financial structure of all of the NGOs consists of equity (generally funded by donations) and loans from local sources such as FHIS. Donations have funded operating costs, fixed assets, and investments in the portfolio. Although loans from local sources have not been at commercial terms, they have been at interest rates above or reasonably proximate to the average inflation rate. The leverage ratios at year end for the NGOs ranged between .04:1 and 3.72:1.

- Operational self-sufficiency is defined as total income from operations divided by actual financial and operating costs (including loan loss provisions). Financial self-sufficiency includes the imputed capital costs, that is, the costs of inflation. Based on the above, only WRH is operationally self-sufficient. WRH has no financial costs and its level of loan losses, and thus loss provisions, was extremely low. If it were not for loan losses and thus loss provisions, FINCA and IDH would have been very close to operational self-sufficiency (99 percent and 93 percent, respectively). Financial self-sufficiency of the NGOs, on the other hand, was 62 percent or less. To achieve financial self-sufficiency with the current pricing structures, inflation must decline and the institutions must minimize their delinquency and loan losses and streamline their operations to become more operationally efficient.

SECTION FIVE

LESSONS LEARNED

- The institutional capacity and system development in most NGOs were much lower than anticipated. During the course of the project, it became clear that the goal of self-sufficiency for the number of NGOs originally contemplated would not be feasible unless Covelo's human resource base was significantly expanded. As a result, it was decided to concentrate Covelo's resources on those few NGOs — 5 at any point in time — that offered the best prospects for effective use of the assistance proffered.

- Covelo, as a service provider to NGOs, has established an important track record and its activities are valued both by its clients (the NGOs) as well as by other donors. However, its impact has not been as favorable as would be expected because of the NGOs' lack of commitment to implement necessary changes. For example, the management's and/or board members' lack of understanding of the benefits flowing to MSEs from effective financial and credit policies delayed the implementation of Covelo's recommendations. Moreover, management did not always get involved in the implementation process because of lack of capacity or interest. Excessive turnover among trained personnel or the assignment of unqualified personnel to important tasks also complicated the training process.

- The original project did not plan for the sustainability of Covelo nor did it establish a linkage between the technical assistance provided to the NGOs and the funds required to expand their portfolios to levels sufficient for operational and financial self-sufficiency. Thus, a credit component was added to the project to increase Covelo's leverage with the NGOs and to improve its prospects for self-sufficiency. The loans made under the credit component were structured to minimize risk (for example, the re-discount mechanism) and were priced at a level sufficient to cover Covelo's operating costs and the devaluation effects of inflation (as required by USAID). However, at the same time, other donors were offering subsidized funds that were structured much more loosely. As a result, funds disbursed under Covelo's facility were much lower than expected; hence Covelo's self-sufficiency was much lower than expected.

- The conditions of the credit component permits credits of up to only $300; thus, Covelo's ability to provide assistance with USAID funds to other NGOs that do not target subsistence or very low income level enterprises is very limited. Their client base is limited to a handful of NGOs that essentially use the village bank model.

BIBLIOGRAPHY

Inter-American Development Bank. 1994. *Technical Guide for the Analysis of Microenterprise Finance Institutions.*

Christen, Robert Peck, Elisabeth Rhyne, and Robert C. Vogel. 1994. *Maximizing the Outreach of Microenterprise Finance*, IMCC.

Holt, Sharon L. "Village Banking: A Cross-Country Study of a Community-Based Lending Methodology." GEMINI Working Paper No. 25. Development Alternatives, Inc. December 1991.

Rhyne, Elisabeth, and Linda Rotblatt. 1994. *What Makes Them Tick? Exploring the Anatomy of Major Microenterprise Finance Organizations.*

Drake, Deborah, and Maria Otero. 1992. *Alchemists for the Poor: NGOs as Financial Institutions.*

Internal Documents of the Jose Maria Covelo Foundation

Diagnostico y Plan Estrategico de FINCA

Diagnostico: World Relief de Honduras

Evaluacion Semestral del Fondo de Credito de Subsistencia y Determinacion de los Factores que Limita su Crecimiento

Perfil, Fundacion Jose Maria Covelo

Plan de Masificacion, ODEF

Plan de Masificacion, IDH

Plan Estrategico de la Asociacion FINCA de Honduras

Plan Estrategico: Hermandad de Honduras

Plan Estrategico: IDH

Plan Estrategico: ODEF

Plan Estrategico: World Relief de Honduras

ANNEX A

SUMMARY OF FINANCIAL STATEMENTS

COVELO FOUNDATION's GROUP OF PVOs
FINANCIAL PERFORMANCE
(Figures in thousand of US Dollars)

COMPARATIVE BALANCE SHEET	FINCA			WRH			ODEF			IDH			HDH		
	1992	1993	1994	1992	1993	1994	1992	1993	1994	1992	1993	1994	1992	1993	1994
ASSETS															
Cash and Bank	44	21	33	206	124	80	110	206	115	180	236	47	61	43	70
Liquid Investments	0	18	7	0	69	154	0	1	3	0	0	149	1	1	0
Liquid Assets	44	39	40	206	193	235	110	206	118	180	236	196	61	43	70
Current Loan Portfolio	286	516	458	102	233	352	278	112	492	797	608	520	239	181	400
Portfolio > 90 days Past Due	0	1	8	0	0	0	0	29	15	0	0	0	0	0	0
Total Loan Portfolio	286	516	466	102	233	352	278	142	508	797	608	520	239	181	400
(-) Loan Loss Reserve	(9)	(15)	(14)	0	0	(5)	(8)	(4)	(15)	(24)	(18)	(16)	(7)	(5)	(12)
Net Loan Portfolio	277	501	452	102	233	348	270	137	492	773	589	504	232	176	388
Interest Receivable	0	0	0	13	8	0	0	0	0	0	0	0	14	6	0
Other Account Receivable	2	21	64	74	4	4	2	13	240	302	351	292	50	60	101
Inventory	0	0	0	0	0	0	8	0	0	0	0	0	52	21	13
Current Assets	323	561	555	395	438	586	390	357	850	1,256	1,176	992	409	306	572
Property	0	0	0	0	0	0	0	57	99	83	66	56	49	39	33
Vehicles and Equipment	35	35	71	55	47	84	30	49	86	12	18	32	104	102	102
(-) Reserve for Depreciation	(5)	(9)	(15)	(23)	(31)	(40)	0	(11)	(20)	0	0	(8)	(39)	(44)	(48)
Fixed Assets	30	27	56	32	16	44	30	95	165	95	84	80	114	97	86
Deferred Charges and Other Assets	1	3	4	0	0	0	1	1	3	9	5	81	2	0	0
Total Assets	354	590	615	427	454	630	421	453	1,018	1,360	1,266	1,153	524	403	658
LIABILITIES															
Interest Payable	2	10	2	0	0	0	0	0	0	0	0	0	0	0	14
Short Term Loans	88	135	58	0	0	0	0	21	169	3	26	16	29	22	225
Savings from Clients	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0
Other Account Payable	3	35	56	26	1	5	16	1	184	325	320	271	20	31	82
Total Current Liabilities	93	180	116	26	1	5	16	22	353	328	346	286	49	56	321
Long Term Debt	107	163	65	0	0	0	242	107	328	403	445	280	289	124	121
Deferred Expenses/Funds in Trust	1	4	5	27	26	18	4	0	0	17	14	338	0	0	7
Funds in Trust	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unearned Income (Grants and Interest)	6	0	3	0	0	0	0	122	121	(2)	0	0	103	135	0
Total Long Term Liabilities	115	168	73	27	26	18	245	229	450	418	459	618	392	259	127
Total Liabilities	208	348	188	53	27	23	261	251	803	745	805	904	440	315	449
EQUITY															
Contributions and Capital Grants	121	157	340	192	373	526	95	138	198	546	428	179	58	47	240
Accumulated Surplus/(Losses) and Capitalization	25	85	87	182	55	82	66	63	17	69	32	69	25	42	(31)
Total Equity	146	243	427	374	427	607	160	201	216	614	461	249	84	83	209
Total Liabilities and Equity	354	590	615	427	454	630	421	453	1,018	1,360	1,266	1,153	524	403	658

COVELO FOUNDATION's GROUP OF PVOs
FINANCIAL PERFORMANCE
(Figures in thousand of US Dollars)

