

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

SOCIAL ENTREPRENEURSHIP PROGRAM

PRODUCTION AND MARKETING OF HANDCRAFTED CANDLES AS A WAY OUT FOR VICTIMS OF DOMESTIC VIOLENCE IN HONDURAS

(HO-S1003)

FINANCING AND TECHNICAL-COOPERATION PROPOSAL

This document was prepared by the project team consisting of: Olga Patricia Falck (COF/CHO); María Rivera (Consultant); Juan Carlos Perez-Segnini (LEG/OPR); María Teresa de la Torre (SDS/MSM); and Alejandro Escobar, Project Team Leader (SDS/MSM).

**PRODUCTION AND MARKETING OF HANDCRAFTED CANDLES
AS A WAY OUT FOR VICTIMS OF DOMESTIC VIOLENCE IN HONDURAS**

(HO-S1003)

EXECUTIVE SUMMARY

Executing agency: Acciones para el Desarrollo Poblacional [Actions for the Advancement of the Population] (ADP)

Amount and source:	IDB (US\$¹)	Local (US\$)	Total (US\$)
Reimbursable financing:	144,000	40,000	184,000
Nonreimbursable technical cooperation:	<u>118,000</u>	<u>30,000</u>	<u>148,000</u>
Total:	262,000	70,000	332,000

The resources will be drawn on the net income of the Fund for Special Operations (FSO).

Financial terms and conditions:

Amortization period:	15 years
Grace period:	5 years
Disbursement period:	24 months
Interest rate:	0%
Disbursement period for the financing:	48 months
Execution period for the financing:	42 months

The loan will be denominated in dollars.

Problems to be addressed: The main problem this project seeks to tackle is the lack of opportunities afforded to Honduran women, children, and adolescents who have been victims of domestic violence to reintegrate into society and move forward. The nongovernmental organization (NGO) Acciones para el Desarrollo Poblacional (ADP) has been able to create a source of income and jobs, as well as offer a turning point, for hundreds of victims of domestic violence in Honduras through its candle-making company, La Luciérnaga. This company, which operates as an ADP program, has successfully marketed its production locally, as well as in the

¹ All amounts in this document and its annexes are in U.S. dollars, unless indicated otherwise.

United States and Europe. It has not only created an alternative source of revenue for ADP, but also plays a strategic role in reincorporating into the workforce the women who pass through its doors. The women learn different trades, based on their level and capacity, and learn organized work habits and skills that enable them to more independently rejoin the mainstream of society. In most instances, according to ADP's own tracking records, the women search for paid employment or endeavour to carry out a small productive activity. The work therapy that is made available on different scales to all the women enables them to regain self-confidence and self-assurance and set life goals once they have emerged from the post-traumatic period brought on by the violence.

There are, however, a number of obstacles to expanding this initiative to reach more beneficiaries, including: (i) low levels of candle-production and quality-management training and skills. There are no standardized teaching procedures or production manuals to help the women learn their job or for their professional development or that would enable the plant to develop advanced techniques for semi-industrial production of scented candles and candle accessories; (ii) limited production levels do not provide economies of scale in production and sales, due to the lack of sufficient equipment and infrastructure for the women to produce the candles and accessories; (iii) lack of awareness of other niche markets within the decorative goods and crafts industry; and (iv) the absence of a sound marketing and supply structure with networks and groups of suppliers that can be used for long-term growth and planning.

Objectives:

The general objective of the project is to improve the standard of living of Honduran women and children in urban areas at risk for domestic violence and of women, men, and youth microentrepreneurs in the network of suppliers and candle marketers. The specific objectives are to: (i) build the technical production and marketing skills of the women who work at or in connection with La Luciérnaga, to make it a sustainable, competitive company that has a broad social impact; and (ii) strengthen the linkage between La Luciérnaga and the networks of craftswomen and the microentrepreneurs who supply inputs and accessories and who, together with the company, market La Luciérnaga's production.

