

CREEME PROGRAM EVALUATION SUMMARY VERSION

ABBREVIATIONS

AM	Auxilio Mundial – World Relief
A.C.	Activo Circulante - Assets
BCIE	Banco Centroamericano de Integración Económica – Central American Bank for Economic Integration
CCC	Comité de Crédito Comunal – Community Credit Council
CREEME	Programa de Crecimiento Económico Microempresarial – Micro Entrepreneurial Economic Growth Program
CGAP	Grupo Consultivo Ayuda a la Población más Pobre – Consultation Group for Assistance to the Poorer Population
C.O.	Costos Operativos – Operational Expenses
COLCAMI	Consortio Latinoamericano para Capacitación en Microfinanciamiento – Latin American Consortium for Microcredit Training
DFID	Department for International Development
ERP	Estrategia de Reducción de la Pobreza – Poverty Reduction Strategy
IDH	Instituto Para el Desarrollo Hondureño – Institute for Honduran Development
INHDEI	Instituto Hondureño de Estudios y Desarrollo Integral de la Comunidad – Honduran Institute for Community Studies and Integral Development
MYPE	Micro y Pequeña Empresa – Micro and Small Enterprise
REMAM	Proyecto de Reactivación Económica para Microempresarios Afectados por el Huracán Mitch. – Economic Reactivation for Microentrepreneurs Affected by Hurricane Mitch
ODEF	Organización de Desarrollo Empresarial Femenino – Female Entrepreneurial Development Organization
OPDFs	Organizaciones Privadas de Desarrollo Financieras – Private Organizations for Financial Development
PEA	Población Económicamente Activa – Economically Active Population
PNUD	Programa de las Naciones Unidas para el Desarrollo – United Nations Development Program
WR	World Relief – Ayuda Mundial
WWB	Banco Mundial de la Mujer - Women World Bank
USA	Estados Unidos de América. – United States of America

EXECUTIVE SUMMARY

This document contains the CREEME (Microentrepreneurial Economic Growth) Program Evaluation, executed by CARE Honduras, with an initial amount of US\$725,000.00, financed by DFID from the UK, CARE, Rotary Club and, US\$95,550.00, donated by the Central American Bank for Economic Integration (BCIE in Spanish), to develop a training process on administrative matters.

The Program emerged in February 1999, as a project called REMAM, with the purpose of reactivating within an eight-month period (Post-Mitch period), some 3,000 Microentrepreneurs households (15,000 individuals) from 6 departments in Honduras. In February 2000, REMAM turned into a Honduras Mission Program, with the name of CREEME, having as its purpose, increase

the capability of generating enough income, to meet basic needs of Microentrepreneurs households it serves and maintain or increase a savings funds, with will let them get the goods needed to stabilize household economies.

Evaluation took place over a four-month period, from October 3, 2001 and the methodology used included recollection techniques for qualitative and quantitative information. Within this frame, 10% of the active clients of the Program were interviewed and surveyed as son were the representatives from the most important microfinancing organizations in the national market. Besides, representatives from government institutions linked with the country's financial system were also interviewed.

Among the main achievements of the Program during the period evaluated, we can mention the generation of opportunities for the target population, affected by Hurricane Mitch, to reactive their businesses and the generation of employments, reaching the conclusion that REMAM-CREEME was efficient in delivering microcredit under disaster conditions.

The Program has also caused important positive modifications in the clients' income and profits, therefore, it is contributing to improve their quality of life. In comparative terms with the monthly income average a the national level it is seen that the Program's clients houses located at the mature cycles, surpass the averages reported on the UNDP Human Development Report, Honduras 2000, which indicated that average income for men at that time was L.3,483.00.

The Program was not self-sufficient due to the policy of subsidies implemented during the Post-Mitch era and having maintained it current for long time, its high operating costs, geographical refocus which originated the extrication of its clients from the North Coast, high personnel rotation and the implementation of a conservative credit policy.

From the financial point of view, for the Program to be self-sufficient, it ought to implement expenses rationale measures to enter into other credit modes and increase its portfolio.

Approval in February 2001, of the Law regulating OPDFs raises for CARE Honduras, the need for deciding whether CREEME will adapt to this legal ruling.

I METHODOLOGY

Evaluation took place in a four-month period starting from October 3, 2001 and the methodology used included qualitative and quantitative information gathering techniques. Main activities performed were as follows:

a) Reviewing the Program and the Mission's regulating frame, reports, proposals and records. In this context special emphasis was given to its credit policy, process conceptualization, to the document of the Project of Reactivation for Microentrepreneurs affected by Hurricane Mitch, to the Law Regulating the Private Organizations for Financial Development (OPDFs), quarterly reports for the Training and Technical Assistance component financed by BCIE for the Program Financial Reports.

b) Design and trial of tools needed to perform the evaluation. 15 tools were done for surveys, key informants interview guidelines and, case study guidelines. Chart 1, summarizes tools made and the number of people it was applied to¹

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Chart 1
CREEME Program

TOOLS APPLIED IN THE SURVEYING OF INFORMATION

Tool	No. people
Evaluation of Active Microentrepreneurs ²	163
Evaluation of Inactive Microentrepreneurs ³	22
Interview of Active CCC ⁴	5
Interview of Inactive CCC ⁵	2
Interview of Credit Program Officials	3
Interview of Program Supervisors	3
Interview of Senior Program Personnel	2
Interview of CARE Honduras Senior Personnel	1
Interview the person Responsible for World Relief in the North	1
Interview of World Relief Manager	1
Interview of Fundacion Covelo OPDFs Manager	1
Interview Other OPDFs	1
Interview the Representative from the Banking and Insurance Commission	1
Interview Successful Program Microentrepreneurs	1
Interview Unsuccessful Program Microentrepreneurs	1
Total	209

- c) The sample for active Microentrepreneurs was selected (10%) and cross-passed for the interviews.
- d) Surveying of information in the Center, South and North of the country.
- e) Data processing and analysis, using selected indicators.
- f) The first document was drafted using the information processed.
- g) The Consultant's Report was submitted for discussion at CARE authorities and Program level and a series of comments made that were presented to the Consultant.
- h) Based on the abovementioned comments, the Consultant then proceeded to make the necessary adjustments and submitted the definitive document to the Project Manager.

² An active microentrepreneur is the individual that, at the time of the evaluation, was part of a group with an standing loan with the Program.

³ An inactive microentrepreneur is the individual that, at some point, was part of a group that was a Program client, both who, at the moment of the evaluation, was not.

⁴ Active CCC, are the groups which at the moment of the valuation had standing loans with the Program

⁵ Inactive CCC, are the groups which at some point were granted loans by the Program, but that when the evaluation took place, did not have standing loans with the Program.

II PROGRAM DESCRIPTION

This chapter describes the Program's origin and performance, its organization and patrimony and the characteristics of its target population.

2.1 Origin and Performance

The Program started in February 1999 with the name REMAM (Economic Reactivation Program for Microentrepreneurs Affected by Hurricane Mitch Project). Its purpose was to reactive between February and September of that year (Post Mitch period), some 3000 Microentrepreneurs' households (15,000 people) from 6 departments of Honduras (Choluteca, Francisco Morazán, Valle, Comayagua, Yoro and, Cortes), located in the Northern, Center and Southern regions), that live in urban and peri-urban areas and that were affected by Hurricane Mitch.

In September 2000, REMAM started a new phase, adopting the name of CREEME Program (Microentrepreneurial Economic Growth), always with the same organization, credit and training components used in the previous phase, defining as its central goal: increase the capability to generate enough income to meet households basic needs of the Microentrepreneurs served by the Program and, to maintain or increase a savings fund, that allow them to obtain necessary goods to stabilize household economy.

In October 2000, it refocused its efforts from the geographical point of view, framing it within the Mission programmatic priorities, deciding on exiting the Northern region of the county and the focus on the Central and Southern regions. Currently, it is present in the departments of Francisco Morazán, Choluteca and, Valle.

2.2 Patrimony

As of October 2,001, CREEME had assets worth L.8,153.000.00, 81% being circulating assets and 19% fixed assets. Its liabilities amounted to L.594,000.00 and its patrimony to L.7,559.000.00.

From its circulating assets, L2,562.000.00 (39%) were invested and L.3,911.000.00 (59.6%), were the Program's credit portfolio. From this, 53.3% corresponded to the Central Region and 45.7% to the Southern Region.

2.3 General Characteristics of the Target Population

This section describes the economic activity they perform, household composition and house characteristics of the Microentrepreneurs served by CREEME.

As of October 2001, the Program was serving 1974 partners distributed in 139 Community Credit Committees; out of which 56.3% incorporated within the last four months (cycle 1) and 28.3% did it more than 20 months ago. (see chart 2)

Chart 2
CREEME Program

ACTIVE MICROENTREPRENEURS BY CYCLE AND REGION

October 2001

Cycle	Center	South	PARTNERS	
			No.	%
1	355	584	939	47.6
2	181	68	249	12.6
3	110	11	121	6.1
4	82	13	95	4.8
5	14	145	159	8.1
6	24	153	177	8.9
7	146	63	209	10.6
8	25	0	25	1.3
	937	1037	1974	

Source: REMAM – CREEME Program

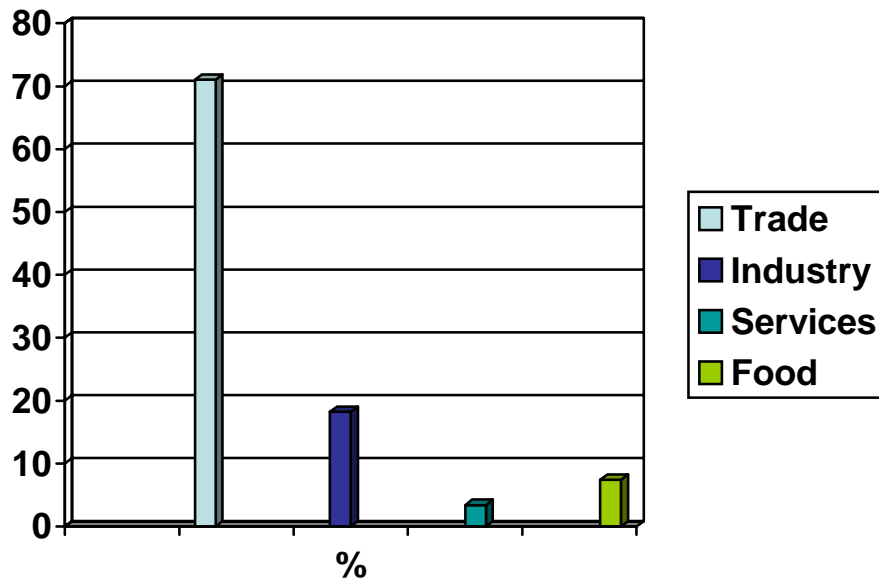
Graphic 1 shows the economic activity the Program clients perform, 71% work in trade, 18.2% in industry, 3.4% in services and, 7.4% sale food.

Graphic 1
CREEME Program

CLIENTS' ECONOMIC ACTIVITY

OCTOBER 2001

(%)



Source: CREEME Program

2.3.1 Household Composition

Chart 3 shows the main demographic features of the households of Microentrepreneurs served by the Program. According to this information, the average habitants per house is 5, a value 0.5 inferior to the national average⁶, 51.1% were women and 48.8% men, distribution similar to that for the national population.

Population under five years old, represents 15.4% of the total, 52.5% are women and 47.5% men. 33.6% are people between 6 and 17 years old and those above 18 years old represented 51% of the total. This represented a potential demand for the Program, since one of the requirements to be a CCC partner was being over 18 years old.⁷ 29.9% of the clients are at the same time female household heads.

Chart 3
CREEME Program

HOUSEHOLD DEMOGRAPHIC COMPOSITION
FOR ACTIVE MICROENTREPRENEURS

October 2001

Description	%
Average habitants per home	5.0
Men	48.9
Women	51.1
Female Household Head	29.9
Women under 5 years old	52.5
Men under 5 years old	47.5
Persons under 5 years old	15.4
Women 6 to 17 years old	46.4
Men 6 to 17 years old	53.6
Persons 6 to 17 years old	33.6
Women 18 years old and over	55.3
Men 18 years old and over	44.7
Persons 18 years old and over	51.0

Source: Based on survey done with Program active Microentrepreneurs.

Chart 4 shows the level of schooling and literacy of the population that lives at the Program clients' households.

⁶ UNDP. Human Development Report, Honduras, 2000.

⁷ Ibid.

Chart 4
CREEME Program

LITERACY AND SCHOOLING AT THE CLIENTS' HOUSEHOLDS

Description	%
Know How to Read and Write (over 15 years old)	89.8
Average Schooling (years)	4.0

Source: Based on surveys done with Program active Microentrepreneurs.

89.8% of the population over 15 years old know how to read and write, representing an importance strength, since this population stratum, constitutes the Microentrepreneurs labor force. That places them above the national literacy average projected for the 2001, that amounts to 73.4%, though their average schooling is 4 years, that is 0.8 years less than the national average.⁸

2.3.2 Household Characteristics

Chart 5 shows the main features for the homes where the partners of the Program live.

Chart 5
CREEME Program

ACTIVE MICROENTREPRENEURS' HOME CHARACTERISTICS

September 2001
(%)

Description	%
Houses NO owned by them	20.2
Dirt floor Houses	10.1
Houses with Walls NOT made out of Block/Brick	43.5
Houses with ceiling NOT Lamin/Zinc/Asbestos/Terraza/Concrete	36.9
Houses with toilet	7.1
Houses with Simple Latrine	56.6
Houses without Electricity	13.1
Houses that DO NOT have their own water faucet	28.6
Microentrepreneurs that in Case of Illness go to a Health Center, Public Hospitals or Naturalist Doctor	76.2
Heaping	71.4

Source: Based on the survey with Program active Microentrepreneurs.

20.2% of microentrepreneurs do not own the house they live in. This shows a level higher in 6.2% to the national average, which indicates that 14% of the population lives in rented houses⁹. 71.4% of the clients live in heaping conditions, since more two people sleep in each room, with the corresponding consequences for the mental and physical health of their families, showing the level of poverty in which the Microentrepreneurs served by the Program live. 43.5% of households have walls made out of adobe, bahareque, sawn wood, second hand boards and sticks, above the national average, which is of 15%¹⁰. On the other hand, 10.1% have dirt and wooden floors and 36.9% have manaca /straw, wood or mud tile ceiling. Thus, ratifying the marginalization of Program clients.

⁸ UNDP. Human Development Report, Honduras, 2000.

⁹ UNDP. Human Development Report, Honduras, 2000. Pp 185.

¹⁰ Ibid.

As for access to basic services, 13.1% of households do not have electricity, a more favorable level than the national average, whereas 34.2% of the population do not have that service¹¹. This fact is because a large part of Program partners live in urban zones, this being a sector, which, by comparison, has a more coverage than the rural region.

7.1% of clients, do not have toilets. Among those who have them, 56.5% use simple latrines and 11.32% use hydraulic closure latrines. This indicators have lower than the national average, since 46.6% of the population have toilets¹². 28.6% clients do not have their own faucets at home, having to get water from public tanks, wells or by buying water from cistern cars, which regularly visit their communities. This besides having great impact on their economies, because of manipulation, presents potability problems and possibly, is a constant source of gastrointestinal diseases among the Program target population. It once again shows that CREEME partners live in disadvantage regarding the national population average.

76.2% of clients go to health centers, public hospitals or to naturalist doctors. This is an indicator of their economic limitations for accessing private health services.

III PROGRAM RELEVANCE

This chapter considers the relevance of the CREEME Program objectives vis a vis problems to be resolved and the physical/political environment in which it has functioned.