INCOME AND LOSS STATEMENTS	FINCA			WRH			ODEF			IDH			HDH		
	1992	1993	1994	1992	1993	1994	1992	1993	1994	1992	1993	1994	1992	1993	1994
Operating Income															
Interest income from loans	64	108	164	45	68	117	31	34	110	102	89	96	52	62	58
Fee income from loans	0	9	12	0	0	0	8	19	17	13	17	15	0	0	0
Financial Income from loans	64	117	176	45	68	117	39	53	128	115	106	111	52	62	58
Other income from loans	3	0	0	0	0	0	18	0	2	34	0	9	15	8	7
Interest income on savings	2	15	24	1	3	12	5	14	8	3	0	11	0	5	1
Total Income from Operations	70	132	200	46	71	129	62	67	138	152	106	130	67	75	66
Financial Expenses															
Interest Expenses	9	13	33	0	0	0	21	20	21	27	21	14	8	20	32
Fees	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial Costs of Loans	9	13	33	0	0	0	21	20	21	27	21	14	8	20	32
Gross Financial Margin	61	119	167	46	71	129	41	48	117	125	85	116	59	55	34
Credit Operating Expenses															
Personnel (salary, benefits)	56	60	74	59	63	79	84	62	73	77	77	86	51	48	55
General administration expenses	38	51	87	14	12	25	121	24	71	74	47	32	96	68	39
Depreciation	4	5	8	0	13	14	3	11	11	4	0	8	15	13	11
Subtotal Operating Expenses	98	116	169	73	88	118	207	96	155	155	124	126	162	129	106
Loan Loss Provisions	9	10	28	2	0	5	27	12	24	59	27	23	4	10	7
Total Operating Expenses	106	127	198	75	88	123	234	109	179	214	151	150	166	138	113
Net Operating Margin (Credit)	(46)	(8)	(30	(29)	(17)	7	(193)	(61)	(62	(89)	(66)	(33	(107)	(83)	(79
Non-Operating Income															
Operating Grants	72	72	60	155	94	78	146	232	83	45	25	37	301	289	53
Income from other services	4	5	0	0	0	0	7	8	6	0	65	22	27	5	11
Total Other Income	76	77	60	155	94	78	152	239	89	45	89	59	328	294	64
Non-Operating Expenses	9	0	0	0	0	0	13	0	0	12	8	5	34	11	1
Net Income (Other)	67	77	60	155	94	78	140	239	89	33	81	54	294	284	63
Total Net Margin	22	69	30	126	76	84	(53)	178	27	(56)	15	21	187	200	(16
Imputed Capital Costs															
(+)Concessionary Loans	0	17	21	0	0	0	0	1	66	0	31	85	14	6	35
(+)Equity	0	24	90	0	25	94	0	22	55	0	63	91	0	10	41
(-)Fixed Assets	0	(3)	(11	0	(3)	(8	0	(8)	(35	0	(11)	(22	0	(12)	(24
Total	0	37	100	0	22	86	0	15	86	0	83	155	14	4	52

COVELO FOUNDATION's GROUP OF PVOs
FINANCIAL PERFORMANCE
(Figures in thousand of Lempiras)

COMPARATIVE BALANCE SHEET	FINCA			WRH			ODEF			IDH			HDH		
	1992	1993	1994	1992	1993	1994	1992	1993	1994	1992	1993	1994	1992	1993	1994
ASSETS															
Cash and Bank	253	149	285	1,175	899	689	627	1,494	986	1,028	1,713	405	346	309	601
Liquid Investments	0	132	57	0	500	1,325	0	4	23	0	0	1,277	4	6	0
Liquid Assets	253	281	342	1,175	1,399	2,014	627	1,498	1,009	1,028	1,713	1,682	350	315	601
Current Loan Portfolio	1,628	3,743	3,928	580	1,693	3,023	1,585	816	4,224	4,545	4,412	4,461	1,362	1,315	3,433
Portfolio > 90 days Past Due		5	67					213	132						
Total Loan Portfolio	1,628	3,748	3,995	580	1,693	3,023	1,585	1,029	4,356	4,545	4,412	4,461	1,362	1,315	3,433
(-) Loan Loss Reserve	(49)	(112)	(120	0	0	(39	(48)	(31)	(131	(136)	(132)	(134	(41)	(39)	(103
Net Loan Portfolio	1,579	3,636	3,875	580	1,693	2,984	1,537	998	4,225	4,409	4,280	4,327	1,321	1,276	3,330
Interest Receivable	0	0	0	72	58					0	0	0	78	40	
Other Account Receivable	11	153	546	422	32	31	13	95	2,060	1,721	2,545	2,503	285	435	864
Inventory	0	0	0		0	0	47	0	0	0	0	0	297	154	112
Current Assets	1,843	4,070	4,763	2,249	3,182	5,029	2,224	2,591	7,294	7,158	8,538	8,512	2,331	2,220	4,907
Property	0	0	0	0	0	0	0	412	847	474	481	480	280	280	280
Vehicles and Equipment	197	256	611	314	341	725	171	357	740	67	132	273	592	742	871
(-) Reserve for Depreciation	(26)	(63)	(130	(129)	(227)	(347	0	(78)	(172	0	0	(69	(224)	(316)	(414
Fixed Assets	171	193	481	185	114	378	171	691	1,415	541	613	684	648	706	737
Deferred Charges and Other Assets	4	24	31	0	0	0	5	4	28	52	37	696	9	0	0
Total Assets	2,018	4,287	5,275	2,434	3,296	5,407	2,400	3,286	8,737	7,751	9,188	9,892	2,988	2,926	5,644
LIABILITIES															
Interest Payable	11	76	14	0	0	0	0	0	0	0	0	0	0	0	121
Short Term Loans	501	977	496	0	0	0	0	152	1,451	16	191	136	163	157	1,930
Savings from Clients	0	0	0	0	0	0	0	0	0	0	0	0	0	22	0
Other Account Payable	19	254	482	149	4	40	90	10	1,576	1,851	2,323	2,321	114	228	705
Total Current Liabilities	531	1,307	992	149	4	40	90	162	3,027	1,867	2,514	2,457	277	407	2,756
Long Term Debt	612	1,186	557	0	0	0	1,378	779	2,818	2,295	3,230	2,399	1,645	898	1,034
Deferred Expenses/Funds in Trust	8	31	40	152	189	158	20	0	0	97	100	2,900			59
Funds in Trust	0	0	0	0	0	0	0	0	0				0	0	0
Unearned Income (Grants and Interest)	36	0	26	0	0	0	0	884	1,041	(10)			588	979	
Total Long Term Liabilities	656	1,217	623	152	189	158	1,398	1,663	3,859	2,382	3,330	5,299	2,233	1,877	1,093
Total Liabilities	1,187	2,524	1,615	301	193	198	1,488	1,825	6,886	4,249	5,844	7,756	2,510	2,284	3,849
EQUITY															
Contributions and Capital Grants	688	1,142	2,913	1,094	2,707	4,509	539	1,004	1,702	3,110	3,108	1,540	333	338	2,059
Accumulated Surplus/(Losses) and Capitalization	143	621	747	1,039	396	700	373	457	149	392	236	596	145	304	(264
Total Equity	831	1,763	3,660	2,133	3,103	5,209	912	1,461	1,851	3,502	3,344	2,136	478	642	1,795
Total Liabilities and Equity	2,018	4,287	5,275	2,434	3,296	5,407	2,400	3,286	8,737	7,751	9,188	9,892	2,988	2,926	5,644

COVELO FOUNDATION's GROUP OF PVOs
FINANCIAL PERFORMANCE
(Figures in thousand of Lempiras)

INCOME AND LOSS STATEMENTS	FINCA			WRH			ODEF			IDH			HDH		
	1992	1993	1994	1992	1993	1994	1992	1993	1994	1992	1993	1994	1992	1993	1994
Operating Income															
Interest income from loans	367	781	1,405	255	494	1,007	176	246	948	583	649	826	296	451	499
Fee income from loans	0	67	104				47	138	147	72	121	127			
Financial Income from loans	367	848	1,509	255	494	1,007	223	384	1,095	655	770	953	296	451	499
Other income from loans	17						102	3	21	193		73	85	58	62
Interest income on savings	14	110	208	6	24	102	31	103	67	17		93		36	7
Total Income from Operations	398	958	1,717	261	518	1,109	356	490	1,183	865	770	1,119	381	545	568
Financial Expenses															
Interest Expenses	52	96	280	0	0	0	121	144	178	153	154	121	44	147	274
Fees															
Financial Costs of Loans	52	96	280	0	0	0	121	144	178	153	154	121	44	147	274
Gross Financial Margin	346	862	1,437	261	518	1,109	235	346	1,005	712	616	998	337	398	294
Credit Operating Expenses															
Personnel (salary, benefits)	317	439	639	338	454	681	477	447	625	438	559	738	293	350	473
General administration expenses	217	367	747	78	90	213	688	175	609	424	342	276	546	492	338
Depreciation	23	37	67	0	98	120	15	78	94	23	0	69	84	92	98
Subtotal Operating Expenses	557	843	1,453	416	642	1,014	1,180	700	1,328	885	901	1,083	923	934	909
Loan Loss Provisions	49	76	243	10	0	39	153	89	205	336	196	201	22	69	61
Total Operating Expenses	606	919	1,696	426	642	1,053	1,333	789	1,533	1,221	1,097	1,284	945	1,003	970
Net Operating Margin (Credit)	(260)	(57)	(259	(165)	(124)	56	(1,098)	(443)	(528	(509)	(481)	(286	(608)	(505)	(676
Non-Operating Income															
Operating Grants	411	526	516	885	679	668	831	1,681	711	258	179	318	1,716	2,100	452
Income from other services	24	33					38	55	52		470	192	152	38	95
Total Other Income	435	559	516	885	679	668	869	1,736	763	258	649	510	1,868	2,138	547
Non-Operating Expenses	51	3	1				73			70	60	43	192	79	10
Net Income (Other)	384	556	515	885	679	668	796	1,736	763	188	589	457	1,676	2,059	537
Total Net Margin	124	499	256	720	555	724	(302)	1,293	235	(321)	108	181	1,068	1,454	(139
Imputed Capital Costs															
(+)Concessionary Loans		122	180		0	0		9	566		227	732	81	43	301
(+)Equity		172	776		181	810		158	474		455	785		74	349
(-)Fixed Assets		(24)	(96		(20)	(70		(57)	(302		(77)	(186		(90)	(207
Total	0	270	860	0	161	740	0	110	739	0	605	1,331	81	28	444

