The Participation of Nongovernmental Organizations in Poverty Alleviation
A Case Study of the Honduras Social Investment Fund Project

Anna Kathryn Vandever Webb
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In the late 1980s and early 1990s, social investment funds (SIFs) were created to alleviate the impact on the poor of the reduction in income and employment caused by the debt crisis and structural adjustment measures. SIFs are financial intermediaries for small-scale, multisectoral investments aimed at alleviating poverty among targeted groups. Currently, there are 16 SIFs in Latin America and twelve in Africa which have received active support from the World Bank and other international donors. By design, SIFs have sought to mobilize the resources and energies of the private sector and community groups in the effort to reduce poverty. Private sector participation in SIF-financed activities includes nongovernmental organizations (NGOs), communities, and the private business sector.

This report focuses on the participation of NGOs in the Honduras Social Investment Fund (Fondo Hondureño de Inversión Social - FHIS). The collaboration between the FHIS and NGOs is of particular interest because NGOs have played a very important role in the FHIS, which has a relatively longer history than other SIFs, a wider range of activities, and has mobilized more funds from external donors. The report discusses the type, extent, and results of NGO involvement in FHIS programs. It also identifies lessons learned, which could be useful to other SIF programs, and makes recommendations on ways to enhance NGO participation and performance in Bank-financed projects.

The report, which was presented at the Latin America and Caribbean Office (LAC) Regional NGO-Government-Bank Conference (Paipa, Colombia, April 1995), reflects the Bank’s commitment to promote wide participation in development activities, improve the design and implementation of SIF projects to further NGO participation, and facilitate dialogue between Governments and NGOs. Similar reports on NGO involvement in other Central American SIFs will be prepared by each SIF and discussed at a Sub-Regional NGO-Government-Bank Conference planned for the third quarter of 1995, with the support of the World Bank and the Inter-American Development Bank.

A desired outcome of this report would be that Governments, NGOs, and the Bank are encouraged to reflect on the experience of SIFs and NGOs and to increase their collaboration for the purpose of accelerating the alleviation of poverty at the community level.

This report is based on World Bank project documents and FHIS reports and statistical data, as well as interviews with Honduran NGOs, FHIS staff, and Government representatives. The authors express appreciation for the collaboration of those involved in the interviews, and the valuable comments received from Carmen Hamann of the Department.

Edilberto L. Segura
Director
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ABSTRACT

The Government of Honduras created the Honduras Social Investment Fund (*Fondo Hondureño de Inversión Social* — FHIS) to mitigate the negative effects of the stabilization and structural adjustment program on the most vulnerable groups of the population.

To achieve poverty reduction, the FHIS has mobilized community groups, local governments, nongovernmental organizations (NGOs), and the private sector to formulate, finance, and execute many small scale investment and service projects in the various sectors. The participation of NGOs in the FHIS has been significant, especially in the delivery of social services and in the administration of small credit programs for informal sector entrepreneurs. NGOs have executed nearly one-half of FHIS-financed subprojects in the basic needs and urban and rural credit programs.

The collaboration of the FHIS and NGOs has not only benefitted the poverty groups whose standard of living the FHIS has improved, but also the government and the NGOs. The FHIS would not have been as successful without NGO participation, and without the FHIS, the NGOs would not have had access to the resources and experience. More broadly, the government — and the health and education ministries in particular — would not have enjoyed wider coverage and greater service delivery without NGO participation in the FHIS.

Among the lessons learned are that the NGO-executed subprojects that work best are those that provide training and technical assistance to NGOs, have adequate supervision, and enjoy a high degree of coordination and support from the FHIS, participating NGOs, the local communities, and the relevant line ministries. To strengthen the NGO sector and improve FHIS operations, the FHIS and NGOs should build upon experience to increase their collaboration, especially with regard to the evaluation of NGO performance and the performance of FHIS-financed subprojects.

FHIS’s experience with NGOs can prove useful to other social investment fund programs and Bank-financed projects in general, by serving as an information resource on NGO participation and as an example of the partnership that is possible between governments and NGOs.
ACRONYMS

APP Water for the People (Agua para el Pueblo)
EMMA Maternal Enterprises (Empresas Maternales)
FHIS Honduran Social Investment Fund (Fondo Hondureño de Inversión Social)
FINCA Foundation for International Community Assistance
FOPRIDEH Federation of Private Development Organizations of Honduras (Federación de Organizaciones Privadas de Desarrollo de Honduras)
GOH Government of Honduras
IDA International Development Association
IDB Inter-American Development Bank
JUNTA Water Administration Committee (Junta Administradora de Acueductos)
KfW German Credit Institute for Reconstruction (Kreditanstalt fur Wiederaufbau)
MOE Ministry of Education
MOH Ministry of Health
NGO Nongovernmental Organization
NLO National NGO Liaison Office (Comisión de Enlace Gobierno-Organizaciones no Gubernamentales)
OPT Private Development Organization
PASI Informal Sector Credit Program (Programa de Apoyo al Sector Informal)
PROCATMER Credit and Technical Assistance for Rural Micro-Enterprises Program (Programa de Crédito y Asistencia Técnica para Micro-empresas Rurales)
SAR Staff Appraisal Report
SIF Social Investment Fund
VITA Volunteers in Technical Assistance

CURRENCY EQUIVALENTS

| US$1.00 | = | 9.3 lempiras (January 1995) |
| US$1.00 | = | 9.4 lempiras (1994) |
| US$1.00 | = | 7.3 lempiras (1993) |
| US$1.00 | = | 5.8 lempiras (1992) |
| US$1.00 | = | 5.4 lempiras (1991) |
| US$1.00 | = | 2.0 lempiras (1990) |
EXECUTIVE SUMMARY

Background

The Honduras Social Investment Fund (Fondo Hondureño de Inversión Social — FHIS) is one of two social safety net programs the Government of Honduras (GOH) established in 1990 to mitigate the negative effects of the stabilization and structural adjustment program on the most vulnerable groups of the population. The FHIS finances small-scale social and economic infrastructure, social service, and informal sector credit subprojects, which are grouped into four programs: Infrastructure, Basic Needs, Informal Sector Credit, and Credit and Technical Assistance for Rural Micro-enterprises. Subprojects are targeted by means of a poverty map complemented by sector resource allocations. Sponsored by municipalities, government ministries, nongovernmental organizations (NGOs), and community groups, subprojects are executed by private sector contractors or NGOs and are supervised by the FHIS or a qualified third party.

Implementation Experience

The participation of NGOs as subproject executors in the FHIS is significant. From 1990 through January 1995, NGO-executed subprojects represented approximately 23 percent (about US$25.3 million) of total FHIS disbursements (about US$109.8 million). NGO participation is much higher in the basic needs and urban and rural credit programs, where NGO subprojects account for 71 percent of total disbursements, than in the infrastructure program. The two credit programs are noteworthy because together, they represent one of the first experiences of NGOs with loan programs in the informal sector in Central America. Of the 65 NGOs that have participated in the FHIS, 89 percent are national NGOs.

Basic Needs Program

The Basic Needs Program has succeeded in reaching the poor in areas of the country where social services delivery by the state is attenuated. Forty-two NGOs have executed 646 of 1,432 social services subprojects with approved financing in the amount of approximately US$21.3 million. NGOs have executed all FHIS-financed sanitation education and water system training subprojects and the most nutrition and productive activities subprojects, such as family gardens and small animal husbandry. However, the most important subproject type in terms of overall program financing and NGO participation is double school desks, which represents 86 percent of NGO subprojects. More work is needed to diversify the program's portfolio, and the program is being redesigned under the second FHIS administration.

The quality of social services subprojects, while generally good, is highly variable and depends on NGOs' technical abilities and monitoring capacity, which are affected by high personnel turnover, lack of training, and inadequate logistical support—known NGO weaknesses. Subproject quality also depends on FHIS supervision, which in the past has been inadequate largely because FHIS supervisors lacked experience in social services projects.
The subprojects that have worked best are those that provide training and technical assistance to subproject executors, have adequate supervision, and enjoy a high degree of coordination between the relevant line ministry, the FHIS, participating NGOs, and the communities. The Latrine Construction and Sanitation Education Project is an example of such a subproject.

The Informal Sector Credit Program

The PASI Program (Programa de Apoyo al Sector Informal) provides credit and training to urban micro-entrepreneurs, small businesses, and the self-employed (organized in community banks) through intermediary organizations. Twenty-seven of 37 intermediary organizations are NGOs, and NGO-executed subprojects account for 90 percent (about US$6.7 million) of total approved financing (about US$7.4 million). Ninety-five percent of the program's 62 credit subprojects have been successful because, among other reasons, intermediary organizations select credit recipients, make loans, charge market rates, and assume the full credit risks. In addition, solidarity group lending ensures loan recovery without requiring physical collateral or fiduciary guarantees. PASI requires significant cost sharing (about 20 percent) from intermediary organizations, which motivates them to present quality subprojects. Program success is also due to staff training in financial analysis; the uniform use of promotion, evaluation, and supervision manuals; a rigorous system for subproject evaluation, which includes a rank-order evaluation of intermediary organizations; close supervision of credit subprojects; and training and technical assistance in all areas of micro- and small-enterprise credit to improve intermediary organization performance.

The Credit and Technical Assistance for Rural Micro-Enterprise Program

The PROCATMER Program (Programa de Credito y Asistencia Tecnica para Micro-empresas Rurales) provides credit, training, and technical assistance to the rural micro-enterprise sector through intermediary organizations. Of 36 intermediary organizations, 20 are NGOs. NGO-executed subprojects represent 90 percent of total financing (about US$7.4 million). PROCATMER's experience shows that NGOs are more effective and professional than other kinds of intermediary organizations, such as business associations and cooperatives, because the latter lack credit experience and are subject to internal problems. The two NGO program failures are attributed to poor financial management skills—the most common problem of intermediary organizations. Two issues internal to the FHIS adversely affect PROCATMER's operations. First, credit subproject approval is delayed because the FHIS's central administration conducts a technical evaluation of proposals in addition to the technical evaluation PROCATMER undertakes, which has caused problems for loan recipients—an issue PASI also notes. Second, the FHIS seeks physical and fiduciary loan guarantees, which most NGOs are not willing or able to provide.
Benefits and Costs of NGO Participation

The benefits to the FHIS of NGO participation are several, namely: NGO-executed subprojects mobilize more technical and financial resources than subprojects executed by private contractors; the government can expand social service delivery by contracting NGOs, whereas private contractors do not provide such services; NGOs support the normative and supervisory roles of the state; the costs of NGO-executed subprojects are lower than those of private contractors; NGOs implement subprojects more efficiently and effectively than the traditional public sector; and NGOs help generate more employment in the productive sector.

At the same time, working with NGOs entails certain costs: NGO-executed subprojects require more supervision than subprojects executed by private contractors—largely because of the nature of social services subprojects—which increases FHIS overhead costs; the development of Basic Needs Program methodologies that specify subproject objectives and expected outcomes requires an investment in time and human resources that is not required for the Infrastructure Program; NGO legal responsibilities with respect to FHIS financing are not clear; and NGO costs rise over time in increments difficult to predict, thereby increasing the FHIS’s contract costs.

For NGOs, the benefits of participating in FHIS subprojects are employment opportunities generated by the new source of financing and, consequently, expansion of NGO activities; substantial institutional strengthening as a result of experience with the FHIS; and FHIS financing of capacity building activities, which for 1990–94 absorbed an estimated 10 to 15 percent of total subproject costs. The costs of participation pertain to administrative and bureaucratic delays, in particular, disbursement delays that reportedly have adversely affected subproject execution timetables and the credibility of the NGOs executing the subprojects and responsible FHIS staff.

