USAID/HAITI MICROFINANCE:

A PORTFOLIO REVIEW

By

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<u>Executive Summary</u>

REVIEW OF USAID/HAITI MICROFINANCE PROGRAMS

June 2005

INTRODUCTION

This report reviews the USAID/Haiti Mission portfolio of microfinance support programs, assesses performance of existing programs, and suggests guidance for follow-on activities. The following programs were assessed:

<u>**DAI/FINNET**, April 1, 2000 – March 31, 2006, Total Budget $10,307,002</u>
Objective: Assistance to the microfinance sector for improvement and expansion of delivery of financial services to the economically active poor.
Activities: Microfinance as a sector, institutional development, finance, policy, performance and monitoring.

<u>**FINCA/Haiti** March 1, 1999 – May 31, 2005, Total Budget $1,202,003</u>
Objective: To successfully establish a permanent and self-sufficient microfinance institution in Haiti.
Activities: Institutional development, including staff training and geographic expansion; development of financial relations with commercial banks and other service providers; training and technical leadership to the sector at large.

<u>**SOFIHDES/Enterprise Finance Facility,** October 1999/September 2005, $4,905,000</u>
Objective: To deliver financial services to micro, small, and medium enterprises.
Activities: (i) A loan-guarantee fund to promote growth in Haitian productive enterprises, (ii) an innovation fund to expand financial services to underserved regions and micro-enterprises.

Sector trends. Current trends in the Haitian economy include reduced levels of inflation. There is also evidence of some economic growth. The economy is defined largely by commerce, especially informal trading and services. The service sector constitutes 80 percent of the labor force and 50 percent of the GDP. Haiti's banking sector is presently characterized by excess liquidity. This is due to several factors including a significant decline of investment in the formal economy. Excess liquidity in the banking sector tends to favor microfinance and increased investment in the informal sectors of the economy. At the present time, Haiti's small economy has limited market potential in other sectors; therefore, the banks are going down-market to compete for profits. This creates new opportunity to serve poorer social sectors of the economy. Nevertheless, political and macroeconomic instability is having a severe impact on both small and large-scale enterprises, and both formal and informal sectors.

Sector challenge. The present challenge for Mission microfinance programs is to strengthen linkages between formal and informal sectors of the economy, facilitate broader investment in productive sectors, harness broad based aspirations for savings, and provide a secure environment for those savings so households can better cope with economic shocks.

MACRO LEVEL

Regulatory environment. MFIs seek regulations and a supervisory body similar to those in the banking sector. They also seek legal authority to intermediate savings. There is a general perception that microfinance is not a priority for the Government of Haiti. Among microfinance institutions, only credit unions are recognized as financial institutions with the authority to intermediate savings.

MFI association. The emergent association of Haitian microfinance institutions (ANIMH) is well situated to advocate for policy changes.

Loan guarantees and economic stabilization. The SOFIHDES/EFF guarantee fund has supported the macro environment by encouraging commercial banks to lend in the productive sector.

Interest Rates. Government changes that support the macro-environment include removal of interest rate ceilings, control of inflation, and decreased interest rates on treasury bills.

MESO LEVEL

FINNET technical assistance and training. FINNET has strengthened the sector by facilitating training of trainers; funding audits, and supporting ANIMH. FINNET has used in-country providers but local capacity is very limited. USAID is well positioned to continue playing a major role in building up the meso level of Haiti's microfinance sector.

Organizing the sector. ANIMH is potentially a key player for institutionalizing activities currently undertaken by FINNET, including efforts to develop the Bad Debtors List, a precursor to a credit bureau. Further work needs to be done to institutionalize a credit bureau.

Local capacity building. The SOFIHDES/EFF has contributed to the meso level through funding for information technologies and institutional evaluations of EFF beneficiaries. FINCA increasingly seeks loan capital from commercial banks and provides technical assistance to small credit unions where member savings are held.

MICRO LEVEL

Credit products. Most MFI loan portfolios are concentrated in the range of 2,500 to 125,000 gourdes ($US 68 - $US 3,378). Loans are offered for cash flow (3 to 9 months), investment (8 to 36 months), and production (10 to 18 months). The overwhelming majority of MFI loans are used for petty commerce rather than production sectors.

New products. FINNET also promoted general product development skills for its partners. SOFIHDES\EFF has strengthened the sector through loan capital, financing for equipment, and expansion into new regions. Conditions required for successful launch of new products include decreased country risk, institutional capacity to manage different types of loans, institutional tolerance for risk, client understanding of products and client ability to repay them, and sufficient liquidity to offer new products without compromising core products.

Impact on clients. Micro-entrepreneurs and small-scale entrepreneurs now have far better access to credit than before. Loans outstanding tracked by FINNET have increased five-fold; however, financial products tend to be centered around cash flow loans of six months or less among ANIMH members.

Savings. There is good evidence of strong unmet demand for secure savings from the majority of borrowers and prospective borrowers. Among FINNET Tier 1 partners, savings mobilization is about one-third that of loans granted, whereas among Desjardins-assisted *caisses populaire*, savings equals or outpaces lending. Future programming should put greater emphasis on savings mobilization.

Indebtedness. Borrowers in certain markets may be over-indebted. Some mergers and acquisitions are occurring.

SUCCESSFUL ACTIVITIES

Growth trend in microfinance sector. The microfinance sector has grown immensely, including unprecedented levels of microfinance services offered by the commercial banking sector. Large increases in portfolio size and loans suggest a large reservoir of unmet demand.

Commercialization. There is evidence of (a) strong movement toward commercialization of microfinance and (b) considerable potential to expand the range of products and services in the informal sector.

Microfinance association. Fostering the creation of ANIMH has been an important contribution. Follow-on activities should provide ongoing support to ANIMH.

Credit union subsector. New credit unions have been developed by Desjardins under the FINNET project. Support for these largely rural savings and loan associations is an important element of strengthening microfinance as a sector.

Synergy. Fonkoze loans to agricultural producer cooperatives have shown dramatic synergy across project lines linking microfinance services with the export of coffee, cacao, and mangos. The Hillside Agricultural Program (HAP) facilitated these arrangements via market information and ties to both exporters and producers.

Diversification of financial products. FINNET assistance to Fonkoze facilitated its evolution to a higher level including services comparable to a commercial bank. Fonkoze and FINCA have been forced by their success to offer new financial products to keep clients who would otherwise seek the services of commercial banks. They have also moved away from concentrating solely on group lending and higher risk clients and moved in the direction of more individual lending. This type of diversification is healthy for the microfinance industry and the economy.

RECOMMENDATIONS FOR FUTURE PROGRAMMING.

Microfinance associations. ANIMH represents an important new development on the institutional horizon and will need ongoing accompaniment. In view of the existence of three microfinance associations, all three should collaborate around shared interests including Bad Clients, Customer Liability Information, a national credit bureau, a microfinance regulatory framework, savings mobilization, and promotion of production.

Targeting productive subsectors. Other sectors such as artisans would stand to benefit from the mix of services provided by Fonkoze, SOFIHDES, and HAP to producer associations and agribusinesses.

Credit unions. There should be closer integration of savings and loan associations in the follow-on project. Credit unions could be used to promote higher levels of savings by other MFI clients. Follow-on services should actively seek out ways to maximize credit union impact on production.

Linking microfinance with other sectors. There should be closer collaboration and sharing of strategies among SO teams for education, health, and enterprise development, and closer links to incubators and mentoring programs.

Microfinance and value chain analysis. Assuming that the future of microfinance lies ultimately in productive investments, follow-on services should explicitly address this issue with MF partners, i.e., teaching MFIs to do production loans.

Savings. There is strong unmet demand for secure savings. Term savings products could be developed with a view to client concerns for school fees, health costs, burial funds, or a household crisis fund. Follow-on services should take another look at the market for microinsurance products.

SOFIHDES

Loan guarantee program. There are legitimate arguments for and against continuing the loan guarantee program, especially in view of the new Development Credit Authority. For the time being, it is recommended that the loan guarantee program continue; however, SOFIHDES should be asked to prepare a status report including detailed information from borrowers and lenders on utilization, and strengths and weaknesses of the loan guarantee fund.

Broaden productive sector financing. The use of SME loan guarantees should go beyond support for agribusiness and actively target other productive enterprises including tourism, industry, transport, handicrafts, and energy as originally planned.

Sharpened focus on production loan guarantees. Loan guarantees should be used primarily if not exclusively to encourage production lending.

FINNET II

Enabling environment. Ongoing FINNET programming should maintain its focus on microfinance as a sector including NGOs, commercial banks, and savings and loan associations.

- Follow-on programming should build on this orientation to the sector as a whole and broaden the scope, including public policy and development of local service providers.
- A microfinance donor group should facilitate donor coordination and further joint dialogue with central bank
- Follow-on programming should enhance ANIMH capacity for advocacy.

ANIMH. Support for ANIMH should include the following:

- To the extent possible, ANIMH should sponsor training that is currently provided by FINNET. This should be phased in gradually as participating institutions gain confidence in ANIMH and ANIMH evolves.
- Greater effort should be put into developing local service providers including auditors, trainers, business development specialists, etc.
- FINNET, USAID and other donors can support this capacity development via training that is unsubsidized or only partially subsidized.
- USAID supported activities should take into account the ANIMH business plan.
- USAID support for ANIMH should be geared to complement other donor assistance.
- ANIMH should create a GIS-based map of MFIs to facilitate advocacy and identification of service areas and over or underserved clients.

Cooperative credit unions (*caisses populaires*). The Mission should provide assistance for credit unions in follow-on programming.

- Project support should allow for ANIMH dialogue with the credit union subsector around shared issues and interests, including the macro level or enabling environment for microfinance as a whole.
- The project may want to work with credit unions on special products, e.g., school savings accounts.

Target training to specific needs and reduce subsidy as feasible.

- Broad training for MFIs-in-general is less needed by MFIs with international partners and vertical linkages.
- MFIs such as FINCA are basically self-sufficient in terms of training needs, and in the future should be a low priority for targeted training and technical assistance; however, the microfinance sector as a whole, including FINCA, would benefit from training investments geared to increase the pool of available human resources
- Higher priority for training and technical assistance should be given to MFIs that do not have access to parent institutions.
- Training should be market driven and strategically targeted to specific needs. In some cases, this may mean specific training targeted at specific MFIs.

New financial products. FINNET-II should provide support for new financial products, including savings products and the evolution of MFIs as regulated entities.

National credit bureau. FINNET-II training and