ANNEX B

SCOPE OF WORK

u7

SMALL BUSINESS II PROJECT
SPECIAL PROJECT ASSESSMENT AND PLANNING FOR SUSTAINABILITY STUDY

SCOPE OF WORK

I. ACTIVITY (PROJECT/PROGRAM) TO BE REVIEWED

Two distinct project components of the Small Business II Project (No. 522-0241) will be reviewed. These project components are the Cooperative Agreement (No. 522-0241.01) signed with the National Association of Industrialists (Spanish Acronym: ANDI) and the Grant Agreement (No. 522-0241.03) signed with the National Foundation for the Development of Honduras (Spanish Acronym: FUNADEH). The total USAID funding for the ANDI Cooperative Agreement is $5.7 million and $3.0 million for the FUNADEH Grant Agreement.

The Small Business II Project was signed on August 30, 1988 and the Project Assistance Completion Date (PACD) is September 30, 1996. The Grant Termination Date for ANDI and FUNADEH are September 30, 1996 and September 30, 1995 respectively.

II. PURPOSE OF THE REVIEW

USAID/Honduras, ANDI and FUNADEH are interested in carrying out a special assessment to identify issues that affect the ability of the implementing agencies to become profitable institutions with the capacity to scale-up their service and reach a significantly larger number of clients. The special assessment will identify the institutional and financial development constraints and opportunities of the various implementing institutions.[1] The focus of this assessment will be to review the administrative, management, financial, methodological and project implementation issues that inhibit the organizations' capacity to achieve greater outreach and provide cost-effective services to its clients.

The implementing agencies will utilize the results of the special assessment to make the necessary adjustments and/or transformation to their program vision, strategic planning, organizational structure, operational and methodological procedures and policies.

---

[1] *ANDI created the Jose Maria Covelo Foundation to manage its second tier facility that provides technical assistance and liquidity to selected microfinance PVOs. The Covelo Foundation is currently working with the following five PVOs: Foundation for International Community Assistance in Honduras (FINCA/Honduras), World Relief (WR), Women Entrepreneurial Development Organization (Spanish Acronym: ODEF), Institute for the Development of Honduras (Spanish Acronym: IDH) and, Honduran Brotherhood (Spanish Acronym: HdeH).*

48

USAID/Honduras will utilize the assessment to formulate a project extension (or new project) that will permit selected PVOs to structurally transform or evolve into institutions that will substantially increase their program outreach by tapping private sector funds.

III. BACKGROUND

The Small Business II Project supports the Mission's Strategic Objective No. 1, which seeks to enhance the economic participation and increase the incomes of the poor. The project contributes to the advancement of Program Outcome No. 1 which provides for expanded access and opportunities through the empowerment of the poor. It is expected that the increased access to financial and non-financial services will permit the micro and small enterprises to expand their production levels, increase family incomes and provide new employment opportunities.

The project goal is to increase employment and expand production. The project purpose is to: (1) strengthen and expand an institutional system that will increase and improve the supply of credit, training, technical assistance, and services to small scale enterprises (SSEs); and (2) improve the policy and regulatory environment in which SSEs operate.

The Project provides assistance to organizations serving micro and small businesses, mostly self-employed women. Assistance at the microenterprise level has been channeled through two local organizations: Advisors for Development (Spanish Acronym: ASEPADE) and ANDI. ASEPADE provided credit, training and technical assistance directly to microenterprises. This Grant Agreement ended in June 1992. ANDI through its administrator, the Covelo Foundation, functions as a second tier facility providing technical and financial assistance to selected Private Voluntary Organizations (PVOs) involved in microfinance. Assistance at the small business level has focused on two institutions: FUNADEH and FOPEME. FUNADEH, with a home office based in San Pedro Sula, provides credit and training to small businesses. FOPEME, a loan and guarantee program through the Central Bank, provided small business lending and guarantee through the formal banking system. The FOPEME component ended in September of 1993.

This assessment will concentrate on the two institutions which remain active under the project: ANDI/Covelo and FUNADEH.

1. **ANDI/COVELO:** ANDI created the Jose Maria Covelo Foundation to manage its microenterprise program. A management agreement (approved by USAID/Honduras) was signed between ANDI and the Covelo Foundation[2]. This agreement gave full implementation responsibility to the Covelo Foundation. The Foundation operates as a second floor organization providing financial and technical assistance to five PVOs. These PVOs in turn provide credit, training and technical assistance directly to microenterprises that have good business prospects

[2] *Throughout the document, ANDI and the Covelo Foundation are used interchangeably.*

49

but, for the most part, have "unbankable" projects due to inadequate or insufficient collateral and/or no prior commercial bank experience. The PVOs' credit programs seek not only to make resources available to the microenterprises but also to ensure that the programs are financially self-sufficient.

The ANDI grant was amended in 1993 to enable it to consolidate the microbusiness program of five PVOs that have viable credit programs. With the amendment, a second tier lending facility was established in the Covelo Foundation to provide liquidity to those PVOs that made loans of up to $300. US$3.0 million have been programmed for financial assistance to help expand the credit programs of five selected PVOs. This assistance serves two purposes: (1) the selected PVOs will be able to increase the size of their portfolios in order to achieve self-sufficiency and (2) ANDI/Covelo will generate additional resources to cover its operating expenses for its lending facility. The Covelo Foundation through its PVO network expects to provide financial services to approximately 30% of the potential target population by the end of 1998.

As of September 1994, the five PVOs assisted by the Covelo Foundation have a combined portfolio of more than L13.2 million serving 15,151 active clients. Eighty-five percent (85%) of the beneficiaries receive financial services through the village bank methodology. Two organizations (FINCA and WR) serve 79% of the active borrowers assisted by the PVO network.

Table 1
PVO NETWORK PORTFOLIO
September 1994

Description	Total	FINCA	WR	ODEF	IDH	HdeH
No. Village Bks.	469	265	157	40	7	0
No. Clients, Village Bks.	12,929	7,040	4,986	796	107	0
Portfolio Village Bks.	L6.5 Millions	3.5	2.5	0.4	10.1	0
Individual Loans	2,222	0	0	617	968	637
Individual Portfolio	L6.7 Millions	0	0	2.7	1.8	2.2
Total No. of Clients	15,151	7,040	4,986	1,413	1,075	637
Total Portfolio	L13.2 Millions	3.5	2.5	3.1	1.9	2.2
Payments in Arrears over 30 days		15.5%	9.5%	4.6%	31.6%	5.0%
Operational Self-sufficiency		92.2%	109.6%	70.1%	71.6%	45.0%

2. FUNADEH: Under the Small Business II Project, the Mission initially gave FUNADEH a $2.0 million grant to assist it in consolidating its credit program in order to become self-sufficient. In 1990, FUNADEH was the first Honduran PVO to reach financial

self-sufficiency covering all of its cost[3] associated with the loan program. The Mission signed an amendment with FUNADEH in December of 1992, to assist it to expand its microenterprise program to the City of Tegucigalpa[4] and achieve self-sufficiency of this regional office by September 1995. During the first half of 1995 USAID/FUNADEH will jointly explore the viability of assisting FUNADEH in creating a commercial bank for small and microenterprises. The objective is to expand FUNADEH's outreach and provide full financial services to small and microenterprises with locally generated funds. Savings would be the main mechanism utilized to capture funds from the public at large and transfer them to micro and small business clients. Under the Small Business II Project FUNADEH has made 4,985 loans for L.66.7 million. It currently has a portfolio of L21.3 million serving 1,632 active clients. Its percentage of payments in arrears over 30 days is 4.8%.