Lessons Learned

The FHIS’s experience with NGOs has provided a number of lessons that other social investment fund programs may find useful.

Future Role of NGOs in the FHIS

NGOs have demonstrated that they can successfully execute subprojects and have an important role to play in FHIS operations. The FHIS projects that NGO participation for 1995 and beyond will represent about 20 percent of total financing. Given the FHIS’s new social policy, the NGOs role will probably change. It is important that the FHIS and NGOs discuss these changes so that NGOs can respond effectively when new programs are in place. Equally important is the need for NGOs to engage in constructive dialogue with the FHIS to improve their own performance and that of FHIS-financed subprojects.
NGO Selection

Four years of experience have shown that the performance of subproject executors is a key factor in subproject outcome. A thorough, performance-based evaluation in which the FHIS and NGOs collaborate on NGO accreditation should precede NGO selection. Such an evaluation can be undertaken in the context of a Bank-financed NGO Country Assessment.

Technical Assistance and Training

NGOs have received substantial institutional strengthening in the form of technical assistance and training as a result of their experience with the FHIS. Continued technical assistance and training on the part of the FHIS to improve both NGO and subproject performance will probably be required, but more analysis is needed to identify training areas and to choose effective training implementation that will strengthen the NGO sector.

Supervision and Evaluation

Although the FHIS has increased resource allocation for subproject supervision, more work is needed on the quality and kind of supervision activities and on the evaluation of the performance of NGO-executed subprojects, including subproject impact. Supervision should include monitoring of subproject service delivery, administration, finance, and NGO supervision, in addition to physical progress and disbursements. Subproject evaluation requires clearly stated objectives for each subproject type and a well-defined evaluation methodology. Supervisory personnel should have experience in the type of subproject they supervise and evaluate and receive the support necessary to work efficiently.

Administrative and Bureaucratic Delays

Administrative and bureaucratic delays have reportedly prejudiced the effectiveness of FHIS operations. Administrative arrangements should be reviewed to ensure more efficient contracting, disbursements, and legal arrangements for NGO-executed subprojects.

Subproject Sustainability

Subproject sustainability is an issue that the FHIS continues to address. For specific types of subprojects, a more intensive use of NGOs could enhance subproject sustainability. For example, the FHIS could finance NGO follow-up activities for water system subprojects, which tend to suffer from sustainability problems.
Recommendations

Based on the FHIS's four years of experience with NGOs, the following recommendations are made regarding NGO participation in Bank-financed projects. With respect to social investment funds in particular, it would be desirable for the Central American Social Investment Funds and participating NGOs to meet to discuss ways of improving collaboration.

Recommendations to governments and implementing agencies are to:

- Involve NGOs with appropriate experience in project identification and design from the outset.
- Provide NGOs not only with a precise definition of their role in projects, but also clarify the project’s objectives and how NGOs will contribute to achieving them.
- Identify the NGOs’ technical assistance and training needs and ensure that these needs will be met through direct training by the implementing agency or an appropriate training entity (public or private sector). Include technical assistance and training costs in project budgets.
- Seek the views and opinions of project beneficiaries on both the NGO and the project during monitoring and evaluation activities.
- Design or adapt computerized management information systems to process NGO data separately and in combination with program and project data to facilitate NGO monitoring and evaluation.
- Institute a system of cross-checks so that all program offices are informed about NGO performance in other programs in projects where NGOs are eligible to participate in different programs.
- Share with NGOs all aspects of project identification, implementation, or evaluation [e.g., project documents such as Staff Appraisal Reports, Project Supervision Reports, Mid-term Reviews, and Project Completion Reports] that concern NGO performance, and discuss NGO performance with NGOs.

Recommendations to NGOs interested in collaborating with the World Bank and governments on bank-financed projects are to:

- Become involved in the early stages of project identification and design.
Bring project concerns and problems to the immediate attention of those responsible for the project on behalf of the World Bank and government, provide suggestions on how to solve problems, and request a specific time frame for the resolution of a problem. Keep in mind that managers may not become aware of a problem unless the NGO assumes the responsibility for informing them.

Ask to review project documents that discuss NGO performance for accuracy and learn what recommendations they make to improve overall project and NGO performance. Discuss recommendations with the government or implementing agency and propose a communications mechanism for ongoing information sharing on NGO participation in the project.

Initiate actions such as organizing NGOs working in the same sector or on the same project so that they can assess project performance and make recommendations on how to improve the project and NGO participation.

Promote constructive dialogue with implementing agencies.

Maintain close contact with communities, involve project beneficiaries and participants in decision-making, conduct participatory monitoring and evaluation activities, and present beneficiaries' views and opinions—whether the NGO agrees with them or not—to the government or implementing agency.

Concentrate on the quality of output and services offered.

Become familiar with the project as a whole in addition to the activities executed by NGOs.

Recommendations to the World Bank are to:

Finance and develop a methodology for NGO Country Assessments.

Explore ways to involve NGOs in Bank-financed projects (e.g., project identification, preparation, and implementation), including establishing means of direct communication with NGOs.

Consult with NGOs, as appropriate, during the project identification process and determine what NGOs can and cannot do to achieve project objectives.

Be realistic about project sustainability and how it can be accomplished. Budgeting for follow-up activities (e.g., periodic supervision and training after project conclusion) is cost-effective given the possible loss of the project investment if such activities are not undertaken.
• Provide for the potential and actual assessment of NGO performance as a distinct element of project identification, Staff Appraisal Reports, Project Supervision Reports, Mid-term Reviews, and Project Completion Reports.

• Sponsor forums for NGOs and the private sector to discuss development strategies with the donor community.

• Increase NGO access to Bank publications in keeping with the new Bank policy on information disclosure.

• Explore ways to work with the private sector and NGOs to help mobilize funds for development projects.
I. INTRODUCTION

This report analyzes the participation of nongovernmental organizations (NGOs) in the Honduras Social Investment Fund (Fondo Hondureño de Inversion Social — FHIS) operations, which were assisted by IDA under Credits 2212-HO and 2401-HO. The primary purpose of the report is to assess actual NGO participation against the role envisioned for NGOs in the Staff Appraisal Reports (SARs) for both credits. The secondary purpose is to present information and suggestions that may prove useful in future collaborations among the World Bank, governments, and NGOs.

The rationale for selecting the FHIS is the significant involvement of NGOs in FHIS-financed subprojects from 1990 to the present. Through January 1995, NGO-executed subprojects represented approximately 23 percent of total disbursements equaling L 659,099,173 (about US$109.8 million).\(^1\) NGO participation is much higher in non-infrastructure programs. NGOs account for 71 percent of total disbursements in three FHIS programs: basic needs and urban and rural credit. Of the 65 NGOs that have participated in the FHIS, 89 percent are national NGOs.

Chapter Two of the report provides a summary description of the Second Honduras Social Investment Fund project, including objectives, implementation performance, and costs and financing. Chapter Three presents an overview of NGOs in Honduras. Chapter Four discusses NGO participation in the FHIS from 1990 to the present. Chapter Five presents lessons learned from the FHIS experience. Chapter Six gives summary conclusions and makes recommendations on NGO participation in Bank-financed projects to governments and implementing agencies, NGOs interested in collaborating with the World Bank and Governments on Bank-financed projects, and the World Bank. In addition, four case studies of NGOs that have participated in World Bank-financed projects in Honduras are appended. This report is based on discussions and meetings with FHIS personnel, government representatives, and NGOs; field visits; and document review, all of which took place as part of the Mid-term Review of Credit 2401-HO in April 1994 and January 1995.

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\(^1\) The exchange rate has experienced significant fluctuations since the FHIS began operations in 1990. The rate used in this report (US$1.00 = 6 Lempiras) is very approximate; therefore, dollar amounts are not precise but amounts given in Lempiras are correct.
II. THE SECOND HONDURAS SOCIAL INVESTMENT FUND (FHIS) PROJECT

The Second Honduras Social Investment Fund Project, Credit 2401-HO, was appraised in February 1991 and became effective in July 1992. The closing date of December 31, 1994, was extended to October 31, 1995. The project has a total cost of US$67.5 million equivalent and is financed by an IDA credit of US$10.2 million equivalent and contributions by other donors in the amount of US$47.5 million, the Government (US$6.7 million), and project beneficiaries (US$3.1 million).

Project Objectives and Description

The FHIS is one of two social safety net programs the Government of Honduras established in 1990 to mitigate the negative effects of the stabilization and structural adjustment program on the most vulnerable groups of the population. The general project objective is to help the Government sustain its poverty alleviation efforts and maintain social cohesion—building on the achievements of the first Honduras Social Investment Fund Project (Credit 2212-HO)—while the line ministries strengthen their institutional capacities and complete their reform programs. The specific project objectives are to improve the standard of living in poor communities where malnutrition and illiteracy rates are high and government services limited, by financing social and economic infrastructure, social services, and informal sector credit subprojects.

The credit finances a range of small-scale development subprojects (91 percent of total project cost) in four broad categories: (a) social infrastructure (54 percent of total project cost); (b) economic infrastructure (13 percent); (c) social services (22 percent); and (d) credit to small informal sector entrepreneurs (11 percent). Municipalities, community organizations and neighborhood associations and committees, social ministries, government agencies, and others sponsor subprojects. Subprojects are executed by private sector contractors or NGOs and are supervised by the FHIS or a third party with the necessary technical qualifications. The credit provides institutional support through technical assistance to the FHIS. The credit also provides technical assistance to the National NGO Liaison Office (NLO) (Comisión de Enlace Gobierno-Organizaciones no Gubernamentales) to strengthen the partnership between the public sector and NGOs in addressing poverty problems and to promote the role of NGOs in the preparation of subprojects in poorer communities, so that the poor can take advantage of all funds targeted to them. The credit does not finance the operating costs of the executing agencies (FHIS and NLO), which for the FHIS is 9.82 percent of total cost.

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2 The other social safety net program is the Family Assistance Program (Programa de Asignación Familiar — PRAF), which provides nutritional assistance through food coupons to the country's most vulnerable groups.
Implementation Performance

The Mid-term Review, which covered the period from February 1990 through March 1993, showed that project outcomes met the intended objectives during the first phase of project implementation. The FHIS exceeded expectations in its performance as an efficient mechanism to mitigate the social costs of economic adjustment. As of March 31, 1993, the FHIS had received US$66.8 million and disbursed US$59.1 million against the appraisal goal of US$67.5 million. From February 1990 through March 1993, the FHIS financed 4,445 subprojects, which generated an estimated 120,000 temporary and permanent jobs. FHIS resources were distributed in all 293 municipalities, with the poorer municipalities receiving a larger per capita allocation of resources. The FHIS continues to contribute to the rehabilitation and expansion of social infrastructure.

As shown in Table 1, the largest share of FHIS-financed subprojects were in the infrastructure sector (64.4 percent of total commitments for the period February 1990–March 31, 1993, compared to the 67.0 percent appraisal target); social service subprojects represented 13 percent of total commitments, compared to the 22 percent appraisal target; and informal sector subprojects accounted for 3.8 percent of total commitment, about one-third of the 11.0 percent appraisal target. The average subproject size was US$14,500, more than double the average size during the first year of the FHIS (US$6,500).