The technical-cooperation resources will be used to: (i) provide technical assistance in production, quality control, and development of new products; (ii) provide technical assistance in marketing and trading; (iii) strengthen ADP as an institution and

build La Luciérnaga's management and execution capacity; (iv) strengthen the network of craftswomen and microentrepreneurs who coordinate with La Luciérnaga and market its goods; and (v) support project execution.

The financing resources will be used to capitalize La Luciérnaga, thereby enabling more women to participate in the work therapy offered by the candle factory and potentially rejoin the mainstream of society. Specifically, these funds will be earmarked for: (i) building, equipping, and launching a candle-production plant; and (ii) contributing to the working capital required for the plant to operate adequately.

Description:

This project has two components: (i) a reimbursable financing component; and (ii) a nonreimbursable technical-cooperation component.

Reimbursable financing component: (IDB: US\$144,000; ADP: US\$40,000) To help remedy low productivity at the plant and among the women who work there, the reimbursable financing resources will be earmarked for: (i) *investment in equipment, machinery, infrastructure, and movable property* (US\$119,000) specifically for producing high-quality candles; and (ii) *working capital* (US\$65,000) for procuring raw materials, for the networks of craftswomen to purchase inputs, and for plant operating costs.

Productive investments subcomponent: (IDB: US\$94,000; Local: US\$25,000) La Luciérnaga currently operates out of a rented space that has been equipped in a makeshift manner for its activities. Specifically, the women who work in and around the plant do not have sufficient space, safe working conditions, and proper ventilation. The small space also limits the number of shifts at the plant. In order to have an adequate candle-manufacturing plant and to develop the products in a professional manner, this subcomponent will make it possible to acquire facilities, equipment, and tools, including: (i) land for the plant (Local: US\$25,000); (ii) construction of civil works in Tegucigalpa for the candle plant, where the decorative candles and accessories will be produced, packed, distributed, marketed, and exported (IDB: US\$40,000); (iii) procurement of a vehicle to replace the company's current one, for transporting the inputs, raw materials, and the accessories supplied by the craftswomen in the networks (IDB: US\$19,000); (iv) procurement of manufacturing equipment, such as molds, modified metal tables, precision and laboratory equipment, and other tools for the plant (IDB: US\$12,000); (v) procurement of specialized melting,

cooling, and processing machinery from abroad (IDB: US\$15,000); and (vi) short-term consulting services for the assembly and launching of the plant (IDB: US\$8,000).

Once the planned facilities are built and are operational, ADP pledges to use these Bank-financed assets to serve the women, children, and adolescents benefiting from this project. The infrastructure will thus complement the social work performed by ADP, by providing space for candle-making and for the work therapy and training.

Working capital for marketing subcomponent: **(IDB: US\$50,000; Local: US\$15,000)** To strengthen input procurement management capacity, purchasing of accessories by the network of craftswomen, and marketing of the final products, a Working Capital for Crafts (WCFC) Fund must be established. This fund will enable the company and the network of craftswomen's groups to boost their production to keep up with the growing demand for their products. These resources are essential for driving the entire business system of the plant and of the microentrepreneur craftspeople connected to it. The WCFC funds will facilitate implementation of the business component's input-procurement and candle- and accessory-production and marketing phases. The plant must have sufficient liquidity at the outset to guarantee production and ensure that the women plant workers and suppliers are paid, so that it can compete with other plants and trading companies.

Nonreimbursable technical-cooperation component: (IDB: US\$118,000; ADP: US\$30,000) In order to boost the technical capacity of the women who work in candle-making or in coordination with La Luciérnaga, and in order to resolve the company's production and marketing, low productivity, and competitiveness problems, the technical-cooperation component will focus on the following subcomponents: (i) providing technical assistance in production, quality control, and development of new products; (ii) providing technical assistance in marketing; (iii) strengthening ADP as an institution and building La Luciérnaga's management and execution capabilities; (iv) strengthening the network of craftswomen and microentrepreneurs who coordinate with La Luciérnaga and market its goods; and (v) supporting project execution.