IV. STATEMENT OF WORK

The questions that follow represent the key management questions which USAID/Honduras is interested in answering in this special assessment. They pertain to the following institutions:

* *The "poverty lending" PVOs which retail micro loans to end users: FINCA, WR, HdeH, ODEF and IDH*
* *The poverty lending second story facility which provides loans to the poverty lending PVOs: ANDI/Covelo*
* *The small business lending foundation which retails loans to small businesses: FUNADEH*

1. ORGANIZATION VISION/MANDATE

What does each of the 6 retail PVOs see as its mandate? Is it compatible with USAID's interest in promoting increased scale and profitability? Are the mandates shared among the organizations' home and field staff?

2. PROGRAM METHODOLOGY

2.1 How should the loan methodologies utilized by the retail PVOs be modified to permit them to expand their outreach and profitability?

---

[3] *As of 1993, FUNADEH has covered direct and indirect cost, cost of capital and inflation.*

[4] *The Tegucigalpa Regional Office officially opened on July 30, 1993.*

2.2 What can all of the seven organizations do to reduce their costs of financial services? What lessons can be learned from the two PVOs that are self-sufficient?

2.3 What aspects of the village banks program methodology used by FINCA and WR could be improved and how? Is the management of the internal account reliable? What could be done to improve its management? Would the consultants recommend changing the internal account methodology? What are the alternatives? Should USAID/Honduras encourage new PVOs to utilize the village banks methodology?

2.4 Given the demonstrated importance of deposit services, what could the PVOs do, as non-bank institutions, to offer savings alternatives to their clients?

2.5 Are there other high demand services which the PVOs could offer their clients?

2.6 Should the Covelo Foundation evolve into a competing microfinance institution, bank or other form of financial intermediary? If so, what are the implications for the Covelo Foundation and the PVO network?

2.7 Is the eligibility criteria of the Covelo Foundation for lending and technical assistance too loose or too stringent? Should the criteria be modified? If so, in what ways? Should Covelo modify its fee for technical assistance and how? Should it charge for training?

3. SUSTAINABILITY AND FINANCIAL MANAGEMENT

3.1 Are the selected lending PVOs likely to be sustainable by September 30, 1996? Do the programs maintain full-cost pricing policies? Are the interest rates charged by the 6 microfinance PVOs sufficient to make them operationally self-sufficient? If not, at what portfolio level and interest rate will they break-even? At what portfolio level and interest rate will the PVOs become profitable? Assuming the volume of lending remains at present growth trends, how much higher do the interest rates need to be in order for the six PVOs to be profitable?

3.2 Are the delinquency rates in the 6 retail PVOs "acceptable"? What should the target be for each PVO?

3.3 Do the PVOs have adequate management information systems in place? Do these provide critical decision-making and oversight information on a timely manner to management? The contractors should examine the information system (program statistics and financial reporting) of the 7 PVOs and recommend changes that will provide better financial data, impact information and program indicators.

3.4 Do the financial statements of the microfinance PVOs accurately reflect financial operations? Should the financial statements of the 6 retail PVOs be adjusted? If so, what modifications would the consultants recommend?

3.5 The Covelo Foundation is not yet covering its costs. What actions need to be taken for the Covelo Foundation to become self-sufficient in the near future? Is the interest rate charged by the Covelo Foundation to the PVOs to high, to low or is it appropriate? Please explain. Should the Covelo Foundation adjust its credit policy? If yes, how?. Are there enough eligible clients willing to: a) borrow money from its liquidity fund; and b) request technical assistance?

3.6 Have other donors undermined the role of the Covelo Foundation? If so, how?

3.7 Covelo: At the moment there is an absorption problem within the network of five poverty lending PVOs. Should the Covelo Foundation branch out and lend to other types of financial intermediaries, such as savings and loan cooperatives?

3.8 Is the FUNADEH training program totally self-sufficient (that is, covering direct as well as indirect costs)? Does the training program detract management attention from the lending program? Is there any evidence that the lending program has suffered as a result of FUNADEH's training program, or that the training program has enhanced the lending program?

4. ORGANIZATIONAL MANAGEMENT

4.1 Do the 6 retail PVOs have the financial management capability to embark on an expansion plan? Is staff productivity and turnover a problem?

4.2 Are the organizational structures and administrative systems in the 6 PVOs appropriate for a lending institution and are they operating well? What could be changed for improved program effectiveness?

5. TECHNICAL ASSISTANCE AND CLIENT SATISFACTION

5.1 Are the PVO clients satisfied with the technical assistance offered by ANDI/Covelo and willing to pay for it? Are the organizations better off as a result? To what extent is an improvement in the PVOs attributable to the ANDI/Covelo assistance?

6. FUTURE DIRECTIONS

6.1 The Mission expects to continue supporting the micro and small business sectors in Honduras. Should the program strategy be modified? What program elements would the contractors recommend be included in a new project based on their world wide experience?

9

6.2 Should USAID/Honduras support the creation of a specialized bank for small and microbusinesses under FUNADEH? Why (and under what terms and conditions) or why not?

7. PROJECT TARGETS

7.1 To what extent have the project targets been met? Should the project targets be revised to reflect what the project can actually expect to accomplish by 9/95? Are there issues or problems that are affecting the possibility of meeting the project targets as proposed? Has the project had any significant impact in areas that were not originally contemplated in the design? What lessons may be learned from the Small Business II project experience?

V. METHODS AND PROCEDURES

The contractor will present to the USAID Project Manager the work plan three days after arriving in country. The USAID Project Manager will approve the work plan and/or suggest modifications if necessary. The modifications will be incorporated into the work plan during this meeting. The USAID Project Committee may at its discretion participate in the meeting.

The primary source of information to be utilized by the assessment team will be the financial and statistical records of all the implementing agencies that receive project funding. The main implementing agencies have a computerized management information system that may be accessed by the contractors. It is expected that this information will be complemented by project site visits, personal interviews with personnel from the implementing agencies and micro and small business clients.

The assessment team will receive from USAID/Honduras upon arrival in country, selected background material, such as a copy of the Project Paper, the Project and Grant Agreements, USAID Financial Reviews, Reports from Contractors, and other working documents The Contractors will also have access to additional Project documentation as required through the USAID Project Officer.

It is anticipated that the special assessment will require extensive field work. The assessment effort will be based in Tegucigalpa and San Pedro Sula. Field work and site visits will require travel outside these two cities. The Small Business Project will provide vehicle support for field visits, resource persons and reference documents and materials. The contractor is expected to arrange for vehicles in Tegucigalpa and San Pedro Sula, secretarial support, and translation services for the reports.

After completing the field work, the contractor will conduct one day seminars with each of the implementing agencies (ANDI/Covelo and FUNADEH) to discuss the major findings and recommendations of the assessment. The USAID Project committee may at its discretion attend these meetings.

VI. COMPOSITION OF REVIEW TEAM

The contractor's team must have extensive background and experience in small and microbusiness development models, financial services delivery methodologies, financial/management systems and economic policy development, gender issues and project evaluations, preferably in Latin America.

One Project Team Leader: Spanish language capability at the S-3/R-3 level is required. Should have minimum of ten years of general experience in the areas of economics, finance, marketing, institution building and microenterprise. A five year working experience in Latin America is highly desirable. Previous USAID microenterprise and evaluation experience is required, knowledge of gender issues in development and prior experience as team leader is desirable. The team leader will be responsible for the assessment planning and for the preparation of the final report. Estimated time to complete assignment is 28 workdays in Honduras and 7 workdays in the home office.

Two Micro/Small Business Specialists: Spanish language capability at the S-3/R-3 level is required. Minimum of five years experience in Small and Microenterprise development area, preferably having worked two years in Latin America. 50 workdays in Honduras is required to complete the assignment.

Translator: 12 work days in home office.

VII. REPORTING REQUIREMENTS

1. Format of the reports. The team will prepare two written reports (one for ANDI/Covelo and the PVO network and another for FUNADEH) containing the following sections;

- Basic Project Identification Data Sheet. (See outline that follows);
- Table of Contents
- Executive Summary[5]. The Executive Summary must be a self-contained document and should not exceed five (5) pages. The document must include:
  - the objectives of the project or program being reviewed;

---

[5] *If the contractor decides, it may present a combined executive summary for ANDI/Covelo and FUNADEH.*

55

- purpose of the study;
- study method;
- findings;
- conclusions;
- recommendations;
- lessons learned;
- and comments on development impact.

- Body of the reports (approximately 20-30 pages) Must include:
  - the purpose and study questions;
  - the economic, political, and social context of the project or program;
  - team composition, field of expertise and role it played in the study, and study methods (one page maximum);
  - findings of the study concerning the questions (any deviation from the scope of work must be explained);
  - conclusions;
  - recommendations, and lessons learned in separate sections of the report;
  - and comments on development impact.

  The reports will include a description of the country context in which the project or program was developed and carried out, and provide the information (evidence and analysis) on which the conclusions and recommendations are based.

- Conclusions should be short and succinct, with the topic identified by a short subheading related to the questions posed in the Statement of Work.

- Recommendations should correspond to the conclusions; whenever possible, the recommendations should specify who, or what agency, should take the recommended actions. The contractors will distinguish between "major" and "other" recommendations and limit the former to a reasonable number.