Table 1. Appraisal Allocations and Actual Commitments by Program (percent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances *</td>
<td>not available</td>
<td>9.3</td>
</tr>
<tr>
<td>1. Institutional Strengthening</td>
<td>not applicable</td>
<td>0.7</td>
</tr>
<tr>
<td>2. Economic Infrastructure</td>
<td>13.0</td>
<td>not available</td>
</tr>
<tr>
<td>3. Social Infrastructure</td>
<td>54.0</td>
<td>not available</td>
</tr>
<tr>
<td>Subtotal (2 + 3)</td>
<td>67.0</td>
<td>64.4</td>
</tr>
<tr>
<td>4. Basic Needs</td>
<td>22.0</td>
<td>13.0</td>
</tr>
<tr>
<td>5. Informal Sector</td>
<td>11.0</td>
<td>3.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>81.2</td>
</tr>
</tbody>
</table>

* Not classified by program.

Source: World Bank, SAR No. 10451-HO; and FHIS, Oficina de Análisis Financiero.

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Targeting

The FHIS targeted its subprojects well, based on a poverty map using population and poverty criteria, which are transparent to all concerned. Subprojects were financed throughout all municipalities, reaching communities where previous government efforts had been limited. The FHIS improved targeting to poorer municipalities, the group by poverty index consisting of very poor, poor, and deficient municipalities. The allocation of resources for each category of poorer municipalities increased steadily between 1990 and 1993, and the percentage allocation to very poor municipalities more than doubled. From 1990 through March 1993, 68.0 percent of resources were allocated to poorer municipalities and 24.9 percent to middle level municipalities (see Table 2). Table 3 provides a summary of subprojects, jobs, and beneficiaries by program for the same period.

Table 2. Percentage Distribution of Resources by Poverty Category and Year, February 1990 through March 31, 1993 (percent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Poor</td>
<td>20.0</td>
<td>10.0</td>
<td>18.8</td>
<td>20.6</td>
<td>22.3</td>
</tr>
<tr>
<td>Poor</td>
<td>21.0</td>
<td>15.5</td>
<td>16.1</td>
<td>19.0</td>
<td>20.9</td>
</tr>
<tr>
<td>Deficient</td>
<td>25.0</td>
<td>23.8</td>
<td>20.3</td>
<td>27.6</td>
<td>25.8</td>
</tr>
<tr>
<td>Subtotal</td>
<td>66.0</td>
<td>49.3</td>
<td>55.2</td>
<td>67.2</td>
<td>68.0</td>
</tr>
<tr>
<td>Regular</td>
<td>26.0</td>
<td>46.2</td>
<td>33.8</td>
<td>25.4</td>
<td>18.0</td>
</tr>
<tr>
<td>Acceptable</td>
<td>8.0</td>
<td>3.0</td>
<td>7.8</td>
<td>4.5</td>
<td>6.9</td>
</tr>
<tr>
<td>Subtotal</td>
<td>34.0</td>
<td>49.2</td>
<td>41.6</td>
<td>29.9</td>
<td>24.9</td>
</tr>
<tr>
<td>Others</td>
<td>0.0</td>
<td>1.5</td>
<td>3.2</td>
<td>2.9</td>
<td>6.5</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

a/ The 1993 data reflect approved resources through March 10, 1993.

Table 3. Number of Subprojects, Jobs, and Beneficiaries by Program, February 1990 through March 31, 1993

<table>
<thead>
<tr>
<th>Program</th>
<th>Subprojects</th>
<th>Jobs</th>
<th>Beneficiaries per subproject (averages)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>3,727</td>
<td>101,582</td>
<td>5,050</td>
</tr>
<tr>
<td>Basic Needs</td>
<td>687</td>
<td>4,752</td>
<td>15,700</td>
</tr>
<tr>
<td>Informal Sector</td>
<td>41</td>
<td>12,916</td>
<td>327</td>
</tr>
<tr>
<td>Total</td>
<td>4,455</td>
<td>119,250</td>
<td>7,000 a/</td>
</tr>
</tbody>
</table>

a/ This number represents the average number of direct and indirect beneficiaries per subproject. Beneficiary numbers are not reliable because of their vague definition. To calculate beneficiaries for infrastructure subprojects, FHIS uses a formula based on the number of individual users multiplied by the average lifespan of the subproject. The number of indirect beneficiaries is calculated on the basis of average household size of 5.5 persons (5.1 in urban areas and 5.7 in rural areas).
**Basic Needs Program**

The Basic Needs Program aims to improve the living conditions of vulnerable groups, complement the Ministry of Health (MOH) and Ministry of Education (MOE) actions through activities that directly benefit vulnerable populations, and support social assistance subprojects executed by NGOs that target vulnerable groups. Target groups include malnourished children under 6 years of age, children ages 6 to 12 years in precarious conditions, poor pregnant and nursing mothers, ethnic minorities, the disabled, and the elderly. The program has succeeded in reaching the poor in areas of the country where social services delivery by the state is limited. The Mid-term Review showed that the poorest municipalities (118) received 100 percent of planned financing. From 1990 to the present, the program has funded 1,432 subprojects in the amount of L 127,944,210 (about US$21.3 million).

The FHIS has made progress in diversifying the program’s subproject portfolio, which had focused too narrowly on school desk subprojects in response to the government’s decision to give priority to primary education and because of the lengthy process of subproject development and promotion. Specifically, the FHIS initiated new subprojects in the areas of midwife training and community centers that combine child care with training women in productive activities, and the program now has 19 subproject types. Nonetheless, further efforts are required, and under the second FHIS administration, the Basic Needs Program is being redesigned.

**Informal Sector Credit Program**

The Informal Sector Credit Program (Programa de Apoyo al Sector Informal — PASI) was created in mid-1990, began operations in August 1991, and made its first credit loan in November 1991. PASI aims to reduce unemployment and underemployment, increase production and productivity, and improve income and employment in the urban informal sector. The program provides credit and training through intermediary organizations, mostly NGOs, to urban micro-entrepreneurs, small businesses, and the self-employed (organized in community banks), whose businesses have been in operation for one year and who do not have access to formal credit. PASI gives priority to productive enterprises and enterprises operated by women. The program is complemented with a technical assistance subprogram which finances training for intermediary organizations and loan beneficiaries. The program covers 17 departments and 102 municipalities. Since 1991, PASI has financed 62 credit subprojects in 17 departments and 102 municipalities, with approved financing in the amount of L 44,521,417 (about US$7.4 million). In January 1995, 34 subprojects were being executed, 18 were concluded, 4 were in negotiation with respect to

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4 It is estimated that the micro-enterprise sector comprises one-half of the Honduran working population.

5 A department is an administrative unit and territorial division within the Republic of Honduras and is comparable to a state. Honduras is comprised of 18 departments.
credit terms, 3 were in legal adjudication, 2 were pending disbursement, and 1 was not realized.

**Credit and Technical Assistance for Rural Micro-Enterprise Program**

The Credit and Technical Assistance for Rural Micro-Enterprise Program (*Programa de Crédito y Asistencia Técnica a la Microempresa Rural — PROCATMER*) began operations in February 1993. Its objective is to help the rural micro-enterprise sector by working with intermediary organizations who receive financing for credit funds, training, and technical assistance. Most intermediary organizations are NGOs. Ten percent of PROCATMER subproject costs finance technical assistance and training for intermediary organizations. The program finances 31 credit subprojects in 14 departments, with 4,992 direct loan beneficiaries and total approved financing in the amount of L 44,521,417 (about US$7.4 million).

**Infrastructure Program**

The Infrastructure Program has two subprograms, social infrastructure subprojects and economic infrastructure subprojects. The former includes financing the rehabilitation, maintenance, expansion and construction of preprimary and primary schools, health centers and posts, and water and sewerage facilities, and the maintenance of rural roads. The latter includes the financing of public works and simple infrastructure, such as repair and construction of canals and ditches, gutters and sidewalks, drainage projects, small bridges, and projects of special interest to protect cultural heritage and ethnic minorities, provided that projects in either category generate significant employment at reasonable costs. Through March 1993, the program generated approximately 102,000 temporary jobs in the implementation of 3,727 subprojects. Since 1990, 29 percent of all primary schools in the country have been expanded or rehabilitated with FHIS financing and 28 percent of all preschools were expanded or improved. Infrastructure subprojects succeeded in reaching poorer municipalities, although the Mid-term Review found that targeting needs to be improved.

**Institutional Development**

The FHIS has had a positive impact on the institutional development of executing agencies in that NGOs improved their subproject appraisal methodology and implementation strategies. FHIS subprojects had an even greater impact on private contractors. Private contractors implemented two-thirds of FHIS-financed infrastructure subprojects, and several individual contractors established small firms. Municipalities also improved their subproject preparation capability. Several municipalities, that had been weak institutionally at the start of the FHIS, contracted private engineers to design good quality subproject proposals. The poorest municipalities received special assistance from the FHIS in subproject preparation. The FHIS also has had an impact on line ministries, which recognize the institution's comparative advantage in efficient subproject implementation as a result of certain provisions
for qualified personnel appointments on a special salary scale comparable to the private sector and exemptions from the cumbersome budgeting, procurement, and disbursement procedures required for all line ministries.

**Sustainability**

The FHIS has aimed at ensuring the sustainability of investment and benefits of its subprojects. In the Basic Needs Program, the FHIS supports subprojects with low recurrent costs, such as training of midwives. In the Infrastructure Program, the FHIS gives priority to the rehabilitation or expansion of schools and health centers rather than to new construction, and it finances road maintenance as opposed to construction. Prior to awarding contracts for subprojects to build education and health facilities, the FHIS requires confirmation from the MOH or the MOE that the required personnel positions have been created and budgeted for by the respective ministry. Also, counterpart financing of at least 5 percent of total subproject costs is required from beneficiaries (or sponsors in the case of subprojects sponsored and implemented by NGOs). Counterpart financing ensures the submission of good quality subprojects that are likely to be sustained beyond FHIS support. Subproject sustainability is an issue that the FHIS continues to address.

**Costs and Financing**

At appraisal, the total project cost was estimated at US$67.5 million, with a foreign exchange component of US$17.0 million (25 percent of total project cost). The IDA Credit of SDR 7.445 million (US$10.2 million equivalent) was to finance 15 percent of total project cost, the Government's contribution was to be US$6.7 million; local beneficiaries (including ultimate beneficiaries, municipalities, NGOs or other entities) were to contribute US$3.1 million; and other financing agencies were to contribute US$47.5 million, notably, IDB in the amount of US$31.5 million. The project succeeded in mobilizing international financing. Between 1990 and March 31, 1993, the FHIS received funding in the amount of US$66.8 million from 16 different sources. In addition to the two IDA Credits, totaling US$21.5 million equivalent through March 1993, the principal financiers were the German Credit Institute for Reconstruction — Kreditanstalt für Wiederaufbau (KfW) (US$10.6 million), USAID (US$8.4 million), IDB (US$6.9 million), the Netherlands (US$2.1 million), the World Food Program (US$1 million), and Canada (US$1 million). The GOH contributed US$13.6 million.
III. OVERVIEW OF NONGOVERNMENTAL ORGANIZATIONS (NGOs) IN HONDURAS

In Honduras, nongovernmental organizations (NGOs) are nonprofit entities that provide services to members or client groups. NGOs include grassroots organizations such as community groups, religious organizations, associations, cooperatives, and private development organizations (organización privada de desarrollo — OPT). Honduras is unique among Latin American countries in that NGOs that focus on development activities are known exclusively as private development organizations.

Most private development organizations have legal status and receive outside financing in the form of donations or soft loans from multilateral, bilateral, religious, and private organizations. Private development organizations are characterized as intermediary organizations in contrast to grassroots organizations. The former deliver services, design projects, and conduct research. The latter, which serve a specific population in a narrow geographic area, are normally membership organizations made up of a group of individuals who have joined together to further their own interests (e.g., women's groups, youth clubs, and JUNTAS). Private development organizations often form partnerships with grassroots NGOs. This report is primarily concerned with OPDs; however, all nonprofit organizations are referred to as NGOs.