It is important to underscore that the terms of the loan are justified, given the company's social mission and its close ties with the activities of Acciones para el Desarrollo Poblacional. In this regard, the company not only enables women to acquire skills

and build their self-esteem through their work at the plant, but its net income financially supports the NGO.

**Environmental
and social
review:**

The Committee on Environment and Social Impact (CESI) reviewed this operation on 21 May 2004 (meeting 21-04) and suggested that the team examine health and occupational safety issues, to take the necessary steps for cleaner production. Paragraphs 4.5 to 4.7 of this proposal reflect this requirement and were sent to the Secretariat of CESI with notes on how the issue was addressed.

Beneficiaries:

The direct beneficiaries of this project are divided into three groups: (i) First, there are the 50 women and adolescent survivors of domestic violence who work temporarily (25) or permanently (25) at the candle plant. By the end of the third year, a total of 120 such persons are expected to have benefited from the project, by earning more, learning new business skills, and fully reincorporating into normal life; (ii) Secondly, there are the 120 women and youth craftworkers who currently supply inputs and accessories or who are part of La Luciérnaga's marketing chain, whose sales will rise 75%. By the end of the third year, this number is expected to reach 250; (iii) Lastly, there are the nearly 700 women, adolescents, and children who receive social services from ADP each year and who depend largely on La Luciérnaga's operations and the income from that company for their well-being. With the increase in operations, over 1,300 persons are expected to be served per year, thereby providing an essential service to the most vulnerable persons in society.

Risks:

The five *main risks* the project could face are: (i) from an economic standpoint, the candles could become less competitive, particularly if production in China rose very swiftly; (ii) from a business standpoint, demand for the candles could drop among current clients and niche markets; (iii) from a social standpoint, the craftswomen and the microentrepreneurs in the networks could lose interest in working with the project if they do not see concrete benefits in the short term; (iv) from an institutional standpoint, La Luciérnaga could adopt a business strategy that distances it from its original mission of supporting ADP; and (v) from the standpoint of the economic and social environment, a change in the exchange rate for the Honduran lempira could make La Luciérnaga's production uncompetitive compared to that from other countries.

To mitigate these risks, the project would take the following steps: (i) regarding competitiveness, the marketing component will seek to have La Luciérnaga forge new, more sound business

contacts that guarantee more frequent and standing orders; (ii) regarding a possible drop in demand, the project will work with La Luciérnaga on ongoing innovation in its products, to meet the changing demand of its clients; (iii) regarding possible lack of interest among the women in the networks, the project will identify their specific production and marketing needs, in order to develop training and technical assistance strategies that effectively resolve their marketing problems; (iv) regarding the risk related to the business orientation of the company, the project is expected to promote a closer relationship between ADP and La Luciérnaga, through strategic planning and the crafting of a business plan that aims to put other agents with a business or social vision on the Board and in the corporate structure; and (v) lastly, regarding the macroeconomic environment risk, the project, together with ADP and La Luciérnaga, will conduct an in-depth analysis of the cost structure, for information purposes and in order to take precautionary measures, in the event that external variables affect the company's cost structure.

Role of the project in the Bank's country, regional, and sector strategy:

Project activities are consistent with the Bank's strategy to enhance social and gender equity. It complements Bank support for implementation of the poverty reduction strategy, by strengthening prevention and the protection of vulnerable groups, specifically women victims of domestic violence, their families, and the communities where they live. It also complements Social Entrepreneurship Program activities.

Coordination with other official development agencies:

No other institutions are working specifically in the area of domestic violence and handicraft and business development in Honduras.