- Also in a separate section, the contractor will include a brief description of conclusions and recommendations from previous evaluation(s), if any, and a brief discussion of how they were used in the implementation of the project.

- Lessons Learned should describe the causal relationship factors that proved critical to project success or failure, including necessary political, policy, economic, social and bureaucratic preconditions within the host country and USAID. These should also include a discussion of the techniques or approaches which proved most effective or had to be changed, and why. Lessons relating to replicability and sustainability must also be discussed.

Discussions of development impact must be included in a separate section of the body of the report, and should clearly present the development benefits resulting from the project.

- Appendices. These are to include at a minimum the following:

  (a) the Scope of Work;

  (b) the pertinent Logical Framework(s), together with a brief summary of the current status/attainment of original or modified inputs and outputs (if these are not already indicated in the body of the report);

  (c) list of actions taken, and status of actions not yet taken but still considered valid by the assessment team, based on the recommendations of an earlier evaluation of the project(s) or program(s);

  (d) a description of the methodology used in the assessment (e.g., the research approach or design, the types of indicators used to measure change of the direction and trend of impacts, how external factors were treated in the analysis). The assessment team may offer methodological recommendations for future studies;

  (e) a bibliography of documents consulted; and

  (f) a list of individuals contacted.

  Other appendices may include more details on special topics.

Submission of Report:

1. Draft Final Report: The Project Team Leader will brief USAID officials and submit two drafts final reports in English prior to his/her departure from Honduras. The Report will be separated by institutions, e.g., ANDI/COVELO and FUNADEH. The contractor will prepare an overall assessment of the project and make specific recommendations regarding problems encountered in project design and implementation. Base on the assessment the consultant will recommend whether the project should be expanded, modified, or continued as is; and what short and long term additional assistance may be needed. In addition, the contractor must indicate what lessons learned could be derived from this experience, and suggest the elements of design and implementation that should be taken into account in the future.

The assessment team will submit a draft of sections "H" and "J" of the USAID Evaluation Summary (ES) along with the two draft reports.

9

2. **Final Report:** The contractor will submit the final English report no later than four weeks after receiving USAID's comments. The final Spanish reports should be submitted no later than six weeks after receiving USAID's comments.

3. **Language:** The draft reports shall be prepared in English. The Final Report however should be presented in both English and Spanish.

8

ANNEX C

LIST OF INDIVIDUALS CONTACTED

USAID

Bernai Velarde, Small Business Advisor

José María Covelo Foundation

Dorcas de Gonzalez, Executive Director
Julio Urquía, Deputy Director
Jaime Arguello, Consultant
Patricia Gonzalez, Systems Manager
Anibal Montoya, Technical Advisor, FINCA
Ana Lucia Montero, Technical Advisor, World Relief
Luis Felipe Borjas Espinal, Technical Advisor, ODEF

FINCA Honduras

Gladys de Enriguez, Executive Director
Mario Guity, Manager, Finance and Administration
Luis Rojas, Financial Management Advisor
Xiomara Velasguez, Operations Manager
Rigoberto Rivera, Credit Manager

World Relief

Roberto Ruiz Pineda, Executive Director
Sandra Chavez, Manager, Finance and Administration
Vidal Sauceda, Manager, Income Generation Projects
Juan Ramon Breve, Regional Coordinator, Catacamas
Jaime Abelardo Cruz, Promotor, Catacamas
Oscar Adrian Moradel, Promoter, Catacamas
Francisco Mazzoni, Promoter, Catacamas

ODEF

Santa de Euceda, Executive Director
Migual Navarro, Credit Department Supervisor
Samuel Escoto, Director

IDH

Guillermo R. Martinez, Executive Director (also serves on World Relief Board of Directors)
Juan Carlos Andino, Credit Department Supervisor

HdeH

Jose Luis Pineda, Executive Director

Inter-American Development Bank

Patricia Falk, Sector Specialist

FHIS

Dr. Heiko Brunken, Co-Director, PROCATMER
Dr. Edmundo Toro, Co-Director, PROCATMER
Juan Ramon Elvir, Co-Director, PASI

BCIE-Danida

Xiomara Ventura, Consultant

Selected Village Bank Board of Directors and Credit Committees

62

GEMINI PUBLICATION SERIES

GEMINI Working Papers:

1. "Growth and Equity through Microenterprise Investments and Institutions Project (GEMINI): Overview of the Project and Implementation Plan, October 1, 1989-September 30, 1990." GEMINI Working Paper No. 1. December 1989. [not for general circulation]

*2. "The Dynamics of Small-Scale Industry in Africa and the Role of Policy." Carl Liedholm. GEMINI Working Paper No. 2. January 1990. $5.50

3. "Prospects for Enhancing the Performance of Micro- and Small-Scale Nonfarm Enterprises in Niger." Donald C. Mead, Thomas Dichter, Yacob Fisseha, and Steven Haggblade. GEMINI Working Paper No. 3. February 1990. $6.00

4. "Agenda Paper: Seminar on the Private Sector in the Sahel, Abidjan, July 1990." William Grant. GEMINI Working Paper No. 4. August 1990. $3.00

*5. "Gender and the Growth and Dynamics of Microenterprises." Jeanne Downing. GEMINI Working Paper No. 5. October 1990. $10.50

6. "Banking on the Rural Poor in Malaysia: Project Ikhtiar." David Lucock. GEMINI Working Paper No. 6. October 1990. $3.30

7. "Options for Updating AskARIES." Larry Reed. GEMINI Working Paper No. 7. October 1990. $3.50

*8. "Technology — The Key to Increasing the Productivity of Microenterprises." Andy Jeans, Eric Hyman, and Mike O'Donnell. GEMINI Working Paper No. 8. November 1990. $3.60

9. "Lesotho Small and Microenterprise Strategy — Phase II: Subsector Analysis." Bill Grant. GEMINI Working Paper No. 9. November 1990. $15.50

*10. "A Subsector Approach to Small Enterprise Promotion and Research." James J. Boomgard, Stephen P. Davies, Steven J. Haggblade, and Donald C. Mead. GEMINI Working Paper No. 10. January 1991. $3.10

11. "Data Collection Strategies for Small-Scale Industry Surveys." Carl Liedholm. GEMINI Working Paper No. 11. January 1991. $1.30

*Publications of general interest

12. "Dynamics of Microenterprises: Research Issues and Approaches." Carl Liedholm and Donald C. Mead. GEMINI Working Paper No. 12. January 1991. $6.50

13. "Dynamics of Microenterprises: Research Priorities and Research Plan." Carl Liedholm and Donald C. Mead. GEMINI Working Paper No. 13. August 1990. [not for general circulation]

14. "Review of Year One Activities (October 1, 1989 to September 30, 1990) and Year Two Work Plan (October 1 to November 30, 1990)." GEMINI Working Paper No. 14. January 1991. [not for general circulation]

*15. "The Process of Institutional Development: Assisting Small Enterprise Institutions to Become More Effective." Elaine Edgcomb and James Cawley. GEMINI Working Paper No. 15. February 1991. $9.70

16. "Baseline Surveys of Micro and Small Enterprises: An Overview." Donald C. Mead, Yacob Fisseha, and Michael McPherson. GEMINI Working Paper No. 16. March 1991. $2.60

17. "Kenya: Kibera's Small Enterprise Sector -- Baseline Survey Report." Joan Parker and C. Aleke Dondo. GEMINI Working Paper No. 17. April 1991. $6.40

*18. "A Financial Systems Approach to Microenterprises." Elisabeth Rhyne and Maria Otero. GEMINI Working Paper No. 18. April 1991. $3.00

*19. "Agriculture, Rural Labor Markets, and the Evolution of the Rural Nonfarm Economy." Steve Haggblade and Carl Liedholm. GEMINI Working Paper No. 19. May 1991. $2.50

*20. "The Microenterprise Finance Institutions of Indonesia and Their Implications for Donors." Elisabeth Rhyne. GEMINI Working Paper No. 20. June 1991. $3.40

21. "Microenterprise Growth Dynamics in the Dominican Republic: The ADEMI Case." Frank F. Rubio. GEMINI Working Paper No. 21. June 1991. $3.10

*22. "Credit Unions: A Formal Sector Alternative for Financing Microenterprise Development." John H. Magill. GEMINI Working Paper No. 22. September 1991. $3.80

23. "A Proposed Subsector-Based Monitoring and Evaluation System for CARE/Thailand's Silk Promotion Efforts." Steven Haggblade. GEMINI Working Paper No. 23. September 1991. $3.60

24. "Steps to the Creation of a Viable Financial Institution for Microenterprise Development in the Philippines: Notes on a Process for the Staff and Board of Tulay sa Pag-Unlad, Inc." Doug Salloum and Nan Borton. GEMINI Working Paper No. 24. November 1991. $2.00

*25. "Village Banking: A Cross-Country Study of a Community-Based Lending Methodology." Sharon L. Holt. GEMINI Working Paper No. 25. December 1991. $12.60

26. "Dynamics of Small- and Micro-scale Enterprises and the Evolving Role of Finance." Carl Liedholm. GEMINI Working Paper No. 26. December 1991. $3.00

*27. "Opportunities for Intervention in Thailand's Silk Subsector." Steven Haggblade and Nick Ritchie. GEMINI Working Paper No. 27. January 1992. $3.20

*28. "Apex Study of the Asociación de Grupos Solidarios de Colombia." Arelis Gomez Alfonso, with Nan Borton and Carlos Castello. GEMINI Working Paper No. 28. April 1992. $4.60. [See Technical Reports No. 36 and No. 39 for apex studies in Senegal and Thailand.]