The Program is relevant in terms of the Honduran policies, the microfinance market and the strategies defined by the Mission.

Problems faced by each one of the stages are contemplated in the chapter describing the Program.

3.1 REMAM Stage

The Project problems and objectives were highly relevant for the improvement of life conditions of the Microentrepreneurs during the post-Mitch era, since 6% of those were affected by this hurricane. In the urban sector the level of affectation was 6%, very similar to the (7%) for those in the rural area. In 60% of the cases, the hurricane caused them losses in inventories and goods, 31% lost real state, 19% machinery (and equipment) and, 8% in other aspects.¹³

3.2 CREEME Stage

It is considered that for the year 2000 there were 257,422 micro and small businesses in the country and out of these, only 20% were served with financing¹⁴, the problem the Program intended to serve

¹¹ Ibid.

¹² Ibid.

¹³ Cid Gallup. "Survey on the Non-Agricultural Micro and Small Enterprise in Honduras MYPES 2000" pp 16. The percentages amount exceeds 100%, since there are microentrepreneurs that were affected in more than one of the exposed concepts.

¹⁴ Ibid. pp11

is relevant to the situation of the Microentrepreneurs, since within this context the urgency to provide them with credit support and gaining technical and administrative knowledge is clear, for them to improve their productivity. In this same regard is congruent with the policy defined by the government of Honduras, since the programmatic framework, presented in the Poverty Reduction Strategy (PRS), ruling the country for a minimum term of 15 years, presents as one of the lines for strengthening governance and economic growth, the support of micro, small and midsize enterprise growth and competitiveness, as a strong source to generate employment and income for poor households at the urban areas¹⁵.

CREEME target proposes the increase of the ability to generate enough income to meet basic needs of 5600 households, small rural and peri-urban producers and to maintain or increase a savings fund which will allow them getting the necessary goods to stabilize their family income.¹⁶ Considering that these economic agents, traditionally do not have the opportunity to have the means the Program intends to provide them, this is considered relevant, in terms of improving live conditions for the Microentrepreneurs households and to promote the creation of a financial capital and own self gestation that will stabilize their economy by allowing them at a certain point to work independently.

The emphasis placed by the Program regarding most of its beneficiaries being females, is also perceived as a relevant policy within the national context, since this has been a sector to the population traditionally marginalized. It is estimated that male household heads have average income 4.6% higher when related to the female household head, which would be linked with a higher poverty percentage among the latter (58% versus (66%). At the same time, when the household with children is ran by a woman, the tendency toward poverty is slightly higher than when ran by a man (57% versus (54%).¹⁷ This is an example of great differences between men and women in our country. On the other hand, this emphasis is also relevant in the CARE policy framework.

Since Financial Development Private Organizations (OPDFs) will be regulated starting February 2003, CARE will have to decide whether its microfinancial operations will be regulated or not. If regulation is decided, it will have to transform the Program into an independent microfinancial entity.

IV EFFICIENCY IN ACHIEVING RESULTS

This chapter evaluates the how efficiently were the Program **resources** used to perform **activities**, and the degree of the contribution from the activities to the achievement of **expected results**, regarding Objectively Verifiable Indicators. In other words, “¿Were things done correctly?”.

As explained in Section 3.3 (REMAM-CREEME Preparation and Design), the Program only formulated indicators for the first stage, and continued working on these indicators, that will be used to appraise its efficiency, to the extent to which they are valid and other indicators will be added that are generally accepted in the microfinance world.

¹⁵ Government of Honduras. “Estrategia Para La Reducción de la Pobreza” pp 76. April, 2001.

¹⁶ CREEME. Logframe.

¹⁷ Government of Honduras. “Estrategia Para la Reducción de la Pobreza”. Pp 11. November 2000.

4.1 Financial Performance

This chapter presents a vision of Program's financial performance tendency, from its starts in the year 1999 up to October 2001.

The analysis was based on the tendency shown by the CREEME financial statements (general balance and results) and by the Program's financial performance indicators, in contrast with a group of indicators and parameters, used in the microfinance industry, both at the national and international level (bench marking)¹⁸, grouped in the following categories:¹⁹

- a) Loans portfolio
- b) Capital Capacity
- c) Quality of assets
- d) Management
- e) Profitability
- f) Net Profit

4.1 .1 Loan Portfolio

To October 2001, loan portfolio amounted to \$244 thousands, representing 1.4% of the portfolio managed by the Fundación Covelo network,²⁰ which suggests a reduced impact in the microfinancial market. Its increase during the 1999-2000 period was of 1.0% and decreased in 29%, since the year 2000 to date.

This is the results of the geographical refocusing of the Mission, with the purpose of concentrating microcredit services in the neediest areas, which originated the transfer to World Relief of 70 CCC located in the North Coast. Besides applying a credit policy, based in the Communal Banks methodology, that though responds to the objective of servicing the poorest Microentrepreneurs, represents a bigger effort in terms of costs for the Program, and a considerable investment of time by the field staff to provide follow-up.

It has limited the offer of options in the term, amount and guarantees, which is evident when observing the average size of loans granted to Microentrepreneurs during the period analyzed, \$118 in 1999, \$123 for 2000 and \$ 124 for 2001.

It is quite probable that when implementing Individual Loan and Solidary Group modalities, given the advantages their offer (bigger amounts, fewer follow up and management costs), the portfolio and the number of clients will be tend to increase.

¹⁸Bench Marking. Indicators used in the microfinancies industry to evaluate financial performance of the organizations.

¹⁹ For the first case, the Managerial Guideline was considered: Evaluation Key Indicators for Development Private Organizations of Honduras, of Fundación José María Covelo, as leader organization of the financial development private organizations network in the country and, for the second case, for example, those of Banco Sol of Bolivia and Women World Bank, incorporated in the document: Principios, Experiencias y Mejores Prácticas para Programas de Microfinanciamiento del Consorcio Latinoamericano para Capacitación en Microfinanciamiento (COLCAMI), issued on September 2001.

²⁰ It includes Finca, Auxilio Mundial, HOPE, IDH, ODEF, IHNDEI and the fundación Covelo itself, considered as the biggest in the country.

The exit of 4.6% of Microentrepreneurs and 6.7% of CCS existing by 2002 were caused by desertion problems of the operational and managerial staff, due to various causes, among them the change in the salary policy caused by the need to adapt to the conditions of one of the donors²¹ and the application of an incentives policy originally perceived by field staff as negative,.

To October 2001, the Programa had 139 CCC, that is 6.7% less than the ones existing the previous year, Microentrepreneurs served were 1974 and they have decreased in relation to the previous year in 29%, though the average of clients by group have improved slightly in 0.2%, which indicates the effort made by Credit Officers to avoid the flight of Microentrepreneurs forming organized groups.

Besides, during the period 1999-2001 the problems faced by CREEME resulted in the average of clients per Credit Officer to have a tendency to decrease, reaching a level of 204 Microentrepreneurs in the first year, 300 Microentrepreneurs and 17 CCC in the year 2000 and 219 Microentrepreneurs and 15 CCC in the last year.²²

4.1.2 Debt

Chart 6 shows the Program debt as of October 2001, per seniority. CREEME total outstanding debt to that date amounted to L.121,098.00, that is 3% of the loans' portfolio. Affected Portfolio over 60 days, during the Program's life, has had a increasing tendency, going from 0.36% in 1999 to 1.04% in 2000 and to 3% in October 2001. Despite the fact that it complies with the bench marking indicator defined by Covelo, which says that it should not be over 10%,²³ it is evident that the Program is making little effort to recover loans from delinquent clients, meaning that it does not count with a policy for recovering outstanding debt. This becomes clear when observing that 97% of the affected portfolio is over 180 days past due.

Chart 6
CREEME Program
OUTSTANDING DEBT PER PERIOD TO OCTOBER 2001

Period (days)	Amount	
	Lps.	%
91-120	1,208.00	1.0
121-180	2,187.00	2.0
Over 180	117,703.00	97.0
Total	121,098.00	100.0

The small debt percentage growth in due to the decrease in the gross value of the portfolio during the period 2000-2001, caused by the moving of clients from the Northern Region and to high staff

²¹ At the start of the program, field staff was hired as permanent staff, with all the fringe benefits granted to CARE staff. In January 2000, the Program had to pay them their severance payment due to CABEL requirements, complying with the framework from a training project signed between both parties, hiring them as credit and training consultants with funds from this project, limiting their fringe benefits, with no right to severance payment, medical insurance, etc. In April 2001, when the CABEL project ended, they were hired once again as permanent staff of the Program, earning a monthly salary lower than the one earned with the project.

²² As an example, Banco Sol serves 416 and WWB 407 clients per Credit Officer.

²³ Though during the last year, it does not comply with those observed by more successful international microfinancial institutions, since Banco Sol reached 1.10% of outstanding debt and WWB 1.60%.

rotation in the Southern Region. In addition, the economic crisis the country is currently living, turns more fragile the clients economies: any family problem, e.g., health, reduces their payment capacity.

It is advisable that the Program defines a debt recovery policy. Follow-up of delinquent partners should be constant, so it will not go over 30 days; otherwise, it becomes harder to recover these funds. One action the Program should undertake to recover Debt over 180 days, is hiring legal services in charge of cleaning the affected portfolio.

4.1.3 Capital Capacity

The objective of the Indicators for Capital Capacity is to know the OPDFs capacity to protect their own resources from eventual financial difficulties.

The Program Patrimony capacity has been decreased during the 1999-2001 period, going from 100% during the first year, which is logic since it was its first year of operations, 89.6% in the year 2000 and 92.7% for 2001.

Despite the fact that the value for the last year complies with the parameter defined by Fundación Covelo, which should be higher than 20%, the tendency shows a detriment of the seed capital and still there are no excedents perceived.

The Program patrimony has had to redeem losses observed from its beginnings to date, to such a degree that in actual terms it has decreased 16%, therefore, if this tendency is continued, the ability of the Program to protect its assets tends to be lower with time.

During its first year of life, the Program did not have an entry line to cover possible debt losses. This is visualized through the analysis of the **Provision Capacity** indicator, estimated for the period under analysis. For the year 2000, the uncollectables provision was excessive since it represented the equivalent to 2,614.3% of the debt seen, which indicates that the debt historical tendency was not considered, consequently resources that could be lend were frozen. For the year 2001 this provision was adjusted to 165% of debt over 60 days.

This tendency shows that CREEME is currently complying with the parameter defined by Covelo, which suggests that the provision should be higher than 100% of the debt seen for a certain period. Nevertheless, it is advisable that its managerial level watches that this reserve does not become excessive.

4.1.4 Assets Quality

The objective of analyzing the quality of assets is to know the effective administration of the loans portfolio and the structure of the OPDSs income generating assets.

The Program's **Productive Capacity** was of 76.9% for 1999, for the second year it grew to 86.9% and during the last year it decreased to 79.4%, again observing that credit policy stiffness and staff rotation already mentioned in this chapter, did not allow reaching the bench marking indicator, recommended by Fundación Covelo, whereas the productive financial asset of a microfinance organization, should surpass 90% from its total assets.

CREEME's productive capacity has been strongly conditioned by its **Credit Service**, which went from 59.8% the first year to 52% in 2000 and 48% in 2001, with an accelerated decreasing tendency

and systematically distancing from the parameter defined by COVELO, that indicates that the portfolio for a Program of this type should be higher than 80% of its assets.²⁴

Insufficient allocation of funds implies the tendency to keep invested 35% and 31% of its liquid assets in the year 2000 and 2001, respectively. This is not an advisable practice for an organization such as CREEME, where lending money is its strategy that would also report additional income²⁵.

From the analysis of these indicators it can be concluded that both the loans portfolio and investments done, have not reach the level of productivity necessary for the growth and self-sustainability of the Program. On the contrary, when considering the expenses/income relationship, the tendency is to exhaust its patrimony. One example of this is the loss of \$131.1 thousands in 2001, as a consequence of operational expenses for \$256.5 thousands and income for \$125.4 thousands.

It is evident that the Program was not created to be profitable but to reactivate those microentrepreneurs affected by Hurricane Mitch under the modality, which granted subsidies and conditioned its financial performance. In fact, during the first year of CREEME, 36.7% of its expenses corresponded to donations within the context of agreements signed with donors made to Microentrepreneurs affected by Hurricane Mitch, strongly influencing in an expense – income relationship of 424%. That meant that during the first year of operations, for each dollar that came in the Program spent \$4.24.

4.1.5 Management

Management indicators let you know about the impact it causes on the Program clientele management, staff performance and, cost originated by the volume of the loans portfolio placed.

The Program Productivity, measured in terms of employees working during the period being analyzed, has shown a decreasing tendency. There were 136 active clients per employee for the first year; it decreased to 128 for the second year and it was 110 Microentrepreneurs per employee for the year 2001. Fundación Covelo indicates that the productivity of an OPDF should higher than 150 clients per employee; therefore, it can be concluded that CREEME has not been efficient in this indicator.

Factors causing this tendency have already been mentioned in the section Quality of the Assets, though we also have to consider that the relationship Credit Officers/Total Program employees, for the first year indicated that 67% of the employees corresponded to this category, for the second year it dropped to 43% and during the third year it increased to 50%. This situation primarily took place due to high rotation of field staff, motivated by the application of the incentives plan and the decrease in salaries, when the funds from the training project financed by the Central American Bank for Economic Integration were spent (CABEI).

Average Portfolio managed by the Program Credit Officer amounted to \$24.1 thousands during the first year, rose to \$38.2 thousands in the year 2000 and decreased to \$27.1 during 2001.²⁶

²⁴ For December 2001, this indicator showed a level of 52.8%.

²⁵ According to data from October 2001, provided by CREEME, annual program performance for investments, is 15% and for loans 30% over amounts.

²⁶ It is explained because at the moment of the analysis good portion of CCC were new, and several Credit Officers had been just recently hired.

To counteract that tendency, it is necessary to raise the number of clients and the existing Portfolio by Credit Officer, to reach higher levels. All of this has to be motivated by changes in the credit policy of the Program (raise amounts, broaden terms, introduce new credit modalities, etc.), a sustained supervision process, process speeding and hiring new Credit Officers to increase the portfolio. The credit portfolio amount that the Program should set as goal to cover its financial and operational costs is \$983.0 thousands.

Operational efficiency intends to know operational cost incurred by the organization during a certain period of time to manage each lempira of its asset.

During the period analyzed, the Program has not reached acceptable operational efficiency levels. This indicator for the first year was of 25%. For 2000 it was of 33.04% and, in 2001 it was of 43.8%. Banco Sol has an operational efficiency of 17.6% and WWB of 15.8%. On the other hand, Fundación Covelo says that for a microfinancial organization to be efficient in operational terms, its operational cost should be lowed than 15% of its average assets.

The above mentioned tendency shows that the Program has not been efficient in operational terms. This situation originated because initially the Program was not meant to be profitable²⁷, because of high rotation of field staff, geographical refocusing and, as a consequence, of Northern Region portfolio detachment²⁸, and by the increase in operational expenses, that went from \$142.1 thousands during the first year to \$261.7 thousands in the second, as a consequence to a large extent of the application of salary policies for Program employees, within the type of policy applied by the Mission to the staff working in Honduras.

It is expected that should the Program continue with the current income and operational costs tendency and considering that the circulating assets yield continues to be 30.5%, the Program will disappear by the year 2004. As shown in Chart 7 (tendency to the Closure of the Program), it would have a loss of \$223.5 thousands, that would partially cover with \$188.2 thousands of the balance from its circulating assets and the other part of the remaining deficit, would be covered with fixed assets, with a book value of (without including depreciation) of \$99.1 thousands.