Rationale:

The project is warranted because it will: (i) support an innovative business initiative that addresses a serious social problem in Honduras, through which women victims of domestic violence manufacture candles and accessories; (ii) help boost the revenue of ADP, which is devoted to providing services to one of the most neglected and vulnerable segments of Honduran society. This will help increase the number of beneficiaries and users of ADP's services to 3,300 in three years; (iii) promote economic and business linkages for a handcrafted product that has a significant impact on creating jobs and companies in Honduras, thereby boosting the income of 250 craftswomen and microentrepreneurs in La Luciérnaga's network of suppliers; and (iv) increase the income and enhance the job stability of some 120 women who will be directly involved in candle-making.

Special contractual clauses:

As a condition precedent to the first disbursement of the resources in the productive investments subcomponent (nonreimbursable financing), ADP will present to the Bank's satisfaction: (i) the list and selection of suppliers and/or companies that manufacture the needed machinery and equipment; (ii) evidence that it has legal ownership and any easements or other ownership rights to the land on which the plant will be built and the buildings there; and (iii) evidence that the Municipality of the Central District has approved the plans for building the plant, together with evidence that it has obtained from the competent authorities all necessary permits and authorizations to begin the works, as determined by local law.

As a condition precedent to the disbursement of WCFC resources (nonreimbursable financing), ADP will present to the Bank's satisfaction evidence that it has contributed US\$15,000 in cash.

As conditions precedent to the first disbursement of the *technical-cooperation* resources, ADP will present to the Bank's satisfaction: (i) the terms of reference for the consulting and advisory services to be financed with technical-cooperation funds in the first year of the project; (ii) evidence that the project coordinator has been selected; and (iii) an execution plan, in accordance with the Bank-established format, that includes targets for fulfillment of the objectives and for project outcomes, and indicating on which of these future disbursements would be contingent.

In order to have sufficient funds for the planned expenditures in the first three months of the technical-cooperation component and the first six months of the reimbursable financing component of the project, a revolving fund will be established, with 30% of the financing and technical-cooperation resources. Those disbursements will be made in accordance with the work plan and disbursement schedule that ADP will submit for Bank approval.

Reports and evaluations:

Reports: ADP will deliver progress reports to the Bank's Country Office within 45 days before the end of each six-month period in the calendar year, as well as a final report within 60 days following the last disbursement. These reports will contain an analysis of progress made in executing the work plan, including: (i) the number of women who work at the plant, either temporarily and permanently, who receive therapy treatment as part of the candle-making process; (ii) a report outlining the application and administration of resources from the financing component, stressing the progress made in launching the

processing plant and its equipment and machinery; (iii) the level of progress in the technical-cooperation activities; (iv) administration of the WCFC funds; (v) a report on the technical competence and performance of the plant's technical staff and management and any turnover in the plant's primary positions; and (vi) a summary of ADP's contribution in cash and in kind as of the date of each report.

The first project report must compile baseline socioeconomic data on the target group from before project activities, so that changes in the income of project beneficiaries can be measured. The last such report will serve as the final report. It must contain a summary of the progress made vis-à-vis the original objectives.

Evaluations: The Bank will use technical-cooperation funds to contract a midterm and a final project evaluation. Eighteen months into project execution, the Bank-contracted midterm evaluation will measure: (i) the increase in the number of women and children served by ADP; (ii) the performance of the women and children who received legal and medical assistance from ADP; (iii) the level of social and economic reintegration of the women who received work therapy or who made candles; (iv) the increase in the number of women who were involved in making and marketing candles; (v) the rise in technical production capabilities; (vi) improvements in working conditions for women at the plant; (vii) the increase in the number of members of the networks and the number who trade with La Luciérnaga; (viii) the rise in volume traded by the networks of craftswomen through La Luciérnaga; (ix) the increase in the total number of women, children, and adolescents who benefitted from services received from ADP and La Luciérnaga; (x) the progress made in marketing the candles and getting new clients; and (xi) the increase in the soundness of ADP's and La Luciérnaga's financial position, reflected as a rise in their revenue and profit margins. The indicators in the Logical Framework (see Annex II), the table of project performance indicators, and the progress reports will be used to measure these elements.

**Exceptions to
Bank policies:**

None.