29. "The Subsector Methodology, A Field Orientation for CARE/Egypt, January 20-February 7, 1992." William Grant. GEMINI Working Paper No. 29. April 1992. $9.50

30. "Poverty Lending and Microenterprise Development: A Clarification of the Issues." Mohini Malhotra. GEMINI Working Paper No. 30. May 1992. $3.60

31. "The Solidarity Group Experience." Shari Berenbach and Diego Guzman. GEMINI Working Paper No. 31. June 1992. $5.80

32. "A New View of Finance Program Evaluation." Elisabeth Rhyne. GEMINI Working Paper No. 32. November 1992. $1.50

33. "The Role of Savings in Local Financial Markets: The Indonesian Experience." Marguerite S. Robinson. GEMINI Working Paper No. 33. November 1992. $3.50

34. "Assessment of Policy Issues and Constraints in the Construction Sector in Poland." Adam Saffer, Miroslaw Zielinski, Jerzy Zielinski, Tadeusz Marek, and Matthew Gamser. GEMINI Working Paper No. 34. February 1993. $5.20

35. "BancoSol: A Private Commercial Bank. A Case Study in Profitable Microenterprise Development in Bolivia." Amy J. Glosser. GEMINI Working Paper No. 35. February 1993. $8.60

36. "The Structure and Growth of Microenterprise in Southern and Eastern Africa: Evidence from Recent Surveys." Carl Liedholm and Donald Mead. GEMINI Working Paper No. 36. March 1993. $5.60

37. "Transformation Lending: Helping Microenterprises Become Small Businesses." Larry Reed and David Befus. GEMINI Working Paper No. 37. April 1993. $4.80

38. "Should Principles of Regulation and Prudential Supervision be Different for Microenterprise Finance Organizations?" Rodrigo A. Chaves and Claudio Gonzalez-Vega. GEMINI Working Paper No. 38. April 1993. $3.40

39. "Application of the GEMINI Methodology for Subsector Analysis to MSE Export Activities: A Case Study in Ecuador." Gary D. Kilmer. GEMINI Working Paper No. 39. June 1993. $2.80

40. "Private Business Organizations and the Legislative Process." Tom Gray. GEMINI Working Paper No. 40. July 1993. $4.20

41. "Financial Institutions Development Project in Indonesia: Developing Financial Institutions to ~~Serve Small Enterprises." Roland Pearson and Dallas Garland. GEMINI Working Paper No. 41.~~ July 1993. $13.90

42. "Review of Years 1-3 Activities and Workplan for Years 4 and 5 (December 1, 1991 to November 30, 1992)." GEMINI Working Paper No. 42. June 1993. [not for general circulation]

*43. "CARE and Subsector Analysis: A Report on CARE's Formative Experience." Marshall Bear. GEMINI Working Paper No. 43. October 1993. $2.00

44. "Small and Medium Enterprise Development: A National Assessment of the Agroindustry Sector of Poland." GEMINI Working Paper No. 44. Volume One, technical report; Volume Two, annexes. George L. Metcalfe and Debra Wahlberg. January 1993. $37.80

45. "FondoMicro: Lessons on the Role of Second-Tier Financial Institutions in MSE Development." Mohini Malhotra. GEMINI Working Paper No. 45. February 1994. $1.40

46. "Methodology for Microenterprise Strategy Design in the Sahel." William Grant and Matthew Gamser. GEMINI Working Paper No. 46. February 1994. $3.00

47. "Bridging the Gap between Equity and Impact: A Subsector Approach to Export Promotion in Ecuador." John Magill. GEMINI Working Paper No. 47. April 1994. $3.00

48. "Structure and Growth of Small Enterprises in the Forest-Products Sector in Southern and Eastern Africa." J.E.M. Arnold and I.M. Townson (Oxford Forestry Institute), and C. Liedholm and D. Mead (Michigan State University). GEMINI Working Paper No. 48. September 1994. $6.20

*49. "Toward More Cost-effective Nonfinancial Assistance: Case Studies in Subsector-based MSE Development." Mohini Malhotra and Jennifer Santer. GEMINI Working Paper No. 49. October 1994. $3.60

*50. "Business Linkages in Zimbabwe: Concept, Practice, and Strategies." John P. Grierson and Donald C. Mead. GEMINI Working Paper No. 50. May 1995. $2.00

51. "Review of Year Five Activities (December 1, 1993-September 30, 1994) and Year Six Workplan (October 1, 1994-September 30, 1995)." GEMINI Working Paper No. 51. December 1994. [not for general circulation]

GEMINI Technical Reports:

1. "Jamaica Microenterprise Development Project: Technical, Administrative, Economic, and Financial Analyses." Paul Guenette, Surendra K. Gupta, Katherine Stearns, and James Boomgard. GEMINI Technical Report No. 1. June 1990. [not for general circulation]

2. "Bangladesh Women's Enterprise Development Project: PID Excerpts and Background Papers." Shari Berenbach, Katherine Stearns, and Syed M. Hashemi. GEMINI Technical Report No. 2. October 1990. [not for general circulation]

3. "Maroc: Conception d'une Enquête pour une Etude du Secteur Informel." Eric R. Nelson and Housni El Ghazi. GEMINI Technical Report No. 3. November 1990. $12.50

4. "Small Enterprise Assistance Project II in the Eastern Caribbean: Project Paper." James Cotter, Bruce Tippet, and Danielle Heinen. GEMINI Technical Report No. 4. October 1990. [not for general circulation]

5. "Technical Assessment: Rural Small-Scale Enterprise Pilot Credit Activity in Egypt." John W. Gardner and Jack E. Proctor. GEMINI Technical Report No. 5. October 1990. $4.00

*6. "Developing Financial Services for Microenterprises: An Evaluation of USAID Assistance to the BRI Unit Desa System in Indonesia." James J. Boomgard and Kenneth J. Angell. GEMINI Technical Report No. 6. October 1990. $9.00

7. "A Review of the Indigenous Small Scale Enterprises Sector in Swaziland." David A. Schrier. GEMINI Technical Report No. 7. October 1990. [not for general circulation]

8. "Ecuador Micro-Enterprise Sector Assessment: Summary Report." John H. Magill and Donald A. Swanson. GEMINI Technical Report No. 8. April 1991. $10.20

9. "Ecuador Micro-Enterprise Sector Assessment: Financial Markets and the Micro- and Small-scale Enterprise Sector." Richard Meyer, John Porges, Martha Rose, and Jean Gilson. GEMINI Technical Report No. 9. March 1991. $16.00

10. "Ecuador Micro-Enterprise Sector Assessment: Policy Framework." Bruce H. Herrick, Gustavo A. Marquez, and Joseph F. Burke. GEMINI Technical Report No. 10. March 1991. $11.30

11. "Ecuador Micro-Enterprise Sector Assessment: Institutional Analysis." Peter H. Fraser, Arelis Gomez Alfonso, Miguel A. Rivarola, Donald A. Swanson, and Fernando Cruz-Villalba. GEMINI Technical Report No. 11. March 1991. $25.00

12. "Ecuador Micro-Enterprise Sector Assessment: Key Characteristics of the Micro-Enterprise Sector." John H. Magill, Robert Blaney, Joseph F. Burke, Rae Blumberg, and Jennifer Santer. GEMINI Technical Report No. 12. March 1991. $19.60

13. "A Monitoring and Evaluation System for Peace Corps' Small Business Development Program." David M. Callihan. GEMINI Technical Report No. 13. [not available for general circulation]

14. "Small-Scale Enterprises in Lesotho: Summary of a Country-Wide Survey." Yacob Fisseha. GEMINI Technical Report No. 14. February 1991. $6.40

*15. "An Evaluation of the Institutional Aspects of Financial Institutions Development Project, Phase I in Indonesia." John F. Gadway, Tantri M. H. Gadway, and Jacob Sardi. GEMINI Technical Report No. 15. March 1991. $8.80

*16. "Small-Scale Enterprises in Mamelodi and Kwazakhele Townships, South Africa: Survey Findings." Carl Liedholm and Michael A. McPherson. GEMINI Technical Report No. 16. March 1991. $4.60

