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HONDURAS

SOCIAL ENTREPRENEURSHIP PROGRAM

STRENGTHENING OF VILLAGE BANKS FOR WOMEN

(TC-00-06-03-9-HO)

PLAN OF OPERATIONS

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EXECUTIVE SUMMARY

Executing agency: Unidad de Servicios de Apoyo para Fomentar la Participación de la Mujer [Support Services Unit to Promote Women's Participation] (UNISA)

Amount and source: IDB (nonreimbursable technical cooperation): US\$ 160,000
Local contribution: US\$ 75,000
Total: US\$ 235,000

The Bank's resources will be drawn on the net income of the Fund for Special Operations (FSO) in foreign exchange.

Terms: Execution period: 30 months
Disbursement period 36 months

Problem to be resolved: As an option for the poor, in particular women, to gain access to financial resources, village banks represent a mechanism to help eradicate the problem of social exclusion and poverty. However, the financial, administrative, and legal structure under which village banks currently operate prevents them from growing to the point where they could in turn offer credit services at the local level. This in turn limits participation by their members in the economic and social development of their communities.

Objectives: The objective of this project is to broaden women's participation in the economic and social development of poor rural and marginal semi-urban communities in which the Asociaciones Comunes de Ahorro y Préstamo [Village Savings and Loan Associations] (ACAPs) operate. The ACAPs are organizations largely formed by women interested in joining together to gain access to credit and promote savings using joint and several guarantees. To this end, the project seeks to consolidate the self-sustainability of credit services of ACAPs that have already achieved acceptable levels of performance to obtain the legal status needed to formalize the delivery of these services within their area of influence and help strengthen the leadership and management capacity of the women who are members of the ACAPs.

The specific objectives are to: (i) transform the ACAPs into legal entities to allow them to formalize their credit services at the local level; (ii) improve the technical and institutional capacity of the ACAPs for self-management and administration of their own resources; and (iii) support the strengthening of UNISA as the entity responsible for supervising and overseeing the proper administration of the ACAP members' financial resources.

Description: **Technical cooperation component (US\$160,000).** With respect to the ACAPs, the following activities will be financed: (i) evaluation and strengthening of their management, financial and administrative capacity; (ii) identification of the most appropriate legal structure for purposes of formalizing their credit operations; (iii) legal and financial advisory services prior to and during the formalization process; (iv) design and implementation of the credit information system; (v) training workshops in credit management, accounting, auditing, and information systems; and (vi) minimum equipment for their workplaces.

With respect to UNISA, the following activities will be financed: (i) setup and equipment of a project coordinating unit; (ii) drafting and implementation of a reorganization plan for UNISA that will allow it to differentiate, organizationally and administratively, between its social development projects and the business development projects; (iii) design of a methodology to allow UNISA to operate as an advisor and supervisor for the ACAPs' credit administration; and (iv) training of UNISA staff on methodologies for supervising and monitoring formalized financial units through internships and on-site visits.

During the process of identifying the legal structure to be adopted by the ACAPs and the methodology that will enable UNISA to supervise the proper administration of credits by the formalized ACAPs, the need for both structures to be compatible with national legislation on bank supervision will be taken into account.

Local contribution (US\$75,000). Of the amount to be provided by UNISA, US\$30,000 will be used to set up a nonreimbursable seed capital fund, for which the ACAPs that are formalized will act as intermediaries. This fund is in cash and equivalent to 41.7% of UNISA's contribution. The balance of the UNISA contribution, US\$42,000, will be used to finance technical cooperation and training activities and to cover the project's operating costs. The beneficiaries will contribute US\$3,000 for training. For an ACAP to receive seed capital, it must: (i) acquire legal status that allows it to offer financial services; (ii) demonstrate that its clients' demand for credit exceeds the funds it has available to lend; and (iii) hire UNISA to provide

advisory services and supervision to ensure that the financial resources are properly managed.