Of an estimated 700 NGOs, 400 are registered with the government. Approximately 100 intermediary NGOs are active and provide services in the areas of agriculture; communications; community development; education and literacy; environment and natural resources; health and nutrition; housing; human rights; leadership training; maternal and child health; micro- and small-enterprise development; rural integrated development; services to street children, the disabled, and the elderly; water and sanitation; and women and development. A few NGOs engage in research and provide technical assistance and training to other NGOs, groups, and organizations. Most intermediary NGOs are comparable to consulting firms, albeit nonprofit ones, in that they offer services in competitive market conditions. Generally speaking, the NGOs which work best are those that provide specialized services (e.g., credit or water and sanitation).

Several NGO consortia and other types of umbrella organizations exist that represent groups of NGOs with common development, ideological, religious, or other affiliations. The largest consortium is the Federation of Private Development Organizations of Honduras (Federación de Organizaciones Privadas de Desarrollo de Honduras — FOPRIDEH), to which approximately 20 percent of NGOs belong. Its activities include

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technical assistance, training, coordination, and project financing. Opinion is divided as to the value of its services, but FOPRIDEH is a clearly a strong NGO advocate.

In recent years, the amount of multilateral and bilateral financing available to NGOs has diminished, which has led to intense competition among NGOs for funding. A consequence is that many NGOs have improved their technical and administrative capacities. At the same time, government financing for NGOs has increased as a result of privatization, decentralization, and social compensation policies which channeled resources to the private sector through new social programs such as the FHIS. NGOs continue to work with the traditional public sector, especially the line ministries.

The benefits to the government of working with NGOs are several. NGOs work in geographic areas where the presence of the state may be attenuated, thereby extending the coverage of government programs. NGO client groups are the popular sector, which is most in need of assistance and corresponds to the government’s priority target populations. NGOs that hold government contracts for providing services contribute to the government’s privatization efforts and facilitate the reduction of the public sector, for example, the Ministry of Agriculture plans to contract NGOs to provide all extension services. Because NGOs are nonprofit, the costs of providing services are lower than for private sector companies. By contracting NGOs, the government also saves on administration and administrative infrastructure costs because the NGOs assume such costs. The time constraints imposed by contract work lead to greater efficiency than can be found in the public sector. The participation of NGOs in the water and sanitation sector, notably CARE and Water for People (Agua para el Pueblo — APP), has benefitted the government perhaps more than in any other sector because NGO coverage in this sector is significant. The health sector has also benefitted from NGO participation because, among other reasons, the government has not needed to manage many services directly.

The case of the health sector is instructive because the MOH has 20 years of experience working with NGOs and knows which types of NGO activities work best. NGOs are contracted to (a) extend program coverage and expand capacity, (b) provide complementary services, and (c) obtain needed expertise not available within the ministry or locally. For example, several NGOs hold small contracts to extend coverage of the HIV Education and Prevention Component in the Health and Nutrition Project (Credit 2452-HO). The NGO Plan de Honduras expands ministry capacity through the activities of its offices, which are located in every regional health facility. The NGO La Liga de la Lactancia Materna provides nutrition education and training as a complementary activity to maternal—child health care. Volunteers in Technical Assistance (VITA), an international NGO, has completed a feasibility study to improve the MOH’s communications system using low-cost technology (see Annex 1).

NGOs enjoy certain advantages over the traditional public sector, but not necessarily over the new government social programs. NGOs are less bureaucratic and more flexible. They tend to have multidisciplinary personnel who can work in different capacities—as
project supervisors, advisors, and technicians. Personnel are recruited for their technical skills and competency without regard to political considerations. NGOs are typically value-based and dedicated to the groups and communities with whom they work. NGOs frequently are better at analyzing and solving problems than government agencies, which sometimes lack the time or the financial and human resources to do so. Because of their presence in communities, NGOs are often better able to strengthen community participation and identify and support community leaders. They provide services to all groups, rather than targeting members of a political party. NGOs operating practices tend to facilitate decentralized decisionmaking—field personnel and community volunteers exercise both responsibility and authority. Because of NGOs long-term commitment to the communities where they work, projects are ongoing, as opposed to some government projects that end following a change in administration. The nonprofit status of NGOs attracts international financing. Indeed, the availability of project financing is an incentive for creating NGOs. Finally, NGOs report that more of their resources go to programs and beneficiaries than in the traditional public sector, because overhead costs for NGOs are lower.

NGOs are at a disadvantage compared with the for-profit private sector because they generally lack sufficient operating capital, administrative and financial capacity, and logistical support. Moreover, salaries are low and staff turnover high. Most do not have regular funding for operating costs and must depend on concessionary funds. Financing is not normally used for capitalization—but to expand coverage and pay operating costs. The financial security—and thus the existence—of only a few NGOs is assured, mostly international organizations such as Save the Children.

The benefits to NGOs of working with the government revolve largely around the creation of jobs and of a source of financing for NGO activities. The latter is not insignificant, considering that in the case of the FHIS alone, 23 percent of total disbursements to date went to NGO-executed subprojects.

The principal "cost" to the government of working with NGOs is the lack of recourse in the event the NGO does not perform as promised. Specifically, there are no sanctions the government can impose on NGOs for poor performance or noncompliance except blacklisting. Lack of coordination between NGOs and the government can result in a duplication of efforts and thus the inefficient use of resources, as has been the case for some NGOs working in the health sector.

The government has taken steps to increase national-level collaboration with NGOs. In September 1991, President Callejas hosted an international NGO conference at the World Bank as a means of fostering increased collaboration with NGOs to address the country's urgent poverty alleviation needs. One result of this conference was the creation in 1992 of the National NGO Liaison Office (NLO). The office was designed to simplify NGO registration procedures; establish efficient communication channels between NGOs and government agencies and among NGOs through information collection and dissemination; support institutional strengthening of NGOs through local and international conferences,
seminars, and workshops; and create consultative groups to remove legal and regulatory barriers to the efficient collaboration of NGOs and government agencies. Unfortunately, the office was not universally viewed as independent or useful, and its activities ceased with the advent of the new administration in 1994. Apart from this instance, the government has not incorporated NGOs into its policies or structure. Rather, the government contracts NGOs on an as-needed basis. NGOs are not regulated, and the government has not established norms for NGO participation in its programs and projects. For their part, NGOs have not organized to help the government develop programs or policy or to further collaboration in general.
IV. NONGOVERNMENTAL ORGANIZATION PARTICIPATION IN THE HONDURAS SOCIAL INVESTMENT FUND

The Staff Appraisal Reports for the first and second Honduras Social Investment Fund (FHIS) projects anticipated that NGOs would participate as subproject executors in the Basic Needs Program and the Informal Sector Credit Program (PASI) and would receive institutional strengthening to improve subproject preparation and execution capacity. NGO participation was also expected to contribute to subproject sustainability. In the short term, NGO experience with FHIS-financed subprojects would contribute to local institution building as NGOs became more efficient at preparing and executing subprojects. In the long term, this experience would translate into a network of decentralized institutions technically and administratively competent to design and execute development projects in their communities. The appraisal report for Credit 2212-HO envisioned an NGO representative as a member of the FHIS Board of Directors. The appraisal report for Credit 2401-HO provided financing for the NLO.

Type of Involvement

Since its inception, the FHIS has involved NGOs in subproject design, research, subproject execution and supervision, training, and participation on the FHIS Board of Directors. Among the first FHIS actions aimed at encouraging and ensuring NGO involvement and access to subproject financing was the appointment of an NGO representative to the Board of Directors (elected by a group of 28 NGOs). Also at FHIS start-up, information and promotional seminars were held in all 18 departments to which NGOs, along with local mayors, members of the business community, and other organizations were invited. A seminar designed especially for NGOs was also held. In July 1990, the World Bank financed a study conducted with the assistance of FHIS staff to determine the interest and capacity of NGOs to execute social infrastructure and social services subprojects, which included the design of a Basic Needs pilot program. The study resulted in NGO collaboration on the definition of selection criteria for NGOs as subproject executors, the definition of a Basic Needs pilot program that featured NGO-executed subprojects, and the identification of NGO technical assistance needs.

In February 1992, the FHIS involved 13 NGOs, as well as MOH, in the design of a sanitation education component to be linked to latrine construction subprojects in order to ensure that the benefits of investments in latrines were realized. In November 1993, PROCATMER commissioned a study of 30 NGOs working in the rural micro-enterprise sector to assess NGO institutional capacity and interest in cooperating with rural credit

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7 The NGO representative served on the FHIS Board of Directors during the 1990-1993 period; on the current FHIS Board, the NGO representative has been replaced by representatives from the MOH, MOE, and National Congress.
programs and to determine NGO technical assistance and training needs. In 1994, under the auspices of the PASI, the FHIS cofinanced a study on the informal sector and gender, which was conducted by an NGO. More recently, in January 1995 the FHIS invited a number of NGOs to a meeting to discuss and seek solutions to the problem of subproject sustainability.

Although NGOs have participated in different ways in the FHIS, their main role has been as subproject executors. In this capacity they have served as a mechanism for rapid channeling of FHIS resources to target groups.

Participation of NGOs as Subproject Executors

Since 1990, the FHIS has approved financing for 65 NGOs (58 national, 7 international) to execute 723 subprojects in 3 programs: Basic Needs, PASI, and PROCATMER (see Table 4). NGO participation is greatest in the Basic Needs Program, where 42 NGOs execute 646 subprojects; 27 NGOs execute 49 subprojects in PASI; and 20 NGOs execute 28 subprojects in PROCATMER. Nineteen NGOs executed subprojects in more than one program, 17 NGOs implemented subprojects in 2 programs, and two NGOs executed subprojects in all 3 programs. In addition, one NGO, Agua para el Pueblo, has executed 22 water and sewerage subprojects in the Infrastructure Program and was contracted by the FHIS to train water administration committees. (See Annex 2).

Table 4. NGO Participation by Program and Subproject (February 1990 through January 31, 1995)

<table>
<thead>
<tr>
<th>Program</th>
<th>NGOs Executed by NGOs</th>
<th>Subprojects</th>
<th>NGO Percentage of Total Subprojects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Needs</td>
<td>42</td>
<td>646</td>
<td>1,432</td>
</tr>
<tr>
<td>PASI</td>
<td>27</td>
<td>49</td>
<td>62</td>
</tr>
<tr>
<td>PROCATMER</td>
<td>20</td>
<td>28</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>89</td>
<td>723</td>
<td>1,525</td>
</tr>
</tbody>
</table>

* Source: Basic Needs data—FHIS, Dirección de Procesamiento de Datos, 27/01/95.
* Source: FHIS, PASI.
* Source: FHIS, PROCATMER data.
* In absolute terms, the total number of NGOs that participate in FHIS subprojects is 65; several NGOs have executed more than one subproject.