Chart 7
CREEME Program

TENDENCY FOR CLOSURE

(thousands of dollars)*

Year	Circulating Assets	Income	Operational Cost	Loss
2002	410.4	125.2	256.5	131.1
2003	279.4	85.3	256.5	171.3
2004	108.2	33.0	256.5	223.5

\$1=Lps 16.

The above shows tendency, warns us that urgent measures should be taken to prevent the Program from disappearing. Among them introducing fresh money would allow it getting additional income,

²⁷ At the beginning, the Program granted \$50 as subsidies to clients it served during the Post-Mitch era. Between May 1999 and February 2001 the Program charged 24% on the principal, while the average performance of OPDFs was 30% on the principal. Between March and October 2001 it charged 30% per year on the principal, and the average performance of OPDFs was of 36% on the principal

²⁸ In 1999, income were of \$50.6 thousands; in the year 2000 \$148.2 thousands, that is 292.9% more than the ones seen in the first year and in 2001, \$150.5 thousands²⁸ that is 1.6% increase in relationship with the previous year

counteracting the negative impact caused by current operational costs; applying an interest rate equal to the average offered by the microfinance industry²⁹ and carrying out a job evaluation, that determines that with fewer staff current administrative duties can be accomplished. For example, in this latter case it should be considered whether it is necessary that CREEME have a manager and a deputy manager, a training assistant, or if these duties can be reassigned with the purpose of decreasing costs.

In chart 8 a projection of Program incomes and expenses is presented, until reaching the balancing point, assuming that current operational costs and the rest of variables will continued to be fixed and that loans will be gotten for \$437.5 thousands by the 2002, \$500.0 thousands by the second year, \$550.0 thousands the third year and \$600.0 thousands the fourth year, to a annual interest rate of 15%³⁰ and that both these funds and the ones the Program has, are lent to an interest rate of 36%³¹. Results indicate that CREEME will reach the break-even point in the year 2005, and it will even have a slight profit.

Chart 8.
CREEME Program

TENDENCY TOWARDS REACHING THE POINT OF EQUILIBRIUM

(in thousands of \$)*

Years	Funds			Income per loans (36% on capital)	Costs			Profit/ Loss
	Own	Loans (at 15%)	Total		Financ ial	Operat ional	Totals	
2002	410.0	437.5	847.5	305.1	65.6	256.5	322.1	-17.0
2003	393.0	500.0	893.0	321.5	75.0	256.5	331.5	-10.0
2004	383.0	550.0	933.0	335.9	82.5	256.5	339.0	-3.1
2005	383.0	600.0	983.0	353.9	90.0	256.5	346.5	7.4

\$1=L16

Even though the abovementioned analysis does not consider it, it is assumed that operational costs remain fixed, parallely to the increase in the loans funds, the Program would have to hire additional Credit Officers, to reach 33³², which would make it incur in additional costs for an approximate amount of \$91,350.00 per year³³, when considering that these will continue working under the CCCs modality and observing the 2001 yielding, that in average is 14.7. The number of Officer could decrease, when individual an solidary group methodologies are introduced, since amounts to be placed would be higher. It is also foreseen that the Program clientele's will increase, even though its numbers will depend on the promotion done and on credit policy (credit modalities, amounts, interest rate, etc), which regulate each of them.

4.1.6 Program Profitability

²⁹ Rate effective as of January 2002 is 36% per year on capital, same as the rest of the OPDFs. This rate is equivalent to 72% per year on balances.

³⁰ Currently Fundación Covelo is managing a line of duns provided by the USAID with lends at 15% per year.

³¹ Currently, average interest rate charged by OPDFs to microentrepreneurs is 36%.

³² A \$30,000.00 Portfolio per Credit Officer is estimated

³³ In average, annual cost of a Credit Officer is \$4,350.00 (includes 14 salaries, vacations and an average of \$750.00 per year on medical insurance)

Profitability analysis allows knowing the Program's ability to generate enough financial income, to cover its operational, financial and provision costs and, further allowing producing excedents to maintain the patrimony's real value.

Financial Self-sufficiency seen during the years analyzed, is 35.6% for 1999, 55.08% for 2000 and 48.9% for 2001, perceiving a tendency to grow during the second year and to decrease in the third year, as a consequence of the rationale presented in previous chapters.

In comparison with the parameter defined by Fundación Covelo, that says that this indicator should be higher than 120%, the Program is below 71%. As mentioned before, showing that currently is not covering all functioning costs, which would happen if the relationship were of 100%. On the contrary, a systematic decapitalization is happening. One element that is strongly contributing to the inefficiency of the Program is that 39.6% of its liquid resources have remained invested, which is not a customary practice in a microfinancing program.

Because the Program is experiencing problems with its Financial Self-sufficiency, not allowing it a profitability that increase its patrimony; fact proven when calculating the indicator **Return to Patrimony**³⁴, which for 1999 was -32.4%, for 2000 -20.3% and for the present year -26.4%.

The **Portfolio Yielding**³⁵ shows the profitability the Program portfolio showed during the period analyzed. The first year, each lempira that was placed had a yielding of 4.9%; for 2000 it was of 23.8% and, in 2001, 27%.³⁶

The low yielding observed during the first year, responds to the subsidy policy implemented during the first stage of the Program, in the Post Mitch period, in which CARE negotiated funds to reactivate the economies of the Microentrepreneurs affected by this phenomenon and, besides credits granted \$50 were donated, as seed capital, given in common agreement with the donor.³⁷

Chart 9 shows the interest rate some national OPDFs, charged the Microentrepreneurs during 1999. In comparison with the interest rate to which those microfinancing institutions lent the money at the time, it can be concluded that REMAM placed its resources 39.5% below Finca, 35.5% below ODEF and 33.5% below World Relief

Chart 9
INTEREST RATE APPLIED TO MICROENTREPRENEURS
BY NATIONAL OPDFS IN 1999

Organization	Interest Rate (%)
CREEME	24.0 ³⁸
Finca	44.4
ODEF	40.4
Auxilio Mundial	38.4

Source: Research performed by CREEME.

³⁴ It measures the patrimony profitability rate, once institutional costs are covered.

³⁵ Profitability rate a microfinancing institution gets in a certain period of time for the lending of money to its clients.

³⁶ International more successful experiences, indicate that it should be of 32% as in the Banco Sol from Bolivia case and of 46% in the WWB of Colombia case.

³⁷ Initially, it was intended to donate US\$90.00 to each microentrepreneur.

³⁸ Taking into consideration the subsidy the clients were granted, the Program effective yielding was 4.9%.

Besides, when considering that the inflation rate for this year was 11.6%³⁹, it is clear that the real yielding of the portfolio did not cover depreciation for its resources due to this concept.

4.1.7 Net Profit⁴⁰

Net profit seen by the Program during the period analyzed, was measured by means of **Current Ratio**, which determines its capability to pay its short-term obligations with their immediate availability.

In 1999 the Program had no debts, therefore, this situation was not present that year. In 2000, the circulating asset could cover 12.8 times its liabilities and in 2001, 9 times its liabilities. In relationship with the parameter defined by Covelo and successful international organizations, no problem is observed, since the first one requests that this relationship be twice higher, Banco Sol observes a current rate of 1.2 times and WWB 7.88 times. Nevertheless, when considering that the CREEME strategy is to serve its clients with microfinancing, it not advisable that it keeps the current net profit level. This practice besides having an important social cost, since 1291 clients are left unattended, has a financial cost, since the difference in yielding between funds placed in investments and those lent to the Microentrepreneurs is of 21%.

4.2 Processes Developed by the Program

This section analyzes organization and operational processes; granting of credits and CCCs monitoring and evaluation

4.2.1 Process of Organization and Operation of Community Credit Committees (CCCs)

The process of promotion and formation of Credit Committees consists in making house visits to identify leaders and clients, having a briefing meeting, an organization of CCCs meeting, making negotiation plans for each member of the group, loan pre-approval and approval by the Board of Directors and the General Assembly respectively, delivery of the Credit Application b the Board of Directors to the Credit Officer and, training the Board of Directors on parliamentary rules, work plans and administrative controls.

During the life of the Program 251 CCC were formed (without considering the Northern Region), out of which, 49.4% belong to the Central Region and 51.6% to the Southern Region. From this total, actually 139 CCCs exist, which means 55.4 % of CCCs attracted. This tendency evidences the enormous desertion experimented by CREEME during the 1999 – October 2001 period.

Average yielding by Credit Officer during this year, measured in function of its Credit Efficiency is 15.4 CCC, which complies with the parameter recommended by Fundación Covelo, that indicates that it should be higher than 15 CCC. Nevertheless, this indicator does not comply with Program goals, that establishes that each Officer should have 20 CCCs and 300 clients.

³⁹ B.C.H." Honduras en Cifras" 1999.

⁴⁰ Capability of institutional assets to turn into money or cuasi money.

The Consultant recommends the use of individual loan and solidary group methodologies and attention to other geographical zones in the country. For this last aspect it is recommended the extension of activities to the western region of the country, to respond to its population financing needs, its poverty level and because it fits the Mission's programmatic framework. Expansion to other cities in center Honduras is also recommended.

The Program does not comply with the international standard that indicates the average clients per Credit Officer is 400, since during the present year this staff reach a level of 219.⁴¹

The difficulty to achieve goals, due to Microentrepreneurs and groups constrains to abide by the rules imposed by the Program, is among the main conditionings present in this process. Besides, by recommendations from its own senior staff, had to be careful when choosing clients, to have a healthy portfolio. Even though in the actual credit methodology framework, the requirements and recommendation from the senior staff are considered adequate, goals accomplishment would be more expeditious by deciding to offer other credit methodologies.

Not having received a training process⁴² in addition to that of the induction has also influenced the ability that a Credit Officer should show during the Promotion and Organization of the CCCs. Training this staff receives is developed by field supervisors, who in turn, were trained the same way. This motivates that good and bad practices be transferred from generation to generation. The Program does not have manuals that show the staff procedures to be followed in the execution of this process. In this respect, it is necessary to systematize and implement the training and induction process, since it is clear that it represents a limitation for the efficiency of the Program.

Though the CCCs Promotion and Formation is one of the cornerstones to have a sound credit portfolio, the way it has been developing, to be, in more relative terms, more selective than other microfinancing organizations, difficult the training of clients and the portfolio growth. And though this practice is right, it should be compensated with a more accelerate group promotion and organization rhythm, which can be achieved by hiring additional Credit Officers.

Staff rotation, specially in the Southern Region where from all the Credit Officer and Supervisors that started the Program only one remains, has affected the CCC Promotion and Organization process. This fact answers to the application of salary and incentives policies field staff perceived as affecting their interests, and to fraudulent practices from some Officers that prompted their dismissal. In the future it is advisable that a staff awareness plan be designed and implemented, especially on benefits and the implication of measures similar to those mentioned in this chapter.

In general, more than 20 persons from all levels abandon the Program, during the period analyzed, causing considerable delays in the process of recruiting partners.

Actually, the Credit Officer systematically serves the process of organizing and operating CCCs. In some cases, given field staff deserting, especially in the Southern Region, the support from the supervisor has not been continuous. It is necessary to see that the Supervisors in this region get more involved in this process, since it influences the Program portfolio's health.

4.2.2 Process for Granting Credit

⁴¹ It was also inferior in 197 clients to the average from Banco Sol and in 188 to that of WWB.

⁴² This situation is being modified by the implementation of a training program starting December 2001.

It starts with the gathering and delivery of group applications to the Credit Officer. The Supervisor checks, analyzes and approves applications. Financial Assistant reviews and analyzes the group's application, including business plans. Credit Deputy Manager reviews and approves credit applications and sends in the check issuance request to the Mission's finances department and, sends the account issuance request (just the first cycle) to the Financial Assistant.

The Financial Assistant receives the loan check from the Mission's finances department and gives it to the Supervisor, attached to the CC bank account issuance note. The Supervisor and the Credit Officer, delivers the bank account issuance note and the group loan check and based on the payroll and loan voucher, draws IOUs and individual checks and delivers the loan. The Financial Assistant receives and checks documentation and passes it to the Mission's Finances Unit for filing.

From its start up to October 2001, the Program granted \$4,259.5 thousands in loans and its standing portfolio is \$244.5 thousands. The tendency observed by the portfolio measured in terms of the **Portfolio Net Increment** indicator is **1.96%** during the 1999- 2000 period and, of **-29%** for the 2000 – October 2001 period. Following are problems identified in this process limit the agility in placing credit and, consequently the increment of the portfolio:

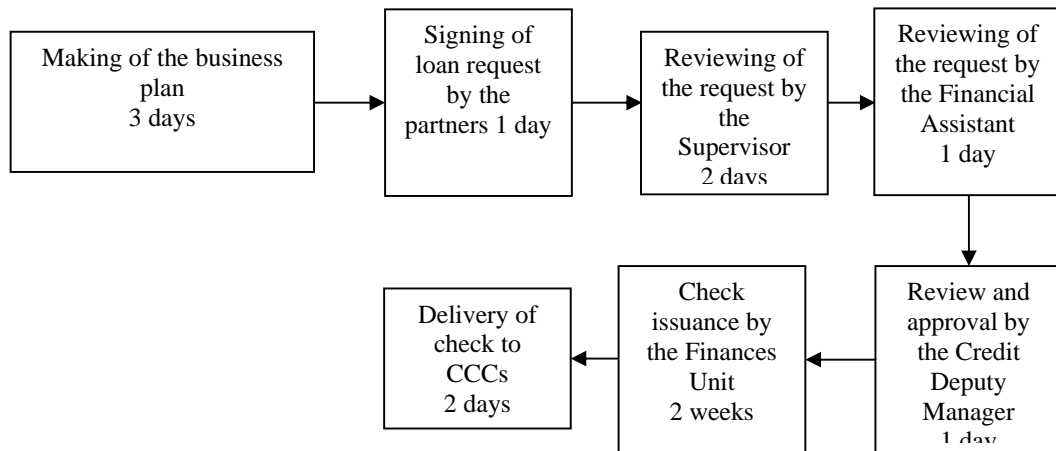
1.- Starting from the second cycle of the Microentrepreneurs the Business Plan made by the Program is repetitive, since it incorporates information (age, sex, business description, education, dependants etc) that has already been gathered and that would not easily change in a four-month period. Collecting unnecessary data delays the Credit Officer's job. To simplify this process is necessary that Credit Officer concentrate in the surveying and analysis of information measuring profitability and payment capability of the clients.

2.- Loan disbursement paperwork is too long, it takes about three weeks, (See diagram for credit granting in Graph 2) when it is the subsequent loan and, in some cases it even takes two months, when it corresponds to the first cycle).⁴³ Even though the Program has implemented the "pre-closure" modality, which is to start the paperwork for a loan during the two week prior to the last payment for the standing loan, which speeds up disbursement, there is still some discomfort on the clients' part for the slowness of this process, since 9.71% of Microentrepreneurs express their unhappiness with the time it takes to give them the loans.

⁴³ In average subsequent loans take 4 weeks to be approved. In some cases it took 2 months, due to the quitting of some Credit Officers.

Graph 2
CREEME Program

PROCESS FOR THE GRANTING OF CREDIT TO COMMUNITY CREDITO COMMITTEES



Therefore, is it advisable that the loan approval time be speeded up, since it causes discomfort among Program clients and makes it less competitive, when considered that other microcredit organizations (e.g., World Relief) take between 3 and 5 days.

To a large extent, the hindrance in the paperwork, is at the Mission’s Finance Department, since it has set a due date to receive applications and field staff sends approximately 50% of them close to that date. Given actual conditions, it not easy reaching the agility seen in other microfinancing institutions, the most advisable thing to do would be for CREEME to work with an structure that handle funds independently from the Mission’s Finance department.