17. "Growth and Change in Malawi's Small and Medium Enterprise Sector." Michael A. McPherson. GEMINI Technical Report No. 17. June 1991. $2.20

18. "Burkina Faso Microenterprise Sector Assessment and Strategy." William Grant, Matthew Gamser, Jim Herne, Karen McKay, Abdoulaye Sow, and Sibry Jean-Marie Tapsoba. GEMINI Technical Report No. 18. August 1991. Volume One, Main Report, $7.60; Volume Two, Annexes, $14.20

*19. "Women in the BPD and Unit Desa Financial Services Programs: Lessons from Two Impact Studies in Indonesia." Sharon L. Holt. GEMINI Technical Report No. 19. September 1991. $3.80

20. "Mali Microenterprise Sector Assessment and Strategy." William Grant, Kim Aldridge, James Bell, Ann Duval, Maria Keita, and Steve Haggblade. GEMINI Technical Report No. 20. October 1991. Volume One, Main Report, $6.70; Volume Two, Annexes, $13.00

21. "A Microenterprise Sector Assessment and Development Strategy for A.I.D. in Zambia." Eric L. Hyman, Robert Strauss, and Richard Crayne. GEMINI Technical Report No. 21. November 1991. $10.00

22. "Bangladesh: Women's Enterprise Development Project Paper." GEMINI Technical Report No. 22. August 1991. [not for general circulation]

23. "Peru: Small Business and Employment Expansion Project Paper." GEMINI Technical Report No. 23. November 1991. [not for general circulation]

24. "A Country-wide Study of Small-Scale Enterprises in Swaziland." Yacob Fisseha and Michael A. McPherson. GEMINI Technical Report No. 24. December 1991. $5.40

*25. "Micro and Small-Scale Enterprises in Zimbabwe: Results of a Country-wide Survey." Michael A. McPherson. GEMINI Technical Report No. 25. December 1991. $5.00

26. "The Development Impact of Financing the Smallest Enterprises in Indonesia." GEMINI Technical Report No. 26. January 1992. [not for general circulation]

27. "Midterm Evaluation of the ASEPADE Component of the Small Business II Project, Honduras." Arelis Gomez Alfonso, Wesley Boles, and Donald L. Richardson. GEMINI Technical Report No. 27. February 1992. $5.80. Also available in Spanish.

28. "Midterm Evaluation of the ANDI/PYME Component of the Small Business II Project, Honduras." Arelis Gomez Alfonso, Wesley Boles, and Donald L. Richardson. GEMINI Technical Report No. 28. February 1992. $6.60. Also available in Spanish.

29. "The Role of Financial Institutions in the Promotion of Micro and Small Enterprises in Burkina Faso." John McKenzie. GEMINI Technical Report No. 29. February 1992. $10.40

30. "Small and Micro Enterprise Development Project No. 262-0212, Egypt. Midterm Evaluation." Katherine Stearns. GEMINI Technical Report No. 30. March 1992. $7.60

31. "A Review of the Prospects for Rural Financial Development in Bolivia." James J. Boomgard, James Kern, Calvin Miller, and Richard H. Patten. GEMINI Technical Report No. 31. March 1992. $4.60

32. "The Role of Private Sector Advocacy Groups in the Sahel." William Grant. GEMINI Technical Report No. 32. March 1992. $2.40

*33. "Access to Credit for Poor Women: A Scale-up Study of Projects Carried Out by Freedom from Hunger in Mali and Ghana." Jeffrey Ashe, Madeline Hirschland, Jill Burnett, Kathleen Stack, Marcy Eiland, and Mark Gizzi. GEMINI Technical Report No. 33. March 1992. $11.80

*34. "Egyptian Women and Microenterprise: the Invisible Entrepreneurs." C. Jean Weidemann. GEMINI Technical Report No. 34. March 1992. $11.20

*35. "A Pre-Project Identification Document Analysis of the Lesotho Agricultural Enterprise Initiatives Project." Mike Bess, Don Henry, Donald Mead, and Eugene Miller. GEMINI Technical Report No. 35. April 1992. $20.00

36. "Apex Study of the Small Enterprise Development Program of Catholic Relief Services, Senegal." Arelis Gomez Alfonso. GEMINI Technical Report No. 36. May 1992. $3.00

37. "The Private Operators' Perspective on an Agenda for Action," Dakar, Senegal, November 22-25, 1991. A Seminar on the Private Sector in West Africa. Organized by the Senegalese National Employers'

Union (CNP), the Club du Sahel, CILSS and USAID. GEMINI Technical Report No. 37. May 1992. $7.00

38. "Background Documents to the Seminar on the Private Sector in West Africa," Dakar, Senegal. November 22-25, 1991. GEMINI Technical Report No. 38. May 1992. $5.00

39. "Apex Study of the Small Enterprise Development Program of Catholic Relief Services, Thailand." Arelis Gomez Alfonso. GEMINI Technical Report No. 39. May 1992. $3.20

40. "Study of Informal Cross-border Trade, Poland." SMG-KRC/Poland. GEMINI Technical Report No. 40. May 1992. $3.20

41. "Study of the Informal Commercial Sector, Poland." SMG/KRC Poland. GEMINI Technical Report No. 41. May 1992. $4.20

42. "Evaluation of the Micro and Small Enterprise Development Project (MSED) in Bolivia." William Fisher, Jeffrey Poyo, and Ann Beasley. GEMINI Technical Report No. 42. June 1992. $10.60. Also available in Spanish.

43. "Analysis of Funding Mechanisms for the Small and Micro Enterprise Development Project, Egypt." Kenneth J. Angell and John M. Porges. GEMINI Technical Report No. 43. June 1992. $3.80

44. "Get Ahead Foundation Credit Programs in South Africa: The Effects of Loans on Client Enterprises." Jennefer Sebstad. GEMINI Technical Report No. 44. June 1992. $3.00

45. "Get Ahead Foundation in South Africa: Final Evaluation." Robert Christen, Elisabeth Rhyne, Doug Salloum, and Jennefer Sebstad. GEMINI Technical Report No. 45. June 1992. [not for general circulation]

46. "Micro- and Small-Scale Enterprises in Botswana: Results of a Nationwide Survey." Lisa Daniels and Yacob Fisseha. GEMINI Technical Report No. 46. August 1992. $9.40

*47. "The Growth and Dynamics of Women Entrepreneurs in Southern Africa." Jeanne Downing and Lisa Daniels. GEMINI Technical Report No. 47. August 1992. $3.10

48. "Small Business Development Programming Trip: Peace Corps/Albania and the Office of Training and Program Support, Small Business Development Sector." Lauren Spurrier and Wesley Weidemann. GEMINI Technical Report No. 48. October 1992. $6.00

49a. "Small Enterprise Development in the Russian Far East." Martha Blaxall, Yasuo Konishi, Virginia Lambert, Jennifer Santer, and Timothy Smith. GEMINI Technical Report No. 49a. October 1992. $12.00

49b. "Supporting Private Enterprises in Uzbekistan: Challenges and Opportunities." Nan Borton, John Magill, Neal Nathanson, and Jim Packard Winkler. GEMINI Technical Report No. 49b. November 1992. $5.60

49c. "Assessing the Prospects for Small Enterprise Development in Kazakhstan." Kenneth Angell, James J. Boomgard, Mohini Malhotra, and Robert A. Rodriguez. GEMINI Technical Report No. 49c. December 1992. $3.90

49d. "Small Enterprise Development in Ukraine." Dennis De Santis, Jean Gilson, Max Goldensohn, Jennifer Santer, and Timothy Smith. GEMINI Technical Report No. 49d. December 1992. $8.10

*50. "Skins and Hides in Four Countries in Africa: The Potential Role for Micro- and Small-Scale Enterprise Development." William Grant. GEMINI Technical Report No. 50. November 1992. $3.00. Also available in French.