From February 1990 through January 1995, NGO-executed subprojects represent approximately 23 percent of total FHIS disbursements of about US$109.8 million equivalent. Approved financing for NGO subprojects in the three programs totals L 213,346,777 (about US$35.5 million), or 71 percent of approved financing for all three programs (see Table 5). NGO subprojects account for 60 percent of total approved financing in the Basic Needs Program, 79 percent in the PASI, and 90 percent in PROCATMER. PASI and PROCATMER are noteworthy, because together they represent one of the first experiences of NGOs with loan programs in the informal sector. Also, estimates indicate that the two credit programs accounted for around 50 percent of total FHIS financing in 1994.10

Table 5. NGO Participation by Program and Approved Financing
February 1990 through January 31, 1995

<table>
<thead>
<tr>
<th>Program</th>
<th>Total Approved NGO Financing (L.)</th>
<th>Total Approved Program Financing (L.)</th>
<th>NGO Percent of Total Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Needs</td>
<td>76,435,412</td>
<td>127,944,210</td>
<td>60</td>
</tr>
<tr>
<td>PASI</td>
<td>37,172,723</td>
<td>44,521,417</td>
<td>83</td>
</tr>
<tr>
<td>PROCATMER</td>
<td>37,108,400</td>
<td>40,881,150</td>
<td>90</td>
</tr>
<tr>
<td>Total</td>
<td>150,716,535</td>
<td>213,346,777</td>
<td>71</td>
</tr>
</tbody>
</table>

* Source: Basic Needs data—FHIS, Dirección de Procesamiento de Datos, 27/01/95.

** Source: FHIS, PASI.

*** Source: FHIS, PROCATMER.

Outcomes

Basic Needs Program

From February 1990 through January 1995, 42 NGOs (37 national, 5 international) executed 646 subprojects of a total of 1,432 social services subprojects in the Basic Needs Program. Community groups, municipalities, line ministries, religious organizations, and individual contractors executed the remaining subprojects. The selection of NGOs to execute subprojects is based on a prequalification process, which includes an assessment of institutional capacity, and subproject proposal review. NGOs are directly contracted by the FHIS to execute subprojects, that the FHIS develops and designs.

Basic Needs Program subprojects are traditional midwife and basic health training; the creation and development of maternal enterprises, which are child care programs organized by mothers; integrated attention to street children, the elderly, and the disabled; gardens and

10 Ordinarily, the PROCATMER budget is not included in the calculation of overall FHIS funding because its financing sources are not the FHIS but the European Economic Community and the government of Honduras. The PASI credit program, which is routinely included in total FHIS funding, normally accounts for 6 percent of total financing. It is noted that FHIS subproject financing in 1994 was not representative of average annual FHIS financing observed during the 1990-1993 period.
micro-farms; nonformal preschool education centers; infant feeding; school breakfasts; school vegetable gardens; community health education; integrated community development for ethnic groups; early childhood development; support to primary education; hospital and health center equipment donations; emergency rotating funds for flood relief; and preschool equipment and furniture and double school desks.

NGOs have executed nearly every type of subproject. NGOs executed all sanitation education subprojects and water supply sustainability subprojects (Annex 2) and most combined nutrition and productive activities subprojects, such as family gardens and small animal husbandry. NGOs and religious organizations executed all subprojects for street children (see Annex 3). As subproject executors NGOs are responsible for promotion activities, identification or verification of beneficiaries, community organization, training, technical assistance, and supervision in addition to the services the subproject is designed to provide.

In terms of financing, the most important subproject type is double school desks. Twenty-four NGOs executed 559 double school desk subprojects, or 86 percent of total NGO subprojects under the Basic Needs Program. The main benefit in contracting NGOs to produce school desks was that a large-scale government project achieved nationwide coverage at a relatively small cost to the government. One problem encountered with NGO participation was that not all NGOs fulfilled their contractual obligation to deliver school desks directly to beneficiary schools; therefore these particular subprojects cannot be closed.

A complete evaluation of the Basic Needs Program (1990–1994) has not been conducted, and little information exists on the results of NGO participation in terms of how NGO involvement has changed over time, the impact of NGOs on beneficiary participation, or the development impact of NGO-executed subprojects. Available information shows that subproject quality, while generally good, is highly variable. Subproject quality depends on NGOs’ technical abilities and monitoring capacity as well as on FHIS supervision. NGO technical expertise and supervision are affected by high personnel turnover, lack of training, and inadequate logistical support. FHIS supervision has not been completely adequate because it tends to parallel the supervision of infrastructure subprojects, which focuses on the quantifiable, physical dimension of subprojects rather than on the social dimension (community participation). In addition, supervision does not monitor progress toward subproject objectives because it lacks the methodology to do so. The supervision of Basic Needs subprojects requires its own methodology, including ways to measure subproject impact on beneficiaries. Evaluations of a small sample of subprojects, recommended during the Mid-term Review, found that some could not be evaluated because their objectives were not clearly stated and their design was flawed because of insufficient consultation among the FHIS, line ministries, NGOs, and communities.11

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11 Eslabón Técnico de Honduras, S.R.L. "Centros de Educación Pre-Escolar No Formal (CEPENF), Evaluación de los Proyectos de Necesidades Básicas financiados por el FHIS, con fondos del Banco Mundial," Tegucigalpa, Honduras, D.C., Diciembre 1993; "Empresas Maternales (EMMAS),
The quality of supervision also depends on the quantity of subprojects assigned to each supervisor and the supervisor’s experience with social projects. An analysis of the volume of subprojects requiring supervision for the period March 1993–December 1994 for purposes of subproject closure and future disbursements found that supervisory staff could be overwhelmed. Three persons were assigned to supervise the Basic Needs Program, with an additional person assigned to school desk subprojects. In March 1993 these three individuals were responsible for supervising 141 subprojects, and by January 1995 they were supervising approximately 300 subprojects.

The Mid-term Review found that subproject sustainability might require technical assistance beyond the conclusion of FHIS financing, which many NGOs cannot provide because of lack of human and financial resources and because NGO activities tend to be project specific, and therefore limited in time. The larger, better-financed NGOs, which are mostly international, are the only ones in a position to provide continued technical assistance given FHIS support. The evaluation of a sample of Basic Needs subprojects, prompted by the Mid-term Review, found that subproject sustainability was more likely to occur in areas where the NGO executing agency maintained a permanent presence.

An internal FHIS report on Basic Needs Program activities found three problems with program implementation. First, the number of FHIS technical program staff was insufficient. Second, timely assistance was not forthcoming from other FHIS offices. For example, subprojects were promoted, evaluated, and approved in a relatively short time, but subproject start-up was delayed for as long as three months. Third, disbursements were not always rapid or opportune. The report recommended that the selection of subproject executors should be more rigorous; FHIS supervisory personnel should be experienced in the evaluation of social projects; an efficient management information system for subprojects was needed; the program should be fully staffed; new program staff, as well as other relevant FHIS offices, should receive training for the program; and the disbursement process needed to be more efficient.

The program’s Latrine Construction and Sanitation Education Project offers a good example of NGO participation, which was initially unsuccessful and subsequently became extremely successful. In 1992 a national census report on latrine use, operations, and maintenance revealed that although 81 percent of latrines were physically operational, 75 percent were not used adequately and 43 percent were not properly maintained because of a

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12 FHIS. "Programa de Necesidades Básicas, Informe de Actividades." n.d.
lack of sanitation education. Based on this report, the FHIS revised its latrine construction policy to include a sanitation education component. The FHIS worked closely with the MOH's Health Education and Sanitation Divisions and NGOs to design the component. Seven prequalified NGOs (including one international NGO) were selected to construct 5,271 latrines and provide sanitation education. These subprojects experienced significant delays and construction problems as a result of NGO inexperience and rapid execution timetables. Consequently, FHIS decided to hire private contractors to build latrines and NGOs to provide simultaneous sanitation education. From 1992 to 1994 eight NGOs (including one international NGO) trained nearly 60,000 families in sanitation education and latrine use and maintenance at a cost of approximately L 958,254 (about US$160,000), or L 11.00 (US$1.80) per family.

In 1994, the project conducted an ex-post evaluation of a sample of 425 families and found that 88 percent were using latrines correctly, including the adoption of appropriate sanitary practices. Project success is due to the high level of participation and collaboration of the FHIS, the MOH, NGOs, private contractors, and communities. The MOH developed educational materials, provided and trained its own supervisors, trained NGO education promoters, and established norms for latrine construction. NGOs provided sanitation education promoters, supervision, and logistical support and identified, organized, and trained community support committees. Community support committees promoted the latrine project in home visits, encouraged community participation, prepared lists of beneficiaries, participated in education training activities, helped contractors to mark latrine sites, and provided follow-up supervision of latrine use and maintenance at the conclusion of financing. In addition, a significant factor in the project's success was the number of training events for NGOs and of regular participatory evaluations which involved the MOH, the FHIS, NGOs, and private contractors.

Informal Sector Credit Program (PASI)

From 1991 to the present, PASI has worked with 37 intermediary organizations (34 national, 3 international), of which 27 are NGOs. Other intermediary organizations include business guilds and associations, a municipality, and producers' associations. NGOs have executed 49 of 62 credit subprojects financed by PASI. Fifty-four subprojects are credit programs for micro- and small enterprises; eight subprojects are credit programs for community banks. Subproject credit is used by loan recipients for productive activities,

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services, and commerce. Productive activities include handicraft production; carpentry; clothes making; shoe making; and the manufacture of cement blocks, glass, roof tiles, candies, dairy products, and hammocks. Services include hostelry and the repair of electrical goods, machinery, and vehicles. Commerce includes the purchase and sale of foodstuffs, clothing, shoes, and dairy products. Most loans to community banks to purchase merchandise for market sales, clothes manufacture, and bread production (see Annex 4).

In June 1994, as many as 4,153 micro- and small business entrepreneurs were credit beneficiaries; 53 percent were women. The program sustained 15,785 permanent jobs, which are held by the business owner and employees, and created 3,874 new jobs. More men held more of the permanent jobs (70 percent), and women held more of the new jobs created (59 percent). Men tend to have larger businesses, employ more people, and have better-quality and more sizeable business establishments than women, who are concentrated in service and commerce where business size is smaller and costs and profit margins are lower than in productive activities. Earnings for all micro-entrepreneurs increased between 10 to 50 percent, and 12 percent increased their business investments.

In June 1994, 300 hundred community banks with a total membership of 7,667 were functioning, and 84 percent of beneficiaries were women. An impact analysis of 81 community banks showed that in less than two years, sales had increased by 40 percent and income by 42 percent, and women bank members had saved US$10,000.

Ninety-five percent of PASI-financed subprojects have succeeded. The key factors of program success are (a) PASI does not do the lending itself, but delegates this role to intermediary organizations, including NGOs, that specialize in informal sector credit; (b) market rates are charged to final beneficiaries, providing sufficient incentives to intermediary organizations to undertake the subloan evaluation and ensure proper recovery and adequate capitalization of the revolving fund; (c) intermediary organizations, not PASI, assume the full credit risk, which gives them the incentive to collect subloans; (d) PASI requires significant cost sharing (about 20 percent) from intermediary organizations, which motivates them to present quality subprojects; (e) solidarity group lending (based guarantees provided by the group) ensures loan recovery without requiring physical collateral or fiduciary guarantees; (f) prequalification criteria, subject to periodic testing are applied to credit

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16 Sustained jobs refers to the maintenance of preexisting jobs held by loan recipients. Job creation refers to new employment resulting from micro-enterprise expansion as a result of informal sector program credit.


18 Ibid.

19 Unfortunately, the unprecedented devaluation of the Lempira since then has led to decapitalization of the fund, particularly because the FHIS used fixed interest rates, which could not be readily adjusted.
beneficiaries and (g) supervised, partial loan disbursements have ensured the proper use of program funds, thereby contributing to low levels of nonpayment (acceptable rate of 5 percent) and improved program coverage.