4.2.3 Process for the Follow up of Community Credit Committees

The CCCs follow up process is developed by the Program through the Credit Officers and Supervisors and it takes place in a systematic way, in the interrelationship between this staff and the partners, in Group meetings that take place every two weeks and in the making of business plans, as a prior requirement for the approval a of a new disbursement. It duty is to seek the accomplishment of credit policies and the CCC internal norms. In average, Credit Officers serve 15.4 CCC and 219 individual clients.

As per the research done, the following aspects influenced the Program efficiency in this field:

- 1.- Field staff is not trained in a systematic way to perform their job. Credit Officers need more training in accounting issues, credit modalities that the competition provide, client service techniques and raising awareness of their compromise with the Program.
- 2.- The formal instrument used by the Program to provide follow up to the Microentrepreneurs business is the Business Plan. General opinion is that it needs adjustment, since it repeats information between cycles, which has already been surveyed (e.g., sex, age, business location, etc). In any case, what would be advisable is to have two records, one to survey information on partners incorporating for the first time to CREEME, that can also be applied to active Microentrepreneurs every two years, with the purpose of updating their data. The other would be used to know the

business tendency, stressing on its profitability and payment capability, with the purpose of making decisions regarding amounts to be lent during the next cycle.

Field staff departure caused an stagnation in the growth tendency of the credit portfolio and the increase of debt, especially in the Southern region. One clear example of this, is the departure of 6 Credit Officers in that region, caused by the implementation of a salary policy (change of the Credit Consultant contract paid by CABEI to Credit Officer and the Incentives Plan)⁴⁴, which was perceived as damaging to their interests. To that we have to add dishonesty problems and other work options.

The Program provides the field staff with all the logistical support to perform their duties, however, in the case of the Southern region, there are constrains for reaching the actual incentives plans. This answers to the fact that economic characteristics of the Microentrepreneurs are different from those of the Central region, where the variable of agricultural production seasonal rules and cash is scarce during those times.

The follow up process developed by Program field staff has been efficient in seeing that CCCs develop ruled administrative processes. In this sense, it was proven that all active groups visited are using the payment control sheet, financial statements, savings account, etc.

Among the most common problems detected during the follow up done by the Credit Officers to CCC, we found the unattendance of an average 20% of the partners to their biweekly meetings. Training of Microentrepreneurs is hinder, because they lack the time to attend programmed training journals. When faced with the Program's impossibility to meet in its entirety their financing expectations, Microentrepreneurs get financing from other OPDFs, therefore, breaching the credit policy already defined and provoking delays in loan payments. Though this aspect can be manageable, like it was had already been exposed, the delinquency index for CREEME, is within the parameters accepted by Fundación Coveló and the microfinance industry.

As for the CCC compliance of credit policies, it was determined that this type of issues, though existing, are of little relevance in terms of the groups and Program's operation. Among the most common findings, the search for other sources of financing, caused by the absence of other credit modalities and by the amount currently being granted, the lack of partner attendance to meetings and delays in payments, on the part of a very small portion of Microentrepreneurs.

About the opinion the Microentrepreneurs have on the assistance provided by the Credit Officer, it was determined that 96.6% are satisfied with the work being done and, 3.4% believes they are not getting adequate assistance. Though the causes for the insatisfaction of the latter were not determined, they might possibly respond to the lack of timely disbursements and the non-implementation of other credit modalities, which limits the chances of having broader terms and amounts. Besides, responding to the application of the measures establish in the credit policy and group rules, since they affect the economy and image in front of the group.

4.3 Gender Policy

On the participation of women, the Program Credit policies mentions that CCC will be community associations for self-savings and solidary credit that will negotiate, promote and, develop credit

⁴⁴Some Officers (e.g., Carlos Salgado), reached the incentives Plan, surpassing the Credit Consultants salary, which was above the normal nominal salary of the current Credit Consultants; therefore, everything indicates that an strategy that waned them on future benefits to be earned was not implemented.

services to support small businesses of their associations. Preferably focussed to women household heads and to women within the family nucleus; that try to get or improve their income to meet basic needs of the household. Total membership of the community association should not be less than 10 members, favoring women, single mothers, rural and urban Microentrepreneurs households, both for guidance and community training. An equilibrium between male and female partners in each committee will be attempted, to keep the equality in the participation of opportunities and benefits generated by the CCC.⁴⁵

The information provided by the Program indicates that since its foundation up to now it has complied with the gender policy defined. The document Institutional Profile for the REMAM Program written by Fundación Covelo in August 2000, shows that for January that year, there were 2860 clients, out of which 2277 (80%) were women. The document Strategic Planning 2001-2005 for the CREEME program, written by the same organization, it shows that as of December 31 2000, 2805 active clients were served, 80% of them were women.

As of October 2001, according to information provided by the Program, there are 1974 active clients, out of which 80% correspond to women.

In the sample of 9 CCC selected to be interviewed by the Consultant, it was determined that out of 121 Microentrepreneurs that formed them, 104 (86%) are women and 17 (14%) men.

Chart 10 show partners interviewed by sex and cycle. Surveys done determined that 91.5% of the partners are women and just 8.5% are men.

Chart 10
CREEME Program

MICROENTREPRENEURS INTERVIEWED BY SEX AND CYCLE

September 2001

Cycle	Sex				Total	
	Male		Female		No.	%
	No.	%	No.	%		
1	10	66.7	101	62.4	111	62.7
2	0	0	29	17.9	29	16.4
3	0	0	7	4.3	7	4.0
4	2	13.3	11	6.8	13	7.3
5	1	6.7	2	1.2	3	1.7
6	1	6.7	8	4.9	9	5.1
7	1	6.7	4	2.6	5	2.8
Total	15	8.5	162	91.5	177	100

Source: Survey to Microentrepreneurs.

With the purpose of knowing the influence that men forming CCC, interviewed groups were asked how were decisions having to do with the group interests taken and their answer was that it was a consensus. In general, women partners are not voicing dissatisfaction with the participation of men in CCC. Even at the level of inactive groups in the Central region, their leaders blamed the disintegration of their CCCs, on little participation from men and to them always relaying on women to attend the meetings.

⁴⁵ CARE, Honduras. Política de Crédito REMAM. Pp 1. Diciembre ,1999.

It is concluded that the Program is complying with the gender policy defined, in the sense that 80% of served Microentrepreneurs are women Besides, male entrepreneurs do not condition the female sex in the making of decisions that are of group interest.

4.4 Desertion from Community Credit Committees (CCC) and Clients

According to data cut done on October 2001, without considering 73 CCCs from the Northern region, during the life of the Program 251 CCCs have been formed and 3,299 clients have been trained. Desertion seen during the 1999-October 2001 period, is 112 CCC (43%) and 1325 clients (40%). From the deserting CCCs, 59 (53%) correspond to the Center Region and 53 (47%) to the Southern Region. This high desertion rate represents an effort and considerable resources invested by the Program, that is not currently reporting any financial and social profitability.

Chart 11 presents active partners by region and Program cycle, reflecting the effort that is being done, through their Credit Officers, to attract clients that counteract the high desertion level seen. The bigger concentration of partners, is placed in the first cycle with 47.6%. For the second cycle, is 12.6% of clients, a difference of 35% between both period. Between the third and fourth cycles there is still the tendency to decrease in productivity, with 6.1% and 4.8%, respectively. Fifth and sixth cycles, concentrate 8% and 9%, respectively. The seventh has 10.6% and the eighth cycle 1.3%.

The tendency observed by the Program at an overall level, is also seen in both regions served. Though the attracting of partners (first cycle), has been higher in the Southern Region, influenced by the need to incorporate partners, when confronted with the desertion that took place as a consequence of the lack of attention to the groups, caused by the massive departure of field staff. This also happened in the Central region, but it was resolved more expeditiously, since the Program headquarters are located in that region and, therefore, las repercussions at the clients loss level were minor.

This situation originated the departure of clients, in a sustained manner during the cycles two to four, for the case of the Southern region and between the cycles two to five in the case of the Center region. It could to a certain point respond to the concentration of attention by the Credit Officers, to attract new groups and to dedicate little time to the groups already formed, since is during these cycle that the state of group growth and know-how of the Program operation happen.

Chart 11
CREEME Program

ACTIVE PARTNERS BY REGION AND CYCLE

October 2001

Cycle	Center		South		Total	
	No.	%	No.	%	No.	%
I	355	37.9	584	56.3	939	47.6
II	181	19.3	68	6.6	249	12.6
III	110	11.7	11	1.0	121	6.1
IV	82	8.8	13	1.3	95	4.8
V	14	1.5	145	14.0	159	8.0
VI	24	2.6	153	14.8	177	9.0
VII	146	15.5	63	6.0	209	10.6
VIII	25	2.7	0	0	25	1.3
Total	937	100.0	1037	100.0	1974	100.0

Source: CREEME Program

Among influencing factors for the high level of desertion observed by the Program, we find rotation of almost 20 employees, including 6 Credit Officers from the Southern Region and 6 from the Central region, which caused lack of attention to groups and the subsequent departure of clients.

Besides, we have to mention that Credit Officer accepted in the past clients with bad records and against the will of the rest of the group, these later on did not abide by the rules defined by the CCC and the Program credit policies, forcing their expulsion from the group. This happened, mainly during the first stage of the Program. One of the female inactive partners interviewed stated that the Credit Officer serving them, incorporated a partner to the CCC, even though the rest of the group said it was not a paying person.

Another factor is that Microentrepreneurs fall into arrears with the CCC, because they use the loan for activities other than the ones intended in the business plan (e.g., economic problems in their households). Having to pay their savings cuota and causing concern in the rest of the group, in the sense that when faced with the insolvency of the first, their savings can be used to solve this debt. Uncertainty originates the withdrawal of the person debtor as of many of his/her group partners.⁴⁶

The lack of options for the Microentrepreneurs to be able to access other credit methodologies, that will allow them to expand the credit amount and terms make them search for other microcredit organizations. For example, during the visit that the Consultant made to a group at the Colonia los Pinos, one of the clients states requiring L 50.000.00 at one-year term, which under the actual policies is not possible.

The lack of attendance to assembly meetings by almost 20% of the partners and the non-compliance of obligations linked with activities being carried out by the group, with the purpose of raising funds, causes demotivation among its members.

The delay in the disbursement of loans causes that Microentrepreneurs seek other more agile options. To this respect, Mr. Edilberto Mendoza from the Renacer group, Colonia Los Pinos, Tegucigalpa, said that the period for loan approval needs to be improved, since is one of the causes of desertion of the Microentrepreneurs in his group or for the non-compliance with the policy, that demand that they world exclusively with CREEME.

During the Post-Mitch period, the Program destined 0.5% of the interest rate charged to the clients for capitalization of the CCCs. Credit Officers were not able to make some Microentrepreneurs understand that his amount had that purpose and were not for individual benefit. That this value did not reflect in the report of individual savings of clients, raised doubts in some partners since they thought that the board of directors was “stealing” their money and chose to leave the group.

4.5 Training

Between February 2000 and April 2001, with financing from the Central American Bank for Economic Integration (CABEI) for an amount of \$ 95,550.00, the Program set the goal of training, in the entrepreneurial and technical areas some 1500 Microentrepreneurs, located in twelve municipalities in six departments of Honduras, distributed in three regions, at the national level.⁴⁷

⁴⁶ This was the cause for the closing of the CCC La Fe, to which inactive leader Nolvía Zelaya, from Colonia San Francisco, Tegucigalpa, was a member.

⁴⁷ CARE, Honduras. Terms of Reference for the Pilot Training Consultancy of Microentrepreneurs Beneficiaries of the CARE International, Honduras National Microentrepreneurs Program. Pp1.

According to reports made, within this component 1792 Microentrepreneurs were trained, representing 119% of the execution regarding the goal of training 1500 Microentrepreneurs. Out the Microentrepreneurs trained, 539 (35%) belong to the Northern Region.

Training included the development of six modules for the entrepreneurial area:

- Introduction to Business Administration.
- Small Business Planning, Organization and Direction
- Business Control
- Marketing and Sales
- Small Business Accounting
- Small Business Financing.

Chart12 shows active Microentrepreneurs trained by the Program with the above mentioned modules.

53.7% of partners currently active, were trained in the modules Introduction to Small Business Administration and in Small Business Sales Administration. 48.6% in Small Business Planning, Organization and Direction and, Accounting. 54.3% in Small Business Control; 55.9% in Small Business Accounting.

Active Microentrepreneurs from the cycles 5 and 7, were trained in all the modules. The ones from cycle 6, in a range between 89.9% and 77.8%, depending on the module. This high level of training, is linked with the fact that this activity, had its maximum point of execution when these groups were between cycles 1 and 3. In the case of Microentrepreneurs from cycles 2, 3 and 4 performance is lower, possibly having to do with the timing of their incorporation to the Program, since the training process ended April 2001.

Regarding Microentrepreneurs from cycle 1, whom, considering the fact that they came into the Program in June 2001, it is worth mentioning the fact that during the consultation made, an important percentage stated having received training, which is unlikely when considering, as indicated before, that this process ended in April 2001. Most likely what happened is that they understood that the question asked, aimed at determining on the parliamentary rules training received for the management of the Board of Directors and the Partners Asset Control Tools (savings account, payments record, etc.)

Chart 12.
CREEME Program

ACTIVE MICROENTREPRENEURS TRAINED ON ADMINISTRATIVE SUBJECTS

Subject	Cycle							Total	
	1	2	3	4	5	6	7	No	%
	(%)								
Introduction to small business administration	50.5	31.0	71.4	69.2	100	89.0	100	95	53.7
Small business planning, organization and direction	46.9	24.1	57.1	61.5	100	77.8	100	86	48.6
Small business control	53.2	34.5	57.1	61.5	100	77.8	100	96	54.2
Small business sales administration	52.3	31.0	57.1	61.5	100	88.9	100	95	53.7

Small business financing	52.3	48.3	57.1	61.5	100	77.8	100	99	55.9
Small business accounting	46	34.5	57.1	61.5	100	77.8	60	86	48.6

Source: Microentrepreneurs survey.

Chart 13 shows the level of usage of administrative tools by Microentrepreneurs at the moment they signed the first and last loan with CREEME

It was determined that the applying of the know-how acquired on administrative matters on the part of the Microentrepreneurs is low, since at the moment of granting the last loan, only 2.3% were using the cash book, 5.1% clients accounts payable book, 1.1% trade accounts payable book and the general balance and income statement and, 2.8% merchandise inventory book

Chart 13.
CREEME Program

USAGE OF ADMINISTRATIVE TOOLS BY THE ACTIVE MICROENTREPRENEURS WITH FIRST AND LAST LOAN (%)

Tools	Loan	
	First	Last
Cash book	5.7	2.3
Clients Accounts Payables Book	23.7	5.1
Trade Accounts Payable Book	1.1	1.1
Merchandise Inventory Book	7.9	2.8
General Balance and Income Statement	4.0	1.1
No tool	57.6	26.0

Source: Microentrepreneurs survey.

This fact possible responds to almost 50% of active Microentrepreneurs not being trained on the modules taught. It is also due to the fact of not foreseeing for the training project a process of awareness on the usefulness of the tools mentioned. Likewise, to the perception of clients on the poor usefulness that its use may have, in the context of the size of their microenterprises.

However, in the interviews made all Microentrepreneurs said that the Credit Officer taught them to identify the most tradable products, resources that could be used for household consumption and the ones that correspond to their business, so that they will not be undercapitalized.