51a. "Morocco: Assessment of Programming Options for Microenterprise Development." Housni El Ghazi, Sheila Reines, Steve Silcox, Katherine Stearns, and Matthew Gamser. GEMINI Technical Report No. 51a. November 1992. [not for general circulation]

51b. "USAID/Morocco: Assessment of Programming Options for Microenterprise Development. Report on Workshop and Field Investigations." Matt Gamser, Housni El Ghazi, Sheila Reines, Steve Silcox, and Katherine Stearns. GEMINI Technical Report No. 51b. December 1992. Also in French. [not for general circulation]

52. "Small Enterprise Development in Armenia: Programming Recommendations for Peace Corps Volunteers." Timothy J. Smith. GEMINI Technical Report No. 52. July 1992. $2.20

53. "Results of a Nationwide Survey on Micro, Small, and Medium Enterprises in Malawi." Lisa Daniels and Austin Ngwira. GEMINI Technical Report No. 53. January 1993. $11.80

*54a. "A Review of Donor-Funded Projects in Support of Micro- and Small-Scale Enterprises in West Africa." William Grant. GEMINI Technical Report No. 54a. February 1993. $18.80

*54b. "A Review of Donor-Funded Projects in Support of Micro- and Small-Scale Enterprises in West Africa: Case Studies." William Grant. GEMINI Technical Report No. 54b. March 1993. $15.60

55. "Business Linkages and Enterprise Development in Zimbabwe." Donald C. Mead and Peter Kunjeku. GEMINI Technical Report No. 55. April 1993. $3.40

56. "End of Project Evaluation, Enterprise Development Project, Bangladesh." Mohini Malhotra, John Magill, and James Packard-Winkler, with the assistance of M.M. Nurul Haque. GEMINI Technical Report No. 56. April 1993. $19.20

57. "Small Business Development Support Project in South Africa: Concept Paper." Richard Betz, Ian Clark, Matthew Gamser, Juneas Lekgetha, Jacob Levitsky, Neal Nathanson, Sango Ntsaluba, and Barney Tsita. GEMINI Technical Report No. 57. June 1993. [not for general circulation]

58. "Attitudes and Practices of Credit Union Members and Non-Members in Malawi and Grenada: Synthesis Report." John Magill. GEMINI Technical Report No. 58. November 1993. $5.00

59. "Midterm Evaluation of the Microenterprise Development Project in Jamaica." Surendra K. Gupta and Mario D. Davalos, with assistance from Marcia Hextall. GEMINI Technical Report No. 59. September 1993. $13.80

60. "Investing in the Future: Report of the Task Force for Small and Medium Enterprise in Poland." GEMINI Technical Report No. 60. May 1993. $13.00

61. "New Competitiveness and New Enterprises in Peru: Small Businesses in an Internationalized Economy." Fidel Castro Zambrano and Ernesto Kritz. GEMINI Technical Report No. 61. August 1993. $11.80. Also available in Spanish ($13.20).

62. "Principles for Effective Design and Management of Small Business Development Centers." Jennifer Santer, Neal Nathanson, Steve Thalheimer, and Anita Campion. GEMINI Technical Report No. 62. October 1993. $13.60

63. "Mongolia: Options and Strategies for Small- and Medium-Scale Enterprise Development." John Magill, Clara Lipson, and Michael McKone. GEMINI Technical Report No. 63. November 1993. [not for general circulation]

64. "Credit Unions and Microenterprises: The WOCCU Perspective." World Council of Credit Unions. GEMINI Technical Report No. 64. December 1993. $4.00

65. "Strategic Option Paper for Malawi Small Enterprise Support Institutions." Stephen C. Silcox, Anicca Jansen, and Mark Baughan. GEMINI Technical Report No. 65. January 1994. $9.20

66. "Integration of Gender into GEMINI." Catherine R. Neill and Olaf Kula. GEMINI Technical Report No. 66. January 1994. $9.80

67. "A Training Program for Microenterprise Lending Agencies in Jamaica." Mohini Malhotra, with assistance from David Logan and Valerie Tate. GEMINI Technical Report No. 67. January 1994. $3.60

68. "Study of the Financial Sector and SME Development in Poland." Bruce Heatly, Cynthia Lynn Chrzan-Lanigan, and Cathy Silverstein. GEMINI Technical Report No. 68. February 1994. Volume One: Main Report $5.00; Volume Two: Appendices $25.20

69. "Private Sector Business Associations in South Africa and Zambia: Advocacy for SMEs." Kenneth Angell. GEMINI Technical Report No. 69. March 1994. $4.80

70. "A Dynamic Study of Jamaican Micro- and Small-Scale Enterprises." Yacob Fisseha. GEMINI Technical Report No. 70. March 1994. $3.40

71. "Changes in the Small-scale Enterprise Sector from 1991 to 1993: Results of a Second Nationwide Survey in Zimbabwe." Lisa Daniels. GEMINI Technical Report No. 71. March 1994. $11.80

72. "The Contribution of Small Enterprises to Employment Growth in Southern Africa." Donald C. Mead. GEMINI Technical Report No. 72. March 1994. $2.80

73. "Small Enterprise Development in Poland: Does Gender Matter?" C. Jean Weidemann and Carol Finnegan. GEMINI Technical Report No. 73. March 1994. $6.80

74. "Slovakia Small Business Assessment." Tony Barclay and Bruce Heatly. GEMINI Technical Report No. 74. March 1994. $6.60

75. "Micro- and Small-Scale Enterprises in Kenya: Results of the 1993 National Baseline Survey." Joan C. Parker with Tanya R. Torres. GEMINI Technical Report No. 75. March 1994. $12.00

76. "Measuring Socioeconomic Impact of Credit on SMI: Assessment of the Monitoring System Used by the Alexandria Businessmen's Association, Egypt." Linda Oldham and others. GEMINI Technical Report No. 76. May 1994. $12.20

77. "The Kenya Rural Enterprise Programme under Cooperative Agreement No. AID-615-0238-A-00-7026-00: A Final Evaluation." Catherine Neill, Mario Davalos, Washington Kiiru, M. Manundu, and Jennefer Sebstad. GEMINI Technical Report No. 77. September 1994. $17.60

78. "Summary Report on the Polish Delegation's Tour of Small Business Assistance Organizations in the United States." Adam P. Saffer. GEMINI Technical Report No. 78. September 1994. $5.00

79. "Mongolian Chamber of Commerce and Industry Study Tour: U.S. Business Associations and Services." Tom Gray. GEMINI Technical Report No. 79. September 1994. $4.60

80. "Morocco Microenterprise Finance Concept Paper." Jim Kern, Emile Salou; Housni El Ghazi, and Matthew Gamser. GEMINI Technical Report No. 80. March 1995. $8.00. [not for general distribution]

*81. "The USAID Microenterprise Initiative in Sri Lanka." David A. Lucock, Wesley J. Weidemann, J. Charitha Ratwatte, and Mahinda Gunasekera. GEMINI Technical Report No. 81. April 1995. $9.60

*82. "Stimulating the Growth and Development of Small and Medium Size Enterprises through Financial Sector Policy Reform." Malcolm Toland, Adam P. Saffer, and Bruce Heatly. GEMINI Technical Report No. 82. March 1995. $10.20

83. "Review of the Covelo Foundation in Honduras and the Organizations it Supports." Robin Bell and Bruce Heatley. GEMINI Technical Report No. 83. March 1995. $7.60

Technical Notes:

Financial Assistance to Microenterprise Section:

*1. Series Notebook: "Tools for Microenterprise Programs" (a three-ring binder, 1 and 1/2 inches in diameter, for organizing technical notes and training materials) and "Methods for Managing Delinquency" by Katherine Stearns. April 1991. $7.50. Also available in Spanish and in French.

*2. "Interest Rates and Self-Sufficiency." Katherine Stearns. December 1991. $6.50. Also available in Spanish and in French.

*3. "Financial Services for Women." C. Jean Weidemann. March 1992. $5.00. Also available in Spanish and in French.

*4. "Designing for Financial Viability of Microenterprise Programs." Charles Waterfield. March 1993. $10.00 with diskette. Also available in Spanish and in French.

*5. "Monetary Incentive Schemes for Staff." Katherine Stearns, ACCION International. April 1993. $3.80. Also available in Spanish and in French.

*6. "Fundamentals of Accounting for Microcredit Programs." Margaret Bartel, Michael J. McCord, and Robin R. Bell. December 1994. $6.30

*7. "Financial Management Ratios I: Analyzing Profitability in Microcredit Programs." Margaret Bartel, Michael J. McCord, and Robin R. Bell. February 1995. $5.90

*8. "Financial Management Ratios II: Analyzing for Quality and Soundness in Microcredit Programs." Robin R. Bell. February 1995. $6.30

71

Nonfinancial Assistance to Microenterprise Section:

*1. "A Field Manual for Subsector Practitioners." Steven J. Haggblade and Matthew Gamser. November 1991. $4.65. Also available in Spanish and in French.

*2. "Facilitator's Guide for Training in Subsector Analysis." Marshall A. Bear, Cathy Gibbons, Steven J. Haggblade, and Nick Ritchie. December 1992. $35.00. Also available in Spanish and in French.

*3. "Management Information Systems for Microenterprise Development Programs." Mark King and Charles Waterfield. January 1995. $6.50.

Field Research Section:

*1. "A Manual for Conducting Baseline Surveys of Micro- and Small-scale Enterprises." Michael A. McPherson and Joan C. Parker. February 1993. $13.60. Also available in Spanish and in French.

Special Publications:

*1. "GEMINI in a Nutshell: Abstracts of Selected Publications." Compiled by Eugenia Carey and Michael McCord. Special Publication No. 1. 1993. $10.00

*2. "GEMINI in a Nutshell II: Abstracts of Selected Publications." Compiled by Eugenia Carey and Linda Rotblatt. Special Publication No. 2. 1995. $14.60

Copies of publications available for circulation can be obtained from PACT Publications, 777 United Nations Plaza, Sixth Floor, New York, NY 10017, U.S.A.

7/95

72