Program success is also due to the uniform use of promotion, evaluation, and supervision manuals; intensive supervision of credit subprojects; staff training in financial analysis; and implementation of a system for subproject evaluation that includes a rank-order evaluation of intermediary organizations. Following a Mid-term Review finding that the evaluation of intermediary organizations was overly subjective and superficial, PASI trained its staff in financial analysis and established a system for subproject evaluation that includes a rank-order evaluation of intermediary organizations. One-half of intermediary organizations are ranked as "good" or "regular" and one-half as in need of institutional strengthening. Good organizations are those that have adequate institutional infrastructure and demonstrated experience in the credit field. Regular organizations have adequate operations but need institutional strengthening. Poor organizations need technical assistance and training in order to improve. In addition to this formal evaluation, PASI and PROCATMER routinely consult each other about NGOs' performance because some NGOs receive financing for credit subprojects from both programs.

PASI provides training and technical assistance in all areas of micro- and small enterprise credit to improve intermediary organization performance. Through December 1994, PASI financed 30 seminars, courses, and technical assistance and training events for intermediary organizations in the amount of L 372,024 (about US$62,000) and 14 courses and seminars for direct credit beneficiaries in the amount of L 26,861 (about US$4,400). PASI supervision of intermediary organizations is constant. The supervision team consists of four persons who monitor nine projects each, including attending at every weekly community bank meeting.

PROCATMER

From 1993 through January 1995, PROCATMER has worked with 36 intermediary organizations, of which 20 are NGOs (19 national, 1 international). The other organizations are business associations, individual cooperatives, and a cooperative federation. NGOs have executed 28 of a total of 31 credit subprojects financed by PROCATMER, which have 4,992 direct loan beneficiaries. PROCATMER does not restrict the number of intermediary organizations so as not to limit program coverage. To reach full capacity, PROCATMER anticipates that it will need to work with 40 to 50 intermediary organizations. Program operating costs are not expected to rise as PROCATMER currently has the capacity to supervise 50 organizations.

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20 PROCATMER-financed credit subprojects are in rural areas with populations less than 5,000 inhabitants; PASI subprojects are in urban areas with populations greater than 5,000 inhabitants.
PROCATMER's experience shows that NGOs are more effective and professional than business associations and cooperatives because the latter lack credit experience and are subject to internal problems. The two NGO program failures are attributed to poor financial management skills. Intermediary organizations need a minimum of L 5 to L 6 million to operate a credit program if the organization does not have other activities to cover costs and maintain a surplus. New NGOs do not have sufficient operating funds. Approximately six NGOs specialize in credit and have sufficient operating capital. Although the limit per credit is L 2 million, PROCATMER awards two to three credits to the same intermediary organization—provided it meets all requirements—to ensure adequate funds to cover operating costs.

The most common problems of intermediary organizations are the lack of administrative and financial skills. The main conclusion of a November 1994 meeting on the micro-enterprise sector in Honduras was that the sector does not need more credit funds; rather, NGOs need training and technical assistance in institution building, financial management, and other technical skills. For example, there is no standardized management structure for NGOs that work in credit. Some NGOs have computerized financial and loan systems, but the systems may not work because staff are not trained in their use. Interestingly, a PROCATMER-sponsored NGO evaluation found that the FHIS ranked first as a source of NGO training, followed by the Federation of Private Development Organizations of Honduras (Federación de Organizaciones Privadas de Desarrollo de Honduras — POPRIDEH), the government's Professional Training Institute (Instituto Nacional de Formación Profesional — INFOP), and the NGOs themselves. NGOs also experience high personnel turnover, their operations are not computerized, and they lack adequate logistical support.

PROCATMER's principal successes are credit fund recovery and attention to informal sector entrepreneurs. Ten percent of subproject costs finance technical assistance and training for intermediary organizations. Two issues internal to the FHIS adversely affect PROCATMER's operations. First, credit subproject approval is delayed because the FHIS's central administration also conducts a technical evaluation of proposals in addition to the technical evaluation PROCATMER undertakes. PASI also noted this problem. As a result, many loan beneficiaries did not receive credit in time for 1994 Christmas product manufacture and sales, and the same situation will probably exist at Easter. Second, the FHIS seeks physical and fiduciary loan guarantees, which most NGOs are not willing or able to provide.

Benefits and Costs of NGO Participation

According to the FHIS, the benefits of NGO participation are several: NGO-executed subprojects receive a larger concentration of technical and financial resources than

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21 PROCATMER et al., op. cit. The NGOs that were evaluated work in the micro-enterprise sector, and the training they received from the FHIS was provided by PASI.
subprojects executed by private contractors; the government can expand social service delivery by contracting NGOs, whereas private contractors do not provide such services; NGOs support the normative and supervisory roles of the state; the costs of NGO-executed subprojects are lower than those of private contractors; subproject implementation by NGOs is more efficient and effective than by the traditional public sector; and NGOs help to generate more employment in the productive sector.

By contrasts to the FHIS reports various "costs" of NGO participation; (a) NGO-executed subprojects require more supervision than subprojects executed by private contractors—because of the nature of social service subprojects—which increases the FHIS's costs; (b) the development of Basic Needs Program methodologies, including subproject objectives and expected outcomes, requires an investment in time and human resources that is not required for the Infrastructure program; (c) NGOs' legal responsibilities with respect to FHIS financing are not clear; and (d) NGOs' costs rise over time unpredictably, thereby increasing the FHIS's contract costs.

The benefits to NGOs of participating in FHIS subprojects are employment opportunities that result from the new source of financing and, consequently, expansion of NGO activities; substantial institutional strengthening as a result of experience with the FHIS; and FHIS financing of capacity building activities, which for the period 1990-1994, was estimated at 10 to 15 percent of subproject costs. The costs of participation refer to administrative and bureaucratic delays. In the Basic Needs Program, disbursement delays were reported for midwife training and attention to street children subprojects and the Latrine Construction and Sanitation Education Project. Both informal sector credit programs reported subproject approval delays. Such disbursement delays on the part of FHIS had adversely affected subproject execution timetables and the credibility of the subproject executor and program staff.

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22 The calculation of contractor profit is 10 percent of direct subproject costs plus 8 percent for subprojects ranging between US$5,760 and US$11,520 or 6 percent for subprojects over US$11,510 (July 1994).
V. LESSONS LEARNED

The main lessons learned from the FHIS' experience with NGOs are presented below. These lessons may prove useful to other social investment fund programs.

**Future Role of NGOs in the FHIS**

NGOs have demonstrated that they can successfully execute subprojects and have an important role in FHIS operations. The FHIS anticipates that NGO participation for 1995 and beyond will represent about 20 percent of total financing, and that the role of NGOs will probably change given the FHIS's new social policy. For example, NGOs are not clear on whether they can continue to propose subprojects directly to the FHIS or are obligated to go through municipal governments to propose subprojects or obtain approval for subprojects. Also, NGOs are confused about the new Social Participation Component, which is not clearly defined, and the risk exists that NGOs lacking appropriate experience will be contracted to execute the component. Similarly, NGOs do not know the new Basic Needs Program's objectives and subprojects or appreciate why qualified NGOs cannot compete with private contractors for large-scale infrastructure subprojects.

In view of these uncertainties, it is important that the FHIS and NGOs discuss changes so that NGOs can respond effectively when new programs are in place. The FHIS can take actions to provide clarification and guidance, namely: (a) prepare and distribute a statement on the role of NGOs in the FHIS, detailing the implications of social policy on NGO work; (b) conduct seminars for NGOs on the new Basic Needs Program and the Social Participation Component, including the bases on which subprojects will be evaluated; and (c) establish a systematic channel of communication with NGOs to disseminate information on eligibility, operational procedures, investment priorities, and other matters, making sure that by whatever means used (e.g., the quarterly newsletter), the information directed at NGOs is repeated periodically, because of the high turnover of staff that characterizes the sector.

Moreover, the FHIS would profit from more active participation by NGO. Their knowledge, experience, and close proximity to communities positions them to know the community demand for projects and to be able to communicate that information to the FHIS. NGOs can and should take the initiative to identify and propose subprojects based on community demand to complement subproject menus provided by FHIS. NGOs should also seek to develop closer community ties, as they are often the only link between the FHIS and communities and that link should be strengthened.

**NGO Selection**

Four years of experience have shown that the performance of subproject executors is a key factor in subproject outcome, and that NGO weaknesses that affect subproject outcome are poor financial administration, high personnel turnover, and insufficient logistical support. Even though all FHIS programs prequalify NGOs, including an assessment of their
in institutional capacity, the FHIS has not undertaken a comprehensive evaluation of NGOs, nor is a structure in place within the FHIS to inform program offices about NGOs. Rather, the FHIS maintains a blacklist of NGOs whose past performance was unsatisfactory.

NGO selection should be preceded by a thorough, performance-based evaluation in which the FHIS and NGOs collaborate on NGO accreditation. Such an evaluation can be realized in the context of a Bank-financed NGO Country Assessment. The evaluation should include a methodology for the systematic appraisal of FHIS experience with NGOs, and the FHIS should devote sufficient personnel to this task to permit the results to be useful. As part of this evaluation, the FHIS may want to review the practice of directly contracting NGOs, as opposed to awarding contracts through competitive bidding processes.

The current NGO prequalification and selection processes can be made more rigorous. The FHIS should require a mandatory visit to NGO offices to verify administrative capacity, staff levels and personnel qualifications, and available logistical support. NGOs should be prequalified in specific subproject types based on their experience and track record. Selection should be limited to NGOs with experience in the proposed subproject type, and selection criteria should include technical and logistical capacity and acceptance by the appropriate ministry where relevant. The FHIS should require external auditing of NGOs at the subproject level, if only on a random basis. For their part, NGOs with FHIS experience should make concrete recommendations on how to improve prequalification and selection processes, including the development of a list of services that each NGOs provided the geographic areas covered by each NGO.

Technical Assistance and Training

NGOs have received substantial institutional strengthening in the form of technical assistance and training as a result of their experience with the FHIS. Continued technical assistance and training on the part of the FHIS to improve both NGO and subproject performance will probably be required—a view shared by the FHIS, line ministries, and NGOs. Future NGO training and technical assistance can be considered part of total subprojects financed by the FHIS, or a follow-up FHIS project could finance an NGO training program as a type of subproject. However, more analysis is needed to identify training areas and to choose effective training implementation that will strengthen the NGO sector. Preliminary areas identified for training include administration, financial analysis, strategic planning, management information systems and computers, project formulation and evaluation, management, legal affairs, promotion and training methodologies, marketing, and sustainable development. Among technical assistance needs are training methodologies and the design of educational materials.

The FHIS should assess the training and technical assistance needs of NGOs by program and subproject type and develop a proposal to meet the needs that focuses on improving FHIS program and subproject performance. Several options are available to accomplish this task: (a) the new FHIS Training Unit could conduct the needs assessment in
cooperation with FHIS programs and relevant ministries; (b) the FHIS could use international NGOs to identify the training needs of NGOs and to design training and technical assistance programs; or (c) the government could initiate direct communication with, and training of, NGOs involved in project design and implementation, like the National NGO Liaison Office (NLO). Also, NGOs should take the initiative to define their technical assistance and training needs, for example, in subproject proposals.

**Supervision and Evaluation**

Although the FHIS has increased resource allocation for subproject supervision, more work is needed on the quality and kind of supervision activities and on the evaluation of the performance of NGO-executed subprojects, including subproject impact. The supervision of NGO subprojects requires monitoring services delivery, administration, finance, and NGO supervision in addition to physical progress and disbursements. Supervisory personnel should be experienced in the subproject types they supervise and evaluate and should receive the support they need to fulfill their functions in a timely manner. Supervisory visits should be sufficient in number to monitor subproject progress effectively and to make needed adjustments prior to the conclusion of the subproject. Subproject evaluation requires that objectives and indicators for each type of subproject are stated clearly in terms of anticipated subproject impact so that they can be measured.

To improve its supervision and evaluation capabilities, the FHIS should develop a more thorough evaluation methodology for each type of subproject, train supervisory personnel in these methodologies, and ensure that the number and qualifications of supervisors are adequate for the monitoring requirements of each subproject type. NGOs should work with the FHIS to develop subproject evaluation and supervision methodologies. Equally important, NGOs should concentrate on the quality of output and services offered.

**Administration and Bureaucratic Delays**

Administrative and bureaucratic delays have reportedly hampered the effectiveness of FHIS operations. The FHIS should review administrative arrangements to ensure more efficient contracting, disbursement, and legal arrangements for NGO-executed subprojects. In particular, the FHIS should investigate whether disbursement delays are a significant problem for subproject executors and, if they are, find out why and take corrective action to ensure effective and efficient subproject execution. Subproject executors should bring issues regarding administrative arrangements to the FHIS’s attention and work with the FHIS on how both parties can help to alleviate problem areas.

**Subproject Sustainability**

Subproject sustainability is an issue that the FHIS continues to address. For specific types of subprojects, a more intensive use of NGOs could be made to enhance subproject sustainability, for example, water system subprojects are highly subject to sustainability
problems because they depend on community volunteers organized in Water Administration Committees (JUNTAS) for operations and maintenance at the conclusion of FHIS financing. Although the first water system committee receives FHIS-financed training in administration and systems operations and maintenance, committee membership changes every two years. New members are not formally trained, which can lead to serious problems with the water system and in the community. The FHIS should consider financing NGOs to undertake follow-up activities for subproject types that experience sustainability problems to ensure that the subproject can function as planned over time. NGOs should collaborate with the FHIS on the type, cost, and scheduling of the kinds of follow-up activities that may be required.
VI. CONCLUSIONS AND RECOMMENDATIONS

NGO participation in the FHIS has met the expectations set forth in the appraisal reports. NGOs play a prominent role in the FHIS, and the FHIS has been instrumental in providing NGOs—especially national NGOs—with the opportunity to work with the Government on poverty reduction on a nationwide basis. This collaboration has benefitted not only the poverty groups whose standard of living the FHIS has improved, but also the government and NGOs. The FHIS would not have been as successful without NGO involvement, and without the FHIS, the NGOs would not have had access to the resources and experience that FHIS subproject financing provided. More broadly, the government—and the health and education ministries in particular—would not have enjoyed wider coverage and greater services delivery without NGO participation in the FHIS.

Based on the FHIS' four years of experience with NGOs, the following recommendations are made by the authors regarding NGO participation in Bank-financed projects to (a) governments and implementing agencies, (b) NGOs interested in collaborating with the World Bank and governments on Bank-financed projects, and (c) the World Bank. With respect to social investment funds (SIFs) in particular, it would be desirable for the Central American SIFs and participating NGOs to meet to discuss ways of improving collaboration.

Recommendations to Governments and Implementing Agencies

Recommendations to governments and implementing agencies are to:

- Involve NGOs with appropriate experience in project identification and design from the outset.

- Not only provide NGOs with a precise definition of their role in projects, but also make clear the project’s objectives and how NGOs will contribute to achieving them. For example, if the project’s aim is to reduce poverty, inform NGOs how the project will reduce poverty and how their participation will contribute to poverty reduction.

- Identify the NGOs’ technical assistance and training needs and ensure that these needs will be met through direct training by the implementing agency or an appropriate training entity (public or private sector). Include technical assistance and training costs in project budgets.

- Seek the views and opinions of project beneficiaries (beneficiary assessment) on both the NGO and the project in monitoring and evaluation activities.

- Design or adapt management information systems to process NGO data separately and in combination with program and project data to facilitate NGO monitoring and evaluation.
* Institute a system of cross-checks in projects where NGOs are eligible to participate in different programs, so that all program offices are informed about NGO performance in other programs.

* Share with NGOs all aspects of project identification, implementation, and evaluation (e.g., project documents such as SARs, Project Supervision Reports, Mid-term Reviews, and Project Completion Reports) that are relevant to NGO performance and discuss performance with NGOs.

Recommendations to NGOs Interested in Collaborating with the World Bank and Governments on Bank-financed Projects

Recommendations to NGOs interested in collaborating with the World Bank and Governments on Bank-financed projects are to:

* Become involved in the early stages of project identification and design.

* Bring project concerns and problems to the immediate attention of the person responsible for the project on behalf of the World Bank and government, provide suggestions on how to solve problems, and request a specific time frame for the resolution of a problem. Keep in mind that managers may not be aware of a problem unless the NGO assumes the responsibility for informing them.

* Ask to review project documents that discuss NGO performance for accuracy and learn what recommendations are made to improve overall project and NGO performance. Discuss recommendations with the government or implementing agency and propose a communications mechanism for ongoing information sharing on NGO participation in the project.

* Initiate actions such as organizing NGOs working in the same sector or on the same project to assess project performance and recommend how to improve the project and NGO participation. A first step in developing NGO organization would be for NGO's to improve coordination among themselves to strengthen their institutional capacity to propose projects, and therefore their capacity to produce.

* Promote constructive dialogue with implementing agencies.

* Maintain close contact with communities, involve project beneficiaries and participants in decision-making, conduct participatory monitoring and evaluation activities, and present beneficiaries' views and opinions—whether or not the NGO agrees with the government or implementing agency.

* Concentrate on the quality of output and services offered.
• Become familiar with the project as a whole in addition to the activities executed by NGOs.

Recommendations to the World Bank

Recommendations to the World Bank are to:

• Finance and develop a methodology for NGO Country Assessments.

• Explore ways to involve NGOs in Bank-financed projects (e.g., project identification, preparation, and implementation), including establishing means of direct communication with NGOs.

• Consult with NGOs, as appropriate, during the project identification process and determine what NGOs can and cannot do to achieve the project's objectives (i.e., evaluate NGO capacity with respect to sector experience, administrative structure, number and availability of professional and support personnel, logistical support, monitoring and evaluation system, management information system, geographic coverage, community participation methodology and partnerships with grassroots organizations, and so on).

• Be realistic about project sustainability and how to accomplish it. Frequently, implementing agencies and NGOs propose that project sustainability will result from training grassroots organizations to operate and maintain a project at the conclusion of financing, that additional funding may be secured from other sources, or that user fees or income generated by the project will cover future costs. Budgeting for follow-up activities (e.g., periodic supervision or training after project conclusion) is cost-effective given the possible loss of the project investment if such activities are not undertaken.

• Provide for the assessment of NGO performance as a distinct element of project identification, SARs, Project Supervision Reports, Mid-term Reviews, and Project Completion Reports.

• Sponsor forums for NGOs and the private sector to discuss development strategies with the donor community.

• Increase NGO access to Bank publications in keeping with the new Bank policy on information disclosure.

• Explore ways to work with the private sector and NGOs to help mobilize funds for development projects.


_____ 1993. "Empresas Maternales (EMMAS), Evaluación de los Proyectos de Necesidades Básicas financiados por el FHIS, con fondos del Banco Mundial", Tegucigalpa, D. C.

_____ 1993 "Micro Granjas y Huertos, Evaluación de los Proyectos de Necesidades Básicas financiados por el FHIS, con fondos del Banco Mundial", Tegucigalpa, D.C.


_____ "Programa de Necesidades Básicas, Informe de Actividades", Tegucigalpa, Honduras n.d.


CASE STUDY: VOLUNTEERS IN TECHNICAL ASSISTANCE

Volunteers in Technical Assistance (VITA) is an international NGO based in the United States which specializes in communications technology and information services. Under contract to the MOH’s Health and Nutrition Project (Credit 2452-HO), VITA is conducting a feasibility study on how to improve MOH communications—especially the referral system in isolated, rural areas—through the use of low-cost, easy-to-use, and reliable communications technology.

The current MOH communications system is used for patient referral and consultation and health data reporting. Rural health centers use radios to make referrals to health centers with physicians, area hospitals, and regional hospitals, as well as to consult on particular patient cases. Radio and telephone communications are used to provide data to regional and central ministry offices for the preparation of weekly epidemiological "telegrams" that report on disease morbidity, trends, and epidemics. The system is based on high-frequency (HF), shortwave communications using radio and telephone or facsimile transmissions. This system is both ineffective and costly because a variety of radios exist that operate on different frequencies and are not linked together, and telephone or facsimile communications are expensive. In addition, some health personnel who do not have access to the system or whose equipment is faulty are obliged to travel to report information. The HF system is not entirely reliable because of the vagaries of atmospheric conditions.

The proposed communications system will use a combination of voice and digital (electronic mail) systems in the form of portable radios and computers linked to a very high frequency "repeater" system of mountaintop stations. The VHF system will be significantly faster, less expensive, and more reliable than the HF system because resources will not be spent on direct telephone and facsimile communications or travel. The system will replace facsimile and direct telephone calls with electronic mail, allowing computer files to be transmitted instead of messages, which will expand and improve MOH databases. The system will place emphasis primarily on voice transmission and, secondarily, on data transmission. Health personnel will be able to communicate directly at every level. A health center that lacks needed medicine can request supplies from another health center for example, or if a health center’s vaccine cold chain refrigerator is not working, the center can call another center to transfer the vaccines. Patient treatment can be coordinated to save lives. The proposed system will also include an MOH connection with VITA’s low-earth-orbiting satellite, which will permit international communications, e.g., with the U.S. National Institutes of Health.

With the exception of some areas in the Department of Gracias a Dios, the entire country can be linked via a VHF system. Initially, at least one system will be installed in priority areas identified by the MOH. A preliminary selection includes: Region II (Area 2), Region V, Region VII and Region VIII. Projected program coverage is 100 stations linked to MOH, which will be responsible for the system’s operation and maintenance and subsequent system installations. Should VITA be awarded the contract for system implementation, it would
participate in the first system installation, prepare operating manuals, and facilitate training of MOH engineers and system users.

The MOH reports that the advantages that VITA, as an NGO brings to the development of the communications component are a demonstrated track record, the provision of concrete, specialized services in a desired technology not locally available, and technical assistance costs that are lower than those of a for-profit firm. In addition, VITA-proposed training would increase and enhance the MOH's institutional capacity for systems installation, operations, and maintenance.
CASE STUDY: AGUA PARA EL PUEBLO

Agua para el Pueblo (APP) has received FHIS financing for the execution of 26 subprojects: 22 water and sewerage subprojects with total approved financing in the amount of L 7,159,857 (about US$1.1 million), 3 sanitation education subprojects in the amount of L 302,162 (about US$50,000), and 1 water committee training subproject in the amount of L 506,628 (about US$84,000). APP has also received financing from the World Bank, UNICEF, and USAID to construct water and sewerage systems, latrines, and wells.

APP is a national NGO, which was founded in 1985, that specializes in water and sanitation. With 10 years of sector experience, it is one of the principal actors in the water and sanitation sector in Honduras. It has 44 staff (30 percent are professionals), of which 16 are located at the headquarters office in Tegucigalpa. APP has a current project pipeline of 20 water systems in the department of La Paz, 20 water systems in the department of Olancho, and latrine and well construction in 14 communities in the department of Valle.

In 1992 the FHIS awarded a 1 year contract to APP for the organization and training of 50 water administration committees (JUNTAS), which are responsible for systems operation and maintenance on FHIS-financed water system subprojects. APP reports that 80 percent of committees were satisfactorily organized and trained. At the conclusion of the FHIS contract, the JUNTAS had accumulated a combined total of L 6 million (about US$1 million) in their operations and maintenance accounts.

The case of the JUNTAS in the village of Zambrano, 40 kilometers north of Tegucigalpa, is instructive with respect to the need for follow-up activities at the conclusion of FHIS financing. APP trained the committee in administration, bookkeeping, and system operation and maintenance. Its president is elected by a general assembly for a three-year term and members are elected for two-year terms. The difference in terms is designed to provide continuity of experience.

The committee has followed APP's guidelines and raised the monthly water tariff from L 4.00 to L 8.00; some users who own commercial property are charged L 16.00. In January 1995 the committee had L 35,000 in its operations and maintenance account. Previously, it had used some funds for system expansion. Today, the committee faces serious difficulties because the population of Zambrano has nearly doubled in six years. In 1991 a population census counted 300 households in Zambrano. The water system was designed and built for 350 households in 1991, and its anticipated lifespan was 20 years. Zambrano now has 527 households. System design did not anticipate such rapid population growth, which the committee attributes to the availability of water in Zambrano, which has caused nearby inhabitants who did not have access to water to relocate.

Among the problems posed by the unexpected population growth are that households that are not connected to the system want connections. Many of these households are located above the level of the water tank, thus, connection to the present system is unlikely. Equally unlikely
is the possibility of the community raising funds to construct an additional tank. Population growth has also exacerbated the problem between water use for household consumption (for which the system was designed) and use for irrigation which occurs illegally. Another problem is that the committee has been unsuccessful in its attempts to hold a meeting of most households to reach decisions on the problems that face them. Attendance at meetings is approximately 15 percent of users.

In addition, the committee has tried to obtain legal status (personería jurídica) since 1991 without success. Legal status is important because it allows JUNTAS to open bank accounts in their name, operations and maintenance funds are more secure, the committees are less subject to allegations of misuse of funds, and committee ownership of the land where the water source is located is essential. Legal status also gives formal recognition to the work of the water committee in the community. In the case of the Zambrano JUNTAS, legal status would assist it against the purported takeover of the water system by the local political organization.

In a January 1995 meeting with the JUNTAS, APP proposed to send an engineer to explore possible ways to expand the water system, provide additional training on water chlorination, and help the committee develop solutions to its problems, such as seeking authorization from users to raise the connection fee for new users substantially. Because of a lack of time and human resources, APP cannot offer to help the committee achieve legal status, which can be obtained from the Ministry of Governance (Ministerio de Gobernación) or the National Water and Sewerage Service Company (Servicio Autónomo Nacional de Acueductos y Alcantarillados). APP suggested that the FHIS Legal Department lend assistance. In hindsight, advice on procedures on how to obtain legal status should have been part of APP’s contract with the FHIS. In the future, a unit within the FHIS could be created to assist water committees and other local community organizations with this matter. More effective still would be to simplify the procedures to obtain legal status, which would require changing the law.

Prior to the January meeting, which was occasioned by the preparation of this report, APP had had little contact with the JUNTA since the conclusion of its FHIS contract. The meeting demonstrated the necessity for water and sanitation subprojects and water committee training subprojects to schedule follow-up activities for a period of time after project financing ends to ensure effective leadership by water committees, proper systems operations and maintenance, and protection of the investment in the water system—in short, subproject sustainability.
CASE STUDY: CASA ALIANZA DE HONDURAS

FHIS financed seven subprojects executed by Casa Alianza de Honduras (CAH) in the total amount of L 1,541,491 (about US$25,600). Financing was used to purchase equipment, medicines, monthly food baskets, school supplies, and school shoes, as well as training and institutional strengthening for CAH. The reimbursement from the FHIS to CAH for some approved expenditures is reportedly nearly a year late.

CAH was established in 1988 to provide shelter and services for street children. In Honduras, an estimated 300,000 children live, work or beg on the streets. CAH focuses on helping children to leave street life by means of four programs implemented by a staff of 100. The first is the identification of street children by a trained team that talks to the children and invites them to change their situation with assistance from CAH. The second is the shelter programs in which an average of 50 children ages 8 to 17 years live at CAH for 4 months. During this time the children receive room and board and counseling. Depending on their age, on leaving the shelter, most children go back to school or begin on-the-job training at businesses that collaborate with CAH. In the third program, some of the children, especially girls, can move to a group home, or children who are addicted to drugs can choose to live on a farm outside Tegucigalpa that provides drug rehabilitation services. There are five group homes with an average of 13 children per home. Currently, 17 children are in residence at the farm. The fourth program is the child’s reintegration into his or her family, but only in cases where reintegration is a viable option. Within Tegucigalpa, 101 children participate in the family reintegration program and outside the city 67 children participate.

The family reintegration program, initiated in 1991, involves both children and parents. Five "family educators," who are responsible for from 25 to 30 children each, make three home visits per month to children living in Tegucigalpa and one visit every two months to children outside the capital. If a child is in crisis, the family educator may visit as often as three times per week. Every Saturday, parents are provided training in the areas of personal and family development, health and nutrition, family planning, non-physical disciplining of children, support of their children’s participation in school, and community development. Ninety-five percent of beneficiary families are headed by women, and problems common to all families are unemployment, malnutrition, parasitic infections, lack of access to water, family disintegration, drugs, and alcohol abuse. CAH emphasizes the link between child development and community development. Although it does not promote economic development activities as such, it does provide children and family with tools that will enable them to be more productive.

Two examples show the kind of success CAH enjoys. A 10 year old girl, who lived in the shelter for several months because she had been beaten by an uncle returned home where she lives with her grandmother and 4 year old sister. She has done well in school, no longer spends time in the streets, and has not become involved in drug use, which is prevalent in her neighborhood. At the same time, her grandmother cannot afford to pay the school fees necessary to receive her grade promotion report, and she will probably not attend the next school term. A 14 year old boy, who along with two brothers lived in the shelter because their mother
beat them, has returned home, is doing well in school, and observed that his life has changed for the better in part because his mother has changed too, as a result of training provided by CAH. Both children are still considered "at risk", and, as with every child, CAH provides a two-year follow-up.

Among the reasons for CAH's success are highly dedicated professional staff, including volunteers with special expertise in fields such as children's rights; well-designed programs; close supervision and long-term follow-up activities; adequate financial support (the estimated annual budget is US$600,000); and a sound reputation for effective work. Apart from its direct service work with children and parents, CAH participates in the national-level dialogue on children and is a member of several organizations concerned with children's rights and drug treatment and rehabilitation. Casa Alianza Honduras is affiliated with Casa Alianza Guatemala.
CASE STUDY: FOUNDATION FOR INTERNATIONAL COMMUNITY ASSISTANCE

Foundation for International Community Assistance (FINCA) is a U.S. based NGO that specializes in making credit available to informal sector entrepreneurs. In Honduras, FINCA works in 10 of 18 departments. The central office is located in Tegucigalpa, with regional offices in Ocotepeque, San Pedro Sula, Copán, and Comayagua. FINCA has a staff of 41, including 4 consultants from the Inter-American Development Bank (IDB). The central office has 17 staff with the remainder located in the regional offices. FINCA is one of six NGOs providing credit to community banks in the FHIS's informal sector credit program PASI. FINCA has executed two loan subprojects with PASI, with total approved financing of L 3,097,548 (about US$500,000), and one subproject with PROCATMER in the amount of L 2,000,000 (about US$333,000). FINCA also has lines of credit from USAID and the IDB.

FINCA provides technical assistance in the organization of community banks and training in bookkeeping and banking procedures. Solidarity group lending ensures loan recovery without requiring physical or fiduciary guarantees. Bank members elect their own officers and are wholly responsible for bank operations. Bank capital consists of a loan from FINCA at market rates (36 percent annual rate) and savings from members who must repay their loans and add to their savings on a weekly basis. The loan repayment rate is 95 percent. FINCA provides credit to 248 community banks (89 community banks receive financing from PASI). Women operate 245 banks and men operate 3. On average, the banks have 28 members.

The community bank Jehovah Nuestro Pastor, which is located in the peri-urban neighborhood La Laguna in Tegucigalpa, has 34 women members. The bank has been in operation for three years, or nine four-month loan cycles. The members are informal sector entrepreneurs whose activities include tortilla manufacture; sales of candy, gum, and cigarettes from a portable stand; and sales of new and used clothing. The bank holds meetings once a week to receive loan payments and for bookkeeping. Meetings are organized and conducted by a five-person administration committee which is democratically elected. A FINCA supervisor attends every meeting. A fine of L 0.50 is charged for being late for the meeting, and L 1.00 is charged for a late payment. If a member misses four consecutive meetings, she is dropped from the bank. The loan amount awarded to each member is determined by the size of the previous loan, its repayment, and savings. The current maximum loan amount is L 3,500 for four months. Bank members stated that they have greatly benefited from FINCA loans in terms of capitalizing their businesses but noted that the maximum loan amount was not large enough to allow for expansion.

FINCA is successful because it specializes in community banking. It has well-defined operating plans and manuals; sound administrative procedures; and a comprehensive computerized management information system, and it provides close supervision of community banks. FINCA avails itself of technical assistance and training courses (e.g. from PASI, the USAID, and the IDB). Staff morale is high because personnel receive full support as well as supervision from the central and headquarters offices. The features of a community bank are
equally important. Loans are made to community banks, not individuals, thus the members are jointly responsible to FINCA for the loan. The community, not FINCA, decides who can be a bank member, which eliminates bad credit risks because members realize they will be held accountable for any bad debts, and the individual bank member, not FINCA, chooses how she will invest her loan in recognition of the fact that the individual knows the local constraints and economy better than anyone else and is likely to make profitable investments. Initial loans are small, and increases in the members' lines of credit are linked to the amount of their savings. To qualify for a new loan, the bank must completely repay the previous loan plus interest. FINCA charges commercial interest rates. Finally, all bank members are required to save.
LIST OF NGOS PARTICIPATING IN THE FHIS

Asociación el Buen Pastor
Asociación Cambio Occidental
Asociación de Desarrollo Comunitario Oriente de Honduras
Asociación de Desarrollo Comunitario Comayagua
Asociación para el Desarrollo Integral de Honduras
Asociación de Desarrollo Integral Comunitario de Honduras
Asociación Hondureña de Desarrollo
Asociación Hondureña de Desarrollo Comunitario
Asociación Hondureña de Desarrollo de la Juventud y la Mujer Rural
Asociación Hondureña de Rehabilitación
Asociación Horizontal
Asociación de Instituciones Evangélicas de Honduras
Asociación Médica Cristiana
Asociación National de Artesanos de Honduras
Agua para el Pueblo
Asociación Pro Desarrollo Islas de la Bahía
Asociación Save the Children Honduras
Asociación San José Obrero
Asociación de Industrias del Vestuario de Honduras
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Asociación de Investigación para el Desarrollo Ecológico y Socioeconómico
Asociación San Juan Bosco
Casa Alianza de Honduras
Centro Asesor para el Desarrollo de los Recursos Humanos de Honduras
Centro de Asistencia y Servicios Públicos Diversos para el Desarrollo de Honduras
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Centro de Desarrollo Humano
Centro de Capacitación y Desarrollo Social de Honduras
Comité Evangélico de Emergencia Nacional
Centro de Desarrollo Juvenil y Familiar
Centro de Estudios e Investigación
Centro de Estudios y Promoción del Desarrollo
Centro para la Investigación, Aplicación y Enseñanza de la Ciencia Científica
Corporación Redondel de Artesanos, Comidas Típicas y Similares
Coordinadores Regionales para el Desarrollo Integral de Honduras
Educación Comunitaria para la Salud
Fondo Cristiano para Niños
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Fundación Guadalupe
ANNEX 5

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