In interviews with Microentrepreneurs it was proven that field staff, performs practical training activities by means of the “learning by doing” methodology, stressing on the matters having to do with CCC and microenterprises resource administration, marketing of products and parliamentary techniques for leading CCC.

Efforts aimed at continuing with the development of a training process on administrative themes similar to the one executed with the financing from CABEI are not foreseen. Though a training proposal called Technical Workshops Development was prepared and submitted to that organization,

with a budget of \$ 97,217.15⁴⁸. In addition, CREEME will contribute in kind \$18,104.45 and the community \$20,889.75.⁴⁹

When consulting the partners on the training process developed by the Program, it was determined that 31.25%, is not satisfied with efforts currently being done. This is understandable, given the lack of resources to carry out this sort of duties in a systematic manner.

With the purpose of meeting training needs from its clients, the Program should continue negotiating the approval of the training project submitted to CABEI. Besides, additional project should be made and submitted, both those and the one being written to other donors.

4.6 Budget Execution

Chart 14, presents budget execution of the 2001 Program. This execution amounted to L.4, 441.0 thousands. From that value, L.2, 845.0 thousands (64%), was destined to cover expenses related with personal services from employees to the Program, that is salaries, social benefits, health benefits and other type of benefits. If considered that during the same period the CREEME income amounted to L.2407.2⁵⁰, it is evident that this line, by itself, is causing deficit and, consequently, is decapitalizing it.

Chart 14
CREEME Program
YEAR 2001 BUDGET EXECUTION

(Thousands of lempiras)*

Item Line	Value	
	Lps	%
Staff expenses	2845.0	64.0
Non personal Services	130.0	3.0
Materials	60.0	1.0
Indirect Expenses	847.0	19.0
Training	130.0	3.0
Travel Expenses	173.0	4.0
Vehicle fuel and maintenance	171.0	4.0
Consultancies	85.0	2.0
Total	4441.0	100.0

Source: Written based on Program information

*Figures to December 2001

This is proven when observing the increasing negative tendency of the operations deficit for the last three years, which was of L.1,463.0 thousands in 1999; L.1, 879.0 in 2000 and, L.2,515.0 in 2001. That is, while the Program has increased its personnel expenses, by abiding by the social benefits the Mission grants, its income have not increased in a proportion that would allow it to keep maintaining, in current terms, its initial patrimony.

⁴⁸ The subjects are wood finishing, packing, handicrafts, client attention, metallic structures, sewing and, bakery.

⁴⁹ Should the proposal be approved, the execution will not affect the field staff work and, consequently, the Program performance, since it deals with technical contents, it requires only the support from the Operations and Training Coordinator and his/her assistant.

⁵⁰ Figures to October projected to December.

The second place in the budget execution for the year 2001, is for shared direct costs with L.847.0 thousands (19%). This value corresponds to the payment of office rent, cleaning, electricity, water, parking, and administrative services (accounting, procurement, human resources, etc), that the Program paid the Mission, during that period. In average, monthly indirect costs, amounted to L.70.6 thousands, which is considered high, in terms of the amount and yielding of the portfolio being managed, since for each lempira incoming to the Program, 22% was spent for this concept.

Payment of these indirect expenses, is a consequence of the policy defined by the Mission, in the sense of paying 10% of the Program's annual budget, for shared direct costs. Given the impact these disbursements have on the Program, it is advisable that the Mission lowers the percentage charged to the Program for this concept.

The remaining 17%, was destined to cover expenses made on non personal services and procurement of materials and services (per diem, communications, office equipment maintenance and transport, consultancies etc.), which in terms of the items it covers and of indirect and Program personnel expenses, is of little relevance.

Nevertheless, given that the current per diem policy is not flexible, though the tour might be short, e.g. two hours, it demands that the whole day is recognized, it is clear that it increases the Program's operational costs. Therefore, it is advisable that such policy be reviewed, so that for the case in point, e.g. only half-day per diem or the food be recognized to the employee.

On the other hand, by comparison with other microfinancing organizations, Program costs are higher, since its logistics offer better conditions; e.g. Credit Officers ride motorcycles and sometimes use vehicles and are given maintenance and fuel for these means of transport, which does not happen in other organizations. Therefore, with the purpose of rationalizing their expenses, it is necessary that the Program reviews its logistic support policy for its field employees.

Considering that a microfinancing Program cannot systematically operate with losses, since it decapitalizes it and can cause its closure, it is urgent to review the Program's salary policy, appraising the need to decrease the current staff payroll, specially those with administrative and/or support duties and to raise CREEME productivity by attracting more clients. Hiring additional Credit Officers, by implementing personal loan and solidary credit modalities and, by promoting more productivity among exiting credit officers can do this. Additionally, looking for installations with a lesser rent price should reduce indirect costs.

4.7 Subsidies Policy

Based on the damages caused by Hurricane Mitch to the Honduran economy, the Program granted on a one-time basis a subsidy of \$50 to Microentrepreneurs served in the February-September 1999 period. Initially, the values was \$90 but according to negotiations between CARE and DFID England, as donor, it was lowered to the above-mentioned amount.

As per the REMAM Project proposal, this donation or subsidy should have been used to recapitalize businesses. This initiative was based on a communities needs analysis and their circumstances, considering that the project did not wish to grant loans beyond the payment capacity of Microentrepreneurs.⁵¹

⁵¹ CARE, Honduras. Emergency Resettlement and Household Economic Reactivation Project, Honduras December, 1998.

Parallely, during the first year of the Program, with the purpose of capitalizing the groups, REMAM charged them 24% annual interest and the CCC charged their partners 30% annual, therefore, monthly capitalization of the groups was 0.5%.⁵²

From the investigation performed, 90% of Microentrepreneurs benefited by the Program with the subsidy, stated that it helped them reactivate their businesses, at a time when they did not have resources to survive.

10% stated not suffering direct damages to their businesses and homes, though when considering that this natural phenomenon damaged the country's productive structure, these clients were also affected. They estimate that this policy helped establish a compromise from the Microentrepreneurs with CARE. It also promoted a multiplying effect in affected individuals. Overall, it tried to help the majority of damaged Microentrepreneurs or communities affected so that they, in time, could provide services that would lower costs and create employment opportunities.

On the 0.5% monthly capitalization that the Program granted the groups for capitalization and to have a fund for self-sustainability, it was determined that having allowed the fund to be controlled directly by the CCC, promoted discomfort among them. This was caused because Microentrepreneurs understood that it was a capital that could be distributed among the members of the group. This situation was caused by the delay in the opening, by the Program, of a savings account where these amounts could accumulate while the CCC graduated⁵³. According to the senior staff, the account could not be opened because they needed an authorization from the Atlanta CARE headquarters, process that took approximately six months.

About the group capitalization fund, everything indicates that the Program did not defined or implemented an strategy aimed at making Microentrepreneurs aware of the purpose intended. By allowing the clients to manage control tools for this fund, without explaining that its purpose was to capitalize the groups, so they could be independent in the future, provoked discomfort among the members. It happened because Microentrepreneurs understood that they could dispose of this fund in the same way they do with their savings.

The practice of granting subsidies is not customary in the microfinancing market, since it promoted paternalism and is an obstacle for self-sustainability of microfinancing organizations.

Microfinancing institutions, to exist in the long run, besides accomplishing the social objective of providing resources to clients whom, because of their socio-economic conditions, have not access to traditional sources of funds, should procure to cover their operational costs and obtain certain income to capitalize themselves.

Framed within the objectives set by the Program during the Post-Mitch era, this assistance was effective, since it provided entrepreneurs with the opportunity to have a new start up point and to continue with their activities; however, interest rate remained subsidized for a long time.

⁵²Initially these values were deposited by CREEME into an special account. In December 2001 its transfer to the CCC ended.

⁵³ Time at which the groups have the financial (capital to lend their members) and administrative capability to function independently.

4.8 Credit Policy⁵⁴

The amount of loans provided to each member of the CCC is based on the compliance with the following criteria:

a)	Member Respect and participation in the CCC:	25%
b)	Punctuality in payments/quotas	25%
c)	Minimum savings established	25%
d)	Total attendance to meetings/training	25%

If there is a clean record (covers 100%), he/she can opt to the same amount requested during the previous cycle plus an increase as per the range below:

Cycle 2 CCC	20%
Cycle 3 CCC	20%
Cycle 4 CCC	15%
Cycle 5 CCC	15%
Cycle 6 CCC	10%
Cycle 7 CCC	10 %
Cycle 8 CCC	0%

Each associate should keep a minimum-mandated **savings**, equivalent to 10% of the loan amount received. This amount will capitalize their individual economies and the capability of their CCC to grant future loans.

The term for the loans is four months. **The guarantee** for the credit is group, that is all the group is solidary by means of internal guarantors, signing of IOUs, for the amounts lent to each one of its members. Besides, accrued savings constitute an additional guarantee.

Recovery of loans is made through biweekly payments, taking advantage of the **General Assembly meetings** that take place with that same periodicity.

4.11.1 Loans Amounts

In the consultation made with Microentrepreneurs on their satisfaction with the **loans amount** (see chart15), Microentrepreneurs opinion on the Program's credit policy), that the Program is currently granting them, it was determined that 94.9% of them are satisfied and 5.1% is not. That is probably related with the loss of real value of ceilings established in credit policies, that was written approximately three years ago, therefore, is advisable to review and adjust them periodically, in view of the depreciation the lempiras experiences.

By making the consultation of their satisfaction with the subsequent loans amount granted by the Program, it was determined that 11.9% of partners are not happy. In this case, Microentrepreneurs are found with groups located in positions higher than or equal to the sixth cycle and, consequently they have businesses with a certain degree of success and that need resources in addition to the average to continue growing.

As said before, much of these Microentrepreneurs, by not totally resolving their money needs, search for other sources of financing, which indicates that the Program should take steps that offer them

⁵⁴ CARE, Honduras. Políticas de Crédito REMAM. Diciembre, 1999.

credit options, that prevent the violation of their credit policies. It is recommended the implementation of Solidary Groups and Individual Credits methodologies.

Considering that the value of money has devaluated due to inflation, since the founding of the Program up to now, approximately 40% and, that a considerable percentage of clients, demand higher amount to those being actually offered, it is recommended to define new ceilings as per the following criteria: inflation, clients' payment capacity, group maturity (cycles) and amount of savings.

Besides CREEME should consider the transition from the Community Banks modality to that of Solidary Groups and implement that of individual loans. With it the problems that the clients currently face for getting together in meetings will be solved. On the other hand, since the administration and follow up costs of these modalities are lower, it will decrease their operation costs and increase the level of attention from its field staff to the credits granted in the future.

4.11.2 Interest Rate

Interest rate charged by the Program, between May 1999 and February 2001, was 24% per year on the principal (Flat rate)⁵⁵. Between March and December 2001, it was 30% per year on principal, 6% lower to the average charged for the community banks modality by microfinancing organizations. From February 2002, it rose to 36% per year on principal, placing itself at a level similar to the rest of the OPDFs, regarding the community banks modality.⁵⁶ Besides the Program charges its clients 2% on the loan's amount, as a commission for administrative services; consequently, by considering that the average of loans granted by the Program is of L.2000.00, effective annual interest rate is 72%⁵⁷

If the Program placed the funds, that as of October 2002, it had invested in banks and the ones lent to CCCs, making a total of L.6473.0 thousands⁵⁸, to the effective interest rate of 72% per year, the value it would collect in a year would amount to L.1,553,520.00 thousands⁵⁹. Since with this amount CREEME would not be able to cover its operational costs, that as of October 2001, amount to L.4661.0 thousands⁶⁰, it would have to raise its interest rate to 72% per year on principal (Flat), that is to an effective rate of 144% per year. When considering that the Flat rate, being currently charged in the microfinancing industry is 36% per year, if the Program with the purpose of achieving its equilibrium point, decides to increase its rate to 72% Flat, it becomes less competitive, since it would exceed by 50% the average Flat rate, to that of the competence for the community banks modality.

Though in the microfinancing industry, since operations costs higher than those of the traditional financial system, is accepted that yielding on capital be higher to those observed by it; applying this rate would a braking measure for the allocation of existing funds and would promote the departure of clients and possible the closing of the Program. Because of this argument, it is advisable that for CREEME to reach its equilibrium point, to maintain the Flat interest rate of 36%, by negotiating additional resources, up to an amount of L12,949.0 thousands, which would allow them to cover their current costs. Nevertheless, efforts should also be made to rationalize their operational costs, especially payment and staff social benefits and, indirect costs, since at the actual level, it is difficult for CREEME to achieve financial and operational profitability.

⁵⁵ Tasa de interés Flat es aquella en donde la tasa de interés de las cuotas que se le cobran al cliente, se calcula sobre el monto prestado, independientemente del saldo del préstamo.

⁵⁶ Ibid..

⁵⁷ Tasa de interés anual sobre saldos.

⁵⁸ Suponiendo que se prestan solo una vez al año.

⁵⁹ Incluye L.388,380.00 de comisión.

⁶⁰ Este valor proyectado a Diciembre, equivale a L.5593.0 miles

The recommendation of not incrementing the interest rate above 36% on the principal, it is also supported by the Program clients' opinions (see chart 15), over the interest rate applied in October 2001, that was of 30% on the principal. By consulting the Microentrepreneurs on their satisfaction with the interest rate they were being charged, a favorable opinion of 96.5% was observed, while 3.95% are not satisfied with it. This can answer to their knowledge of the interest rate that at the time was being charged in the market of OPDFs. It can also be due to the paternalist image that CARE has promoted among Microentrepreneurs.

The fact that the interest rate currently charged is similar to that of the other OPDFs, the clients' opinion and the negative yielding seen by the Program, concludes that the measure taken at the end of 2001, in the sense of raising the interest rate on the principal to 36% was right. This combined with the allocation of additional resources, rationalization measures for the operational expenses and, the introduction of other credit methodologies, will result on CREEME becoming profitable both in operational and financial terms and, the continuation of the compliance with its social role.

4.11.3 Savings

Chart 15, shows the Microentrepreneurs opinion on the application of a savings policy by the Program. 98.3% of Microentrepreneurs currently being served, are satisfied with the savings mechanism implemented. This fact is so because it given them the change to have a backup, for emergencies in their homes and, to growth in their businesses when the abandon the Program.

As for the 1.7% of clients stating not being satisfied with the savings policy, the cause possibly is their discomfort with the management of the 0.5% per month, for interest rate given by the Program, for capitalizing the groups. This is explained in more detail in the chapter dealing with the Program's subsidies policy and by the limitations of these clients to contribute with the 10% of the loans value, which is usual in the savings concept, since the accomplishment of the savings policy by the clients, decreases their payment capacity, resulting in the usage of these funds to pay their quotas. This is the main reason for the low delinquency CREEME has. Nevertheless, at the same time, using it for this represents an important constrain for the future independence of the partners.

It is advisable that CREEME continues applying the savings policy. Besides, the fact that these funds constitute one of the formal guarantees for the loans, for they also ensure the return of resources allocated by CREEME, is one of the elements permitting the groups to become independent and to have resources that support their businesses and households.

4.11.4 Loans Term

The Program is currently lending at four months term. It is so because credit is only being granted based on the Community Banks modality.

However, the credit policy specifies that the term will be defined as per the productive activity to be financed. Besides, the minimum term will be of four months and the maximum of six months, for the first stage and later on, based on the individual and CCC credit analysis, they might opt for loans up to twelve months term.

Chart 15, shows the clients opinion on the term currently used by the Program for their loans. 90.4% of Microentrepreneurs currently being served, manifested their satisfaction with the term at which

they are granted loans. This is so because of the possibility of getting fresh money on a more frequent basis and to the fact that their financing needs and payment possibilities are covered with the currently term. 9.6% of clients stated they would like the term to be longer. These are the candidates for additional resources, because their businesses have reach a level of growth, whereas the currently amounts being provided do not completely cover their real demand for resources.

With the purpose of meeting its clients demand, regarding the extension of the loans term, it is advisable that CREEME implements other options. These can be achieved via solidary groups and individual loans. In both instances, depending on the amount of clients possibilities, the term can be extended up to one year.

4.11.5 Guarantee

Chart 15 shows the clients opinion on the guarantee requested by the Program when granting loans. 97.7% of loans expressed their satisfaction regarding loans being solidary, while 2.3% do not agree with this practice. The latter is possibly linked with the need by some Microentrepreneurs to work with other credit modalities, for in the consultation performed there are not additional explanations found. This is evident when analyzing their opinion on the size of the group, where 7.9% of the partners do not agree with this condition and would like for it to be lower.

Given the fact that, in general terms, Microentrepreneurs agree with the application of solidary guarantees, it is recommended the continuation of this practice in the modality of community banks and even in the solidary credit one. For the individual loan methodology, the guarantee can be a hypothecary a/o collateral.

4.11.6 Loans Recovery

Chart 15 shows the Program clients opinion on the terms for the payment of their loans installments. 83.1% of Microentrepreneurs are satisfied with the frequency of payments being biweekly, while 17.0% expresses their insatisfaction with the payment modality. This last condition is linked with the difficulty of some Microentrepreneurs to meet the biweekly quota for their loans, because of the economic recession experienced by the country nowadays.

This is a clear fact, when analyzing their opinion on the frequency of the CCC meetings, since this a mechanism used by the Program to made loans recoveries, whereas only 2.8% of partners state disagreeing with its periodicity. It indicates that the disagreement on the periodicity of recoveries by a considerable number of partners, has to do with the problems already stated. Above all, when considering that the competence, recovers their loans in weekly quotas and, according to the opinion of field staff and Microentrepreneurs, that the periodicity of payments is biweekly, constitute one of the Program attractives.

On the other hand, when implementing other credit modalities, taking into consideration that the amounts managed under these concepts, are generally higher than the ones managed under the Community banks modalities, it is advisable to expand payment terms.

Chart 15
CREEME Program

MICROENTREPRENEURS OPINION ON CREDIT POLICY

Policies	%
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	Yes	No
Interest Rate	96.1	4.0
Term	90.4	9.6
Amount of Loan	94.9	5.1
Loan Opportunity	90.3	9.7
Payment Frequency	83.1	17.0
Savings Mechanism	98.3	1.7
Solidary Loan	97.7	2.3
Amount of Subsequent Loans	88.1	11.9
Frequency of CCC Meetings	97.2	2.8
Group Size	92.1	7.9
Training	68.8	31.3
Credit Office Attention	96.6	3.4

Source: Microentrepreneurs Survey

In conclusion, there is a favorable opinion on the part the clients, about the savings policy and attention provided by the Program Credit Officer.

It is recommendable that the Program implements the necessary measures to adapts its credit policy to market conditions, introducing new loan modalities that provide the Microentrepreneurs with other options regarding amount, term and payment time. Furthermore, interest rate should be similar to that of the competence and, if necessary, to look for higher efficiency in the approval of loans. This can be achieved via decentralization. It is basic in terms of the search of its self-sustainability and growth.

V EFFECIENCY OF THE PROGRAM TO IMPROVE THE LIVING CONDITIONS OF THEIR CLIENTS

This chapter analyzes the impact that the activities developed by the Program, since its start up to October 2001, have caused on their clients and families.

5.1 Conditions of Clients Businesses and Households at the Start of the Program

Chart 16 shows economic conditions of business and households of the clients, at the moment they were attracted by CREEME and the first loan was granted, during the first stage of the Program, that is between February 1999 and January 2000.

Chart 16
CREEME Program

ECONOMIC CONDITIONS OF CLIENTS BUSINESSES AND HOUSEHOLDS AT THE START OF THE PROGRAM

Indicators	Average	Median	Mode
Business Biweekly Income	4,661.00	3,750.00	3,000.00
Biweekly Costs	3,409.00	2,570.00	2,400.00
Profitability	1,252.00	984.00	500.00
Benefit-Cost Relationship (%)	48	36	25
Biweekly Payment Capacity	673.00	403.00	31.00
Available Cash	1,097.00	828.00	281.00
Household Income	5,496.00	4,600.00	3,800.00
Household Expenses	1,047.00	995.00	600.00

Source: CREEME Program

At the moment of incorporating into the Program, the clients average capacity for biweekly payments, was L.673.00 and the median was L.403.00. Available cash of the businesses was L.1097.00, with a median of L.828.00 and the most frequent level of available cash was L.281.00. This fact is linked with the profitability seen in business at that time, which in average was L.1,252.00, median L.984.00 and, the most frequent profitability was L.500.00.

In average, biweekly income of the clients' income, at that time, was of L.5,496.00, the median L.4,600.00 and the most frequent income L.3800.00. these data is not consequent with the monthly income reported in the household survey in 1999⁶¹, due to problems in the collecting of data, therefore, from this point of view is of little use. On the other hand, average household income amounted to L.1,047.00 biweekly, median was L.995.00 and the mode 600.00. When considered that the basic household basket cost for 1999 was L2,509.00 per month⁶², it can be concluded that clients attracted at that time did not cover the cost for such basket, confirming the level of poverty seen in clients selected by the Program during its initial stage.

⁶¹ According to the monthly income in 1999 was L.698.00. (see Estrategia de Reducción de la Pobreza. Honduras, Marzo 2001. Pp18).

⁶² Ministry of Labor.

5.2 Tendency of the Microentrepreneurs Income and Profits

With the purpose of evaluating the changes provoked by the Program in their clients' businesses, they were surveyed on the variations seen in their income and profits with first and last loan granted. Chart 17 shows that the average income of the Microentrepreneurs was L.22,440.13, with the first loan granted and L.59,217.20 with the last loan⁶³. The analysis of the quintiles indicates that with the first loan, 20% of the clients had incomes lower than or equal to L.2,952.00 and with the last loan their level of income changed to L.6,185.60. Besides with the first loan 20% of the clients had income of L.26,880.00 and, with the last loan their income increased to L.77,560.00. This shows the impact that, from the income point of view, the Program had on their clients during the period analyzed.

Chart 17
CREEME Program

INCOME AND PROFITS OF ACTIVE MICROENTREPRENEURS DURING THE FIRST AND LAST LOAN GRANTED BY THE PROGRAM

(In Lempiras)

Indicator	Income I Loan	Income Last Loan	Profits I Loan	Profits Last Loan
Media	22,440.13	59,217.20	7,202.05	16,113.83
Median	7,500.00	22,206.50	2,700.00	9,300.00
Percentile 20	2,952.00	6,185.60	920.00	2,400.00
Percentile 40	5,000.00	15,355.20	1,830.00	6,016.00
Percentile 60	10,920.00	32,841.60	4,252.00	11,962.00
Percentile 80	26,880.00	77,560.00	9,600.00	23,600.00

Source: Microentrepreneurs Survey

On the other hand, 20% of the clients with lower incomes increased their profits between the first and last loan from L.920.00 to L.2,400.00. While 20% of the clients with higher incomes, saw their income go from L.9,600.00 with the first loan to L.23,600.00 with the last loan granted.

When considered that these values do not represent a real profit, since they constitute the self-salary of the Program's clients, it can be concluded that despite CREEME has caused changes in the incomes and profits of its partners, their living conditions are still critical. It can be proved by observing that at the time of the evaluation, 40% of the clients got profits lower than L.6,016.00 during the four months of the loan granted, that is their self-salary was L.1,504.00 per month, which is not enough to cover the cost of the household basic basket.

Even though the tendency of the above mentioned indicators shows that the Program has provoked increases in the incomes and profits of the Microentrepreneurs, if we consider that 48% of current clients are located in the first cycle, that is they are of recent entry and, for that reason, it is difficult to measure the tendency of their incomes and profits, the same is conditioned by the weight of changes occurred in the Microentrepreneurs businesses that have been benefited with more than one loan. The impact of the Program on business conditions, has a higher influence on the Microentrepreneurs currently in cycles 7 and 8, causing significant changes in their capital and sales. This is ratified when analyzing the tendency in incomes, costs and profits of two Microentrepreneurs randomly selected, taking as only criteria, their seniority in the Program.

⁶³ It corresponds to the average income obtained by microentrepreneurs during the loan period, which is four (4) months.

Mr. Santos Severino Flores, 65 years old, current president for the CCC Hermanos Unidos, Colonia Los Pinos, Tegucigalpa, a marginal settlement west of the capital city, became a partner of the Program 28 months ago. So far, seven (7) loans were granted to him and he owns a small ambulant candy selling stand (candies, cookies, cigarettes, etc.)⁶⁴, near a urban bus station, located in a high populated settlement in the capital city. He has a twelve-hour workday, starting at 6: 00 AM and ending by 6:00PM. With the first loan granted, he got incomes of L.2,500.00, costs of L.2,319.00 and profits of L.181.00 that is his profitability was 7%. Don Santos continued working with the Program and with the third loan he saw his business conditions greatly improved, since he had incomes of L.3750.00, costs of L2696.00 and a profit of L.1054.00 ((39%). Four months ago CREEME, granted him a seventh loan, observing that his income had increased to L.4800.00, his costs to L.3300.00 and his profit to L.1500.00, for a profit margin of 45%.

Mrs. María Francisca Reyes, 55 years old, lives in Cedeño, a coastal community in the Pacific Coast of Honduras. 28 months ago she decided, along with a group of friends, to form the Community Credit Committee Brisas del Mar. Her activity, just like many other people living in that community, is the purchase and sales of seafood. With the first loan granted by the Program, her income was L11,550.00, her costs L.9,050.00 and her profit was L.2,500.00 (27%). With the third loan, her income increased to L.13,800.00, her costs to L10,800.00 and her profit to L.3,000.00 (22%). With the fifth loan, her income increased to L. 13,500.00, her costs to L.9,575.00 and profit to L.3,925.00, that is 40%.

Chart 18
CREEME PROGRAM

TENDENCY OF INCOME, COSTS AND PROFIT OF TWO CLIENTS

Name and Cycle	Income	Cost	Profit	
			Valor	%
Santos Severino Flores				
I	L.2500.00	L.2319.00	L181.00	7
III	3750.00	2696.00	1054.00	39
VII	4800.00	3300.00	1500.00	45
María Francisca Reyes				
I	11550.00	9050.00	2500.00	27
III	13800.00	10800.00	3000.00	22
V	13500.00	9575.00	3925.00	40

Source: Chart based on the Program's business plans

With this it can concluded that, from the point of view of the clients' incomes and profits, the Program has caused important positive and, therefore, is contributing to reduce the clients' poverty and to improve their living conditions

5.3 Businesses Contribution to the Microentrepreneurs Household Income

Graphic 3 shows that the average business contribution to the microentrepreneurs' household income, grew from L.2,381.00 to L.2,603.00 during the period 2000-2001 in current terms and

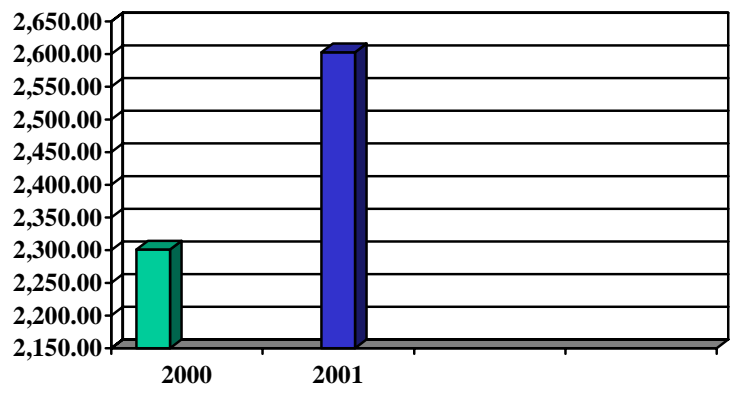
⁶⁴ In Honduras known as chiclera.

practically, given the inflationary process the country is experiencing, their income remained the same in constant terms. This could be linked to the fact that 66.3% of Microentrepreneurs are of recent entry to the Program, meaning they are located between cycles 1 to 3, to due to the fact that there were negative variations in the other sources of income for their households.

Graphic 3
CREEME Program

MONTHLY AVERAGE CONTRIBUTION OF BUSINESSES TO THE CLIENTS' HOUSEHOLD INCOME YEARS 2000- 2001

(Lempiras)



Source: Microentrepreneurs survey.

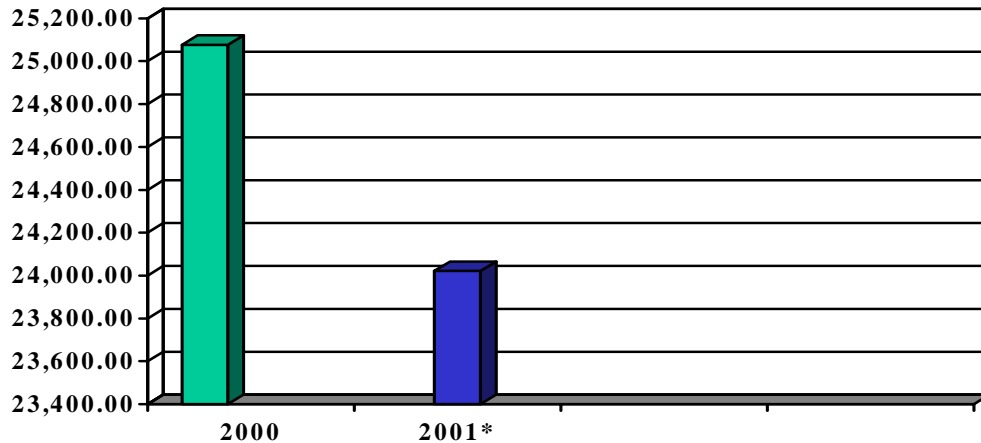
Considering that 47.6% of existing clients as of October 2001, were on the first cycle, 12.6% in the second and 6.1% in the third and, therefore, their period of relationship with the Program is of a maximum of 4, 8, and 12 months, respectively⁶⁵, which possibly is relatively short, for CREEME to have incidence on the contribution the clients make to their household income. Variations in the income that Microentrepreneurs, located at the time between the fourth and seventh cycle, made for their households, with the first and last loan granted (see Graphic 4). It was seen that the tendency was to the low, since average contribution decreased in 2%. It possibly responds to recession Honduras is currently experiencing as a consequence of Hurricane Mitch.

⁶⁵ Each cycle lasts four (4) months.

Graphic 4
CREEME Program

MONTHLY HOUSEHOLD INCOME OF CLIENTS LOCATED IN CYCLES 4 TO 7 IN THE YEARS 2000
AND 2001

(Lempiras)



Source: Microentrepreneurs survey.

* Figures as of September, projections for the whole year.

In comparative terms with monthly income average nationwide, it can be seen that the households of Program clients located between cycles 4 to 7, surpass averages reported in the Human Development Report, Honduras 2000, PNUD; furthermore, taking into consideration that most clients are women and that, according to the report submitted in 1999 by that organization, the average income for the households, where women are the head, was L.2,355.00, it is clear that female clients are surpassing that level and even, surpassing the average income for men, that at the time amounted to L.3,483.⁶⁶

5.4 Tendency of the Microentrepreneurs' Income Distribution

Increase in the income of the Microentrepreneurs businesses, originated increases in the procurement of merchandise, which is considered one of the most important items for the development of businesses. Chart 19 shows that the investment in merchandise went from representing an average of 76.5% with the first loan, to 81% with the last loan. On the other size, the employees' salaries when from 1% to 2%. In the first case means, that is supporting one of the lines that make business dynamic. For the second, it possibly responds to modifications to the minimum wage made by the Government of the Republic, during the period analyzed.

⁶⁶ UNDP.Human Development Report, Honduras 2000. Pp 215.

Chart 19
CREEME Program

AVERAGE BUSINESS INCOME DISTRIBUTION OF ACTIVE MICROENTREPRENEURS WITH
FIRST AND LAST LOAN

(%)

Line	Loan %	
	First	Last
Against delivery	76.5	81.0
Machinery and equipment	1.0	-
Self-salary	13	11.0
Employees wages	1.0	2.0
Severance payment	6.5	4.0
Other loans	0.1	0.5
Rent	0.1	0.5
Utilities	0.5	-
Savings	0.7	1.0
Others	0.7	-
Total	100.0	100.0

Source: Microentrepreneurs survey

On the other hand, no significant modifications to savings were seen, probably due to the fact that household needs exhaust all of their resources.

5.5 Products and Basic Services Expenses

This section serves the purpose of determining the incidence of the Program on the living conditions of the Microentrepreneurs households served, by means of the analysis of variations in the resources they assign to the procurement of basic services and products in their homes.

Chart 20 shows that during the year 2001, average monthly expenses for the Microentrepreneurs households amounted to L.1,573.00. The median of their expenses was L.1,439.00. The analysis per quintiles indicate that 20% of partners households have expenses inferior or equal to L.882.00 and, that 20% of households with higher expenses was located in L.2,094.00

Chart 20
CREEME Program
MONTHLY EXPENSES OF ACTIVE MICROENTREPRENEURS

October 2001
(In Lempiras)

Indicator	Lempiras
Media	1,573.80
Median	1,439.50
Mode*	570.00
Minimum	38.00
Maximum	7,358.00
Total	264,398.06
Percentile 20	882.00
Percentile 40	1,297.80
Percentile 60	1,587.60
Percentile 80	2,094.00

Source: Microentrepreneurs survey

It can be concluded that most of the Program partners, do not even reach the cost of the household basic basket, as per information provided by the Ministry of Labor, it approximates to L.3,420.00 as of October 2001. It confirms the level of poverty that the CREEME target population is currently experiencing. Nevertheless, the Program's work from its beginnings up to date, has had positive effect in the level of living of its clients, since the average of their income increased by 50% and the median in 45%.

Chart 21 shows the average for monthly expenses of Microentrepreneurs during the years 2000 and 2001, putting emphasis on those relating to the household basic basket.

Chart 21
REMAM – CREEME Program
AVERAGE OF MONTHLY EXPENSES IN THE HOUSEHOLDS OF ACTIVE CLIENTS BY LINE
YEARS 2000 AND 2001

(%)

Line	Media	
	2,000	2001
Food	51.3	44.7
Education	7.5	9.6
Utilities	3.9	4.4
Health	6.5	28.2
Rent	11	9.2
Recreations	8.9	3.9
Others	10.9	-
Total	100.0	100.0

Source: Microentrepreneurs survey

The bigger weight on expenses made by Microentrepreneurs in their households is on food with 51.3% of the total, during the first year and 44.7% in the 2001. Tendency to the low that in relative terms this line experienced, responds to bigger demands in expenses the clients had to make in health during the year 2001, going from representing 6.5% during the first year to 28.2% during the year 2001. This could indicate that medicine costs increased, though most clients attend public health

centers, these frequently do not have the medicines required to treat the pathologies their families presented. After those lines indicated, the bigger weight is seen in education expenses and home rent.

5.6 Employment Generation

Chart 22 displays employments generated by the Program microenterprises. Without considering the employments of clients directly served by CREEME, business are currently generating approximately 2940 employments, for an average of 1.5 employments per microenterprise. From the employment generated, 77% benefits women and the remaining 23%, men, reflecting that from this point of view the Program is well focussed.

Chart 22
CREEME Program

EMPLOYMENT GENERATION IN ACTIVE MICROENTREPRISES BY CYCLE AND SEX

Cycle	Men Employed		Women Employed		Total	
	No	%	No	%	No	%
1	40	20.7	153	79.3	193	65.7
2	12	27.9	31	72.1	43	14.6
3	0	0	9	100.0	9	3.1
4	9	37.5	15	62.5	24	8.2
5	2	25.0	6	75.0	8	2.7
6	1	10.0	9	90.0	10	3.4
7	3	42.9	4	57.1	7	2.4
Total	67	22.8	227	77.2	294	100.0

Source: Microentrepreneurs survey.

When considering the employments of direct partners, whom as of October 2001 amounted to 1974 and the projection of jobs that the Program is generating as per this research⁶⁷, the impact on the labor sector is 4,914 jobs. This figure corresponds to 1% of paid jobs and to 0.8% of paid and not paid jobs, generated by non-agricultural micro and small entrepreneurs,⁶⁸ that is, those in trade, industry and services.

5.7 Savings Habits

With the purpose of determining the incidence of the Program in the promotion of savings in active Microentrepreneurs, are asked whether before entering the Program they had this habit (see chart 23). It was determined that 46.3% did not have this habit.

⁶⁷ The sample of interviewed microentrepreneurs was 10%. By projecting generated employments for 100% of the businesses, that is 294 jobs times 10, the result is 2940 jobs.

⁶⁸ Cid Gallup. "Non-Agricultural Micro and Small Business Survey in Honduras MYPES 2000"

Chart 23
CREEME Program

SAVINGS HABIT IN ACTIVE MICROENTREPRENEURS BEFORE ENTERING THE PROGRAM

Description	Frequency	%
Yes	86	48.59
No	82	46.33
Total	177	100

Source: Microentrepreneurs survey

According to the clients opinion, among the benefits that the savings practice has for them is that it constitutes a reserve fund for household emergency cases, a backup to become independent in the future and a way to manage the finances in their homes.

When inactive Program Microentrepreneurs were consulted if they continued saving, not it was not possible to estimate amounts saved, it was determined, that when demanded that they saved 10% of the amount lent by the Program, it created a savings habit. It shows that CREEME, has been effective in that aspect.

VI PROGRAM ADEQUATIONS TO THE LAW REGULATING PRIVATE ORGANIZATIONS FOR FINANCIAL DEVELOPMENT (OPDFS)

On February 23, 2001 the Law regulating the Private Organizations for Financial Development (OPDFS) became effective. It incorporates a series of attributes and restrictions that the Program has to measure, to define the road to be followed in the future, either by abiding to the law or continuing with its current status. In any case, according to what is established by the transitory dispositions of the law, the term to adjust to the law ends on February 23, 2003.

Title III of that Law⁶⁹, establishes a series of attributions and obligations for the Organizations that decide to work within this legal rule.

Article 38 identifies operations that the regulated institutions may perform:

- 1) Grant credits in national or foreign currency;
- 2) Get loans from public or private, national or foreign financial institutions, for the accomplishment of the organization's objectives. One OPDFS from the first level could get foreign loan for an amount not higher than five times its patrimony. OPDFS from the second level could obtain foreign loans up to an amount not higher than seven times its patrimony;
- 3) Receive from its registered borrowers, savings and fixed term deposits;
- 4) Administer special funds for Programs established by other persons or by public or private, national or foreign institutions, with the specific purpose of supporting the micro and small business sector;
- 5) Celebrate financial lease contracts with their borrowers to facilitate the procurement of fixed assets required by micro and small business;
- 6) Accept from its registered borrowers as guarantee, securities drawn at a term that come from their operations, related with the production or the trade of goods or services;
- 7) Invest in securities in national or foreign currency, excess cash, that are generated in the management of their operations;
- 8) Discount bills of exchange, IOUs and other documents from their registered borrowers, with the purpose of expediting trade, production and service transactions; and to perform collection operations derived from trade transactions of their registered borrowers.

Article 39 indicates that the OPDFS obligations within the Law are as follows:

- 1) Keep standardized accounting records as per the respective manuals;
- 2) Perform an annual external audit that certifies their financial reports;

⁶⁹ La Gaceta. Ley Reguladora de las Organizaciones Privadas de Desarrollo que se Dedicaron a Actividades Financieras (Decreto No. 229 –2000). República de Honduras. November, 2000.

- 3) Perform an annual inspection that evaluates the OPDF's financial and administrative performance; and,
- 4) Make an efficient administrative and financial action that make their sustainability viable.

6.1 Implications for the Program

To be within the Law, the Program has to specialize in the rendering of financial services to micro and small business. Since CREEME is currently functioning as a CARE Honduras Program, that besides providing micro financial services develops other activities, CREEME should detach from the actual legal and administrative context.

Choosing not to abide by the Law would force the Program to live from donations negotiated by CARE and from the current patrimony, since according to numeral 2 from article 38 of the Law, only OPDFs that show their legal capacity, will be able to opt to loans from public or private institutions. Under the current financial conditions of the Program, making this type of decisions would mean its closing by the 2004, as it was demonstrated in the chapter regarding its financial performance.

On the other side, not abiding by the new Law inhibits the Program to perform other types of transactions; e.g., not receiving deposits that properly managed would report them income that would contribute to cover their cost and capitalize. Also, the management of special funds. Consequently, its permanent action range would be the one currently being performed.

The Law implicates a voluntary incorporating, in terms of enjoying the concessions it makes. Organizations dedicated to microfinancing, may choose to continue operating with services offered, or with a different financial branch; e.g. opening a financial institution. For CREEME to be within the new Law, it has to get decentralized from CARE.

6.2 Options for the Program

Following are the scenarios the Program face in the promulgation of the new Law:

- a) Function on a manner not regulated by the Law.
- b) Function on a manner regulated by the Law.

Chart 1 shows advantages and disadvantages of these options.

Chart 1
CREEME Program

ADVANTAGES AND DISADVANTAGES OF THE OPTIONS WITHIN THE LAW REGULATING PRIVATE DEVELOPMENT ORGANIZATIONS

Options	Advantages	Disadvantages
<p>Functioning in unregulated manner</p>	<p>a) Take advantage of the CARE prestige to negotiate grants, get clients. b) Expedite coordination with other Mission programs. c) Implementation of the Mission's economic security strategy</p>	<p>a) Its patrimony is limited to donations it can negotiate (which with time is less likely, since resources are more scarce), to current capital and its recycling, b) It does not have access to loans from public and private institutions. c) In current financial institutions, there is a tendency to disappear, if not fed with fresh money. d) Within the CARE salary policy, the weight of the current payroll is an important burden for operational costs, which is difficult to counteract to reach the Program's equilibrium point and from there, obtain profitability. e) Inefficiency in loans disbursement and in the rest of the administrative paperwork. f) Continue paying the Mission high shared direct costs.</p>
<p>Functioning in a regulated manner</p>	<p>a) Promote efficiency in the Program performance. b) Can provide other services that can report profit to be capitalized and take advantage of the law. c) CARE would always have the control over the microfinancing activities currently performed by the Program, if it is its main partner. d) Administrative paperwork the Program develops would be more agile and, in consequence, a more efficient organization. e) The CARE Finances department decreases its workload and becomes more efficient. f) It is subject to the</p>	<p>a) It reduces the possibility to use the Program as a tool to transfer resources as grants, to populations affected by events similar to Mitch b) If an awareness process is not developed on the modifications to be done in the Program status, it is possible that a clients' desertion process possibly occur, since they could sense that credit conditions would change.</p>

	<p>supervision from the Banking and Insurance National Commission and, therefore, the program performance would be systematically evaluated.</p> <p>g) It costs would be lesser because it would not pay shared direct costs, that currently are a burden for the Program.</p>	
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6.3 Recommended Modality to Serve Microentrepreneurs in the Immediate Future

From the previous perspective, it is recommended that CARE facilitates the creation of an organizations regulated by the Law for Private Organizations for Financial Development.

From this point of view, the Program will broaden its services and compete in equal conditions with the rest of the organizations that abide by the Law.

By obeying the law and having a patrimony of L.10,000.000.00, CREEME could have the change of becoming a second floor OPDF, which would allow it to allocate funds at the level of a microfinancing institutions network and consequently, to have incidence on the living conditions of a bigger number of Microentrepreneurs.

On the other hand, by being within the Law, the CREEME resources verification and follow up would be subject to the National Banking and Insurance Commission (CNBS). It would ensure an adequate management of resources and the accomplishment of norms set by the Law and its regulations. Furthermore, it would force the Programa to comply with performance indicators defined by the CNBS and, consequently, to be more efficient in operational and financial terms.

6.4 Adaptations to be Made by CARE within the spirit of the Law regulating Private Organizations for Financial Development

At the time of this evaluation, the Rules and Regulations of the Regulating Law for Private Organizations for Financial Development, mentioned in Article 50 of the Law, existed as a preliminary document; therefore, recommendations incorporated into this chapter will be based on plans incorporated in the Law and the aforementioned document.

Should the Mission decide to create such a regulated OPDF, it would have to carry out the following changes.

6.4.1 Legal

To enforce the Law Regulating Private Development Organizations that are committed to Financial Activities.

To get an exclusive legal capacity for the Mission's current Microfinancial Program and look for founding partners for the OPDF that promote micro and small business financing.

Since the Program's patrimony is lower than L.10,000,000.00, it is advisable that it becomes a First Level OPDF.

VII POST MITCH PROGRAM RESPONSE

This chapter analyzes the response the Program provided Microentrepreneurs affected by Hurricane Mitch, at the end of October 1998.

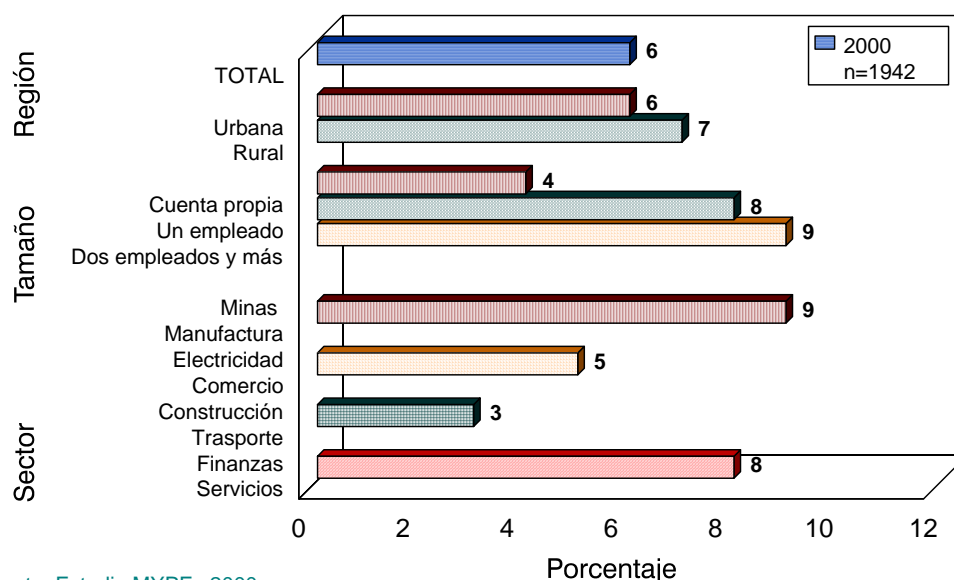
7.1 Microentrepreneurs Affected at the National Level

Hurricane Mitch affected one way or another 100% of the national population. Among the most notorious social consequences are 1.5 millions affected, human losses 5,657 dead and 8,058 missing. Close to 441,150 persons lost or suffered damages to their homes. In economic terms, damages amounted to \$3,794 millions.⁷⁰

Graph 5 shows microenterprises affected by Mitch at the national level, as per region, number of employees and production sector. It is estimated that Hurricane Mitch affected 6% of the micro and small businesses working at the end of October 1998. Microenterprises suffering the bigger impact are mostly located in the rural region (seven percent from the total), those having two or more employees and the ones performing activities in the manufacturing, trade and services sectors.

⁷⁰ Government of Honduras. National Reconstruction and Transformation Master Plan.

Graph 5
 MYPEs affected by Mitch
 as per region, number of employees and productive sector
 – Percentages /n=1942
 -2000-



Fuente: Estudio MYPEs 2000.
 Cuadro estadístico 74, Muestra Nacional.

60% of microenterprises affected by Hurricane Mitch, also experiences losses in inventories and merchandise. 31% experiences damages to their installations or premises, while 19% lost machinery and, 8% in other aspects.⁷¹

7.2 Damages Received by Microentrepreneurs

Chart 25 shows damages suffered by the Program clients because of Hurricane Mitch. The bigger impact in active Microentrepreneurs who suffered direct damages with Hurricane Mitch, took place in their homes, since 49.4% stated having lost them completely and 27.5% indicated having suffered partial damages to them.

Chart 25
 CREEME Program

DAMAGES CAUSED BY HURRICANE MITCH AMONG MICROENTREPRENEURS

Damage	%
Total home	49.4
Partial home	27.5
Total Business	17.4
Employment	1.4
Credit Portfolio	4.3
Total	100

Source: Microentrepreneurs survey.

⁷¹ Cid Gallup. Non-agricultural Micro and Small Business Survey in. MYPES 2000. Pp16.

At the economic activity level they perform, it was determined that 17.4% completely lost their business, 4.3% experiences losses because their clients did not pay them the debts acquired for credit sales and, 1.4% was jobless.

Chart 26 shows active Microentrepreneurs transferred to World Relief that experienced damages because of Mitch. According to the survey done with Microentrepreneurs, it was se determined that 34.5% of the ones currently active and 28.6% of those transferred to World Relief, suffered direct damages due to Hurricane Mitch.

Chart 26
CREEME Program

ACTIVE MICROENTREPRENEURS AND TRANSFERRED DAMAGED BY MITCH

Microentrepreneurs	%
Active	34.5
Transferred to W.R.	28.6

Source: Microentrepreneurs survey.

In that respect is important to clarify that in view of the magnitude of Hurricane Mitch, it caused damages virtually at the level of all the national economy and, from that point of view, possibly many of the Microentrepreneurs interviewed, though reporting not suffering damages, surely were indirectly affected since some of the consequences from the recessive process the country experienced are the reduction in production and sales and the increase in unemployment.

As per the previous statement, it was determined that during the Post Mitch period the Program served persons, though not directly affected, their communities were, which is right since in other aspects, the objective was to provide services that lower costs and generate employment opportunities.

7.3 Program Response to Microentrepreneurs

During the Post Mitch period (February 1999 to January 2000), CREEME served 2,970 families organized into 214 Community Credit Committees, by providing credit for an amount of L9,773,200.00.

The activity developed by the Program during the Post Mitch era caused that the microenterprises of these clients reopen their businesses as a consequence of the credit attention provided and of the savings habit generated among them that elevated their self-esteem and the economic security of their households.

Besides the impact of the activities developed was bigger, when considering that Microentrepreneurs organized into 214 Community Credit Committees, in 13 of the country’s municipalities, the most affected by this natural phenomenon.

An important achievement at the administrative level, was the expeditious definition of the administrative and operational structure that was going to be used to serve clients, hire and train Program staff and the definition of the credit policy to be used. It allowed the development of microcredit activities in a more efficient way.

Having granted clients with a seed capital and a subsidized rate, though not a usual practice for an organization that deals with microcredit, contributed to reactivate the clients' businesses and the creation of a solid link between clients and the Program. From the Post Mitch era perspective, subsidies policy was effective, since it provided Microentrepreneurs with the change to have an starting point for a fresh start and to continue their work. However, that policy keep active for a long time, the Post Mitch period ended January 2000, the Program kept a subsidized rate up to January 2001.

CARE's microcredit Program proved to be effective under disaster conditions; consequently, in the future, should events similar to Mitch happen, it is appropriate to use this strategy to reactivate Microentrepreneurs; however, its patrimony should not be used for this purpose, since it would decapitalize it. Anyway, donations should be negotiated that have similar purposes to the ones negotiated during post emergency. Likewise, it is right for funds lend to clients under the donations received, to observe a subsidized rate, notwithstanding that its active period should be the same as for the post emergency.

Regarding the Program's incidence on credit policies of the micro financial market was an important accomplishment, by keeping low interest rates, the Program caused that two of the most important micro financial organizations to lower their interest rate. Training on the management of administrative and parliamentary aspect of the groups, was also perceived as an important Program achievement.

Based on the previous arguments, it can be concluded that actions developed by the Program during the Post Mitch era were effective under disaster conditions, since the subsidies and financing granted contributed to the reactivation of the businesses of the 2970 Microentrepreneurs served. One important consideration for this context is that at the moment there were no possibilities for the clients to get resources from other sources.

According to the clients, help provided by REMAM – CREEME was timely and though it did not cover all of their losses, it allowed them to reinsert themselves into the country's economic life. Furthermore, the role of micro credit programs was an effective one in disaster conditions for the generation of a self-esteem level and economic support that surely clients did not have before Mitch. The generation of the savings habit was a fundamental element in this regards.

7.4 Other Assistance Provided by CARE

Besides financial assistance provided by CARE, through its REMAM project, during the Post Mitch era, it served with other types of services 4.7% of active Microentrepreneurs and, 25% of the ones transferred to World Relief.

38% of Microentrepreneurs receiving other helps were benefited in their homes; 30.8% were given food and the other 30.8%, received help in other forms.

As for other helps they would have liked to receive, Microentrepreneurs expressed medical attention, since many skin diseases spread, pneumonia and malaria, also demanded family planning programs, since because of weather conditions their treatments were interrupted.

IX CONCLUSIONS

9.1 The process developed by the Program during the Post Mitch era was relevant for the generation of opportunities so that the target population reactivate their businesses and generate employments. From this perspective, the subsidies policy was right, for it gave Microentrepreneurs the change to have a starting point to begin again and to continue their work. Therefore, CREEME's work under disaster conditions was effective. Also its role in the generation of a self-esteem level and economic backup was relevant, that their clients surely did not enjoy before Mitch.

9.2 From the clients' income and profits point of view, the Program has caused important positive modifications; and therefore, is contributing to improve their living conditions. In comparative terms with the monthly income average at the national level, it can be seen that Program clients' households located between cycles 4 to 7, surpass averages reported in the Human Development Report, Honduras 2000 from the UNDP.

9.3 The Program's operation has been conditioned by the application of a subsidies policy that was implemented during the Post-Mitch era (emergency), considering the requirements from donors, where the objective was to reactive the economies of Microentrepreneurs affected by this natural phenomenon. Because the subsidies policy was kept for a long time. Also because of the transfer to World Relief of the clients from the Northern region, a high staff desertion, the lack of flexibility in the implementation of a credit policy, that adapts to market circumstances and, and inadequate information system. All of these factors combined with a unfavorable cost/income relationship, are promoting the inefficiency in the performance of the Program.

9.4 During the period analyzed, the Program has not been self-sufficient in operational and financial terms. Its income-expenses relationship for 1999 was -279.5%, in 2000 -151.5% and, in 2001 -204%. The reasons for this tendency were listed under conclusion 9.3.

9.5 Starting February 2002, the legal context for the Law Regulating Private Development Organizations will regulate the OPDFs dedicated to financial activities and their regulations. Even though the Program currently functions under CARE's structure, it can be foreseen that to encourage its sustainability and growth, it should make important legal and operational changes, visualizing its decentralization from the Mission; therefore, its legal context is perceived as highly relevant.

9.6 It is clear the negative effect it had for CREEME, from a financial rationale, having transferred to World Relief clients from the Northern region. Though from the point of view of the Mission's policies, the same is correct, since Microentrepreneurs from the North Coast have comparative advantages, because it is the country's main pole of development and that there are other regions that, given their socio-economic conditions, need the Program's contribution.

9.7 The credit portfolio reported by the Program to October 2001, represented 1.4% of the portfolio managed by the Fundación Covelo network, which includes organizations such as Finca, World Relief, HOPE, IDH, ODEF, INHDEI and the Fundación Covelo itself. Considering that these organizations are the biggest in the country, it can be concluded that the actual impact of the Program's credit portfolio is reduced.

X RECOMMENDATIONS

10.1 It is right for the Program to provide assistance to population affected in situations of disasters similar to the Post Mitch era. However, funds to be transferred to the population should not be donations. At the same time, it is right that funds lent to clients within donations received, have a subsidized rate; nevertheless, its life span would be the same as for the post emergency.

10.2 With the purpose of impacting on the living conditions of a larger number of clients, the Program should intend that in the long run groups it serves, due to the improvement on their living conditions, have access to the formal financial system. It is possible that in the degree it encourages its disposition for savings and capitalization, low partners rotation, efficiency of the individual and group managerial and parliamentary capability and the profitability of businesses. Furthermore, it should expand its coverage to other regions of the country, introduce other credit modalities and improve efficiency in its operational and financial performance.

10.3 With the purpose of continuing with the contribution to the improvement of living conditions of exiting Microentrepreneurs in the country and have incidence on the credit policies applied in the microfinance industry. For conditions under which these economic agents get resources to be more favorable than the current ones, CREEME should continue providing microcredit services and promote its projection towards other regions. In the latter case, based on its population microcredit needs and on the Mission's policies, its expansion to the Western region of the country is recommended.

10.4 The tendency of the indicators analyzed for Management and Productivity, tells us that the Program performance and, consequently its operational and financial self-sufficiency are not adequate. Therefore, it is recommended to make efforts to increase its performance, first via increasing field staff productivity and, later, via the hiring of additional field staff, that attract more clients and increase the portfolio amount. Also, steps should be taken to reduce operational expense and to soften the credit policy. With these purposes, a fundamental point is to incorporate other credit modalities; e.g., Solidary Groups and Individual Loans.

10.5 Considering that to continue working as a CARE Program, inhibits CREEME from enjoying benefits granted by the Law regulating OPDFs; among those, not being able to opt for intermediary financing (loans) and, therefore, it will have to survive with donations and the recycling of its capital which, under its present financial conditions, would promote its closing in the mid run and prevent it from competing in equal conditions in the microfinance market, the strategy it should adopt, within the mentioned Law, is the decentralization of its operations from the Mission. In this case, the creation of an organization where CARE is the main partner is recommended.

10.6 With the purpose of not affecting its financial and operational performance, if the Mission decides in the future to carry out exiting processes from a region the Program is serving, is recommended that this be done in a gradual way. Besides in the first instance, other regions where CREEME is working should be strengthened and, later on to proceed with the transfer or exit.

XI LESSONS LEARNED

11.1 Transition of the REMAM Program to the CREEME Program

The Program began in February 1999 under the figure of a project called REMAM, its purpose was to reactivate in an eight-month period (Post Mitch period), some 3000 Microentrepreneurs homes (15,000 persons).

As of September 2000, REMAM started a new phase, adopting the name of CREEME Program CREEME (Economic Growth for the Microentrepreneurs), always with the organization, credit and training components used during the previous phase and defining as its core objective the increase of the capacity to generate enough income to meet basic needs of the Microentrepreneurs being served by the Program, and to maintain and increase a savings fund that allow them to get goods necessary to stabilize the household economy.

The indicators for the evaluation of the first phase were clearly defined. In the case of the CREEME phase, indicators that would allow carrying out an adequate monitoring and evaluation process were not defined.

Lesson Learned:

The definition of efficiency and efficacy indicators let us determine advances promoted by the Program in the living conditions of the target population and, in their financial and administrative performance. In this sense, is urgent that the Program defines indicators that will let it carry out an adequate monitoring and evaluation process.

11.2 Transfer of Clients from the North Region to World Relief

In October 2000, the Program refocused its efforts from the geographical point of view, within the Mission's programmatic priorities for the next years, deciding on exiting from the country's Northern Region. In financial terms, the repercussions were shocking, since in other aspects, the credit portfolio decreased 29% and the perception of the loans interests, decreased 30%.

Lesson Learned:

Detaching the Program clients, without having a plan that promotes the clients' incorporation, that substitute them in the short run, decreases their income and may cause the closing of the Program. Therefore it is advisable that in the future the positive and negative effects a measure of this type have from the financial, operational and political perspectives, be thoroughly analyzed. Based on it, strategies should be defined that decrease the impact their implementation would caused on these organizations.

Initially, it was forecasted the transfer of 70 CCCs, however, only 33 were transferred. Among the causes for this level of desertion, we find the lack of monitoring and evaluation of the process by World Relief and CREEME. Especially during the final stage of the transfer and its execution during a very prolonged period, which created uncertainty among Microentrepreneurs.

Lesson learned

Every process implemented should be closely monitored and evaluated by the Program senior level. To this effect, indicators will be defined that allow the determination of deviations regarding goals and objectives defined and identify problems blocking their execution. Based on it, the necessary measures will be taken for its execution to be efficient and effective.

11.3 Credit Policy of the Program

The Program has worked based on a conservative credit policy, whereas the Community Banks modality stands out, which will not allow the clients the access to other financing modalities and options for term, amounts and securities different from the current ones. This is a cause for the desertion of clients and for not accomplishing such policy.

Lesson Learned

Not periodically reviewing the credit policy, with the purpose of competing in the microfinancial market and adapting it to the Program clients' needs, regarding amounts, terms, payment times and guarantees, causes discomfort and desertion of the partners and stops CREEME growth.

11.4 Training

Between February 2000 and April 2001, the Program set the objective of training 1500 Microentrepreneurs in the entrepreneurial and technical areas.

According to reports made, within this component, it was possible to train 1792 Microentrepreneurs, representing 119% of execution in relationship with the goal of training 1500 Microentrepreneurs.

The application of acquired knowledge by the Microentrepreneurs is low, since at the moment of granting them the last loan, only 2.3% was using the cash book, 5.1% the clients debts book, 1.1% the suppliers debts book and the general balance and the income and profits book and, 2.8% the one for merchandise stocks.

Lesson Learned

The Program should see that all training process implemented, has as an objective, the application of the knowledge and, the promotion of positive changes, in the way businesses are managed and not on the training itself. To this effect, parallelly to its development, a process of monitoring and evaluation should be applied that permits the determination of the changes in the entrepreneurial culture of the clients, by means of the definition and application of indicators.

11.5 With the purpose of having a fund that contributes to promoting its graduation and self-sustainability, the Program granted the groups for capitalization, 0.5% of the monthly interests collected on loans.

Having permitted the fund to be directly managed by the CCC, provoked discomfort among the members, since Microentrepreneurs understood that this fund was a capital that could be distributed among the members of the group.

Lesson Learned

The implementation of a CCC capitalization measure, without at the same time developing a clients' awareness raising plan, that indicates the objectives pursued with the transfer of funds, causes discomfort among them y unnecessary complications for the Program.

11.6 In the subsidies policy implemented by the Program during the Post Mitch era, loans were granted to clients, charging a subsidized rate. Though the Post Mitch period concluded in January 2000, this policy was kept active until January 2001.

11.8 Lesson Learned

Keeping an interest rate subsidized, distorts the microfinancial market, giving the organization a paternalist image and negatively influences its operational and financial efficiency.

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