Beneficiaries: The direct beneficiaries of this project will be 52 ACAPs currently served by UNISA, with a population of 813 members (97% of whom are women). Because of the geographical concentration of these 52 ACAPs, a maximum of eight will be selected—that meet previously established selection criteria—to acquire the legal status that will allow them to offer credit services to the other ACAPs and at the local level. In addition, if the model is successful, other village banks could benefit if they have the opportunity to adopt this framework and obtain advisory services from UNISA to this end.

Environmental and social review: The Committee on Environment and Social Impact (CESI) reviewed this operation at its 6 October 2000 meeting and made recommendations related to occupational health and safety. These recommendations were taken into account in the development of this technical cooperation proposal.

Strategy of the government and the Bank: The Bank's strategy in Honduras, as set forth in the country paper (GN-2070-1 of 14 October 1999), is to support the country in resuming rapid growth and poverty reduction through the reconstruction process. The 1999-2001 program agreed upon by the Government of Honduras and the Bank includes programs to promote private-sector participation, in particular microenterprises and small and medium-sized businesses.

Risks: The main risk is unwillingness on the part of the selected ACAPs to adopt a formal institutional structure within the proposed system. To offset this risk, UNISA will inform the ACAPs of the advantages, disadvantages, and selection criteria of the proposed system and will promote a transparent process for their transformation.

Another risk related to the village banks is their vulnerability to fraud by some of their members. The project will offset this risk through control and oversight mechanisms implemented by UNISA.

Special contractual clauses: Because of the need to support UNISA in project planning and administration, in particular for fulfillment of the special conditions precedent to disbursement of the technical cooperation resources, the Bank will authorize disbursement of up to US\$7,200 for purposes of hiring the project coordinator for a six-month period. This disbursement may be made once UNISA fulfills the general conditions of the technical cooperation agreement.

As a condition precedent to disbursement of the remaining technical-cooperation resources, with the exception of funding for training and

equipment for the executing agency, UNISA must submit: (i) evidence that the project coordinator has been hired; (ii) a project execution plan, including annual targets for fulfillment of the planned activities; and (iii) minutes of UNISA's Executive Board relating to the establishment of a committee to monitor the execution of this project, on which a representative from each formalized ACAP will participate.

The execution plan is to include: (i) a timetable for fulfillment of the qualitative and quantitative performance indicators according to expected results, which will make it possible to control and oversee the progress of the operation; and (ii) a compendium of updated information regarding the target population before project activities get under way, to make it possible to track changes in ACAP membership and the average level of savings in real terms in the last six months for which updated information is available.

The reports are to include qualitative and quantitative indicators for purposes of evaluating: (i) performance and progress of the formalized ACAP; (ii) the quality of the financial resource management services they provide to the other ACAPs; (iii) performance of UNISA as the entity responsible for supervision; (iv) activities related to gender issues and environment; and (v) replicability of the model.

The presentation in a format acceptable to the Bank of the strategic plan for reorganizing UNISA and of the terms of reference and short list of institutions in which UNISA staff could have their internships and on-site training will be a condition precedent to disbursement of the resources for training and equipment of the coordinating unit.

UNISA will submit annual progress reports to the Bank within 60 days after the end of each year, beginning with the year in which disbursements begin. These reports will include: (i) an update of the project execution plan and performance indicators; (ii) information on the project components implemented and their results; (iii) information on activities conducted with the beneficiaries in terms of disseminating information on the project, its advantages, benefits, and risks; (iv) dissemination and promotion on the part of the project coordinating unit on gender issues and environment; (v) progress with the implementation of gender and environmental aspects; and (vi) a project execution plan for the following 12 months. The last of these reports, which will constitute the final report, must contain a summary of the successes achieved in relation to the original objectives.

Evaluations:

In order to ensure proper execution of the program and success in achieving the proposed objectives, the Bank will use resources from the nonreimbursable technical-cooperation funding for two evaluations, to be conducted after 50% and 90% of the resources have been disbursed. The evaluators will be hired and supervised by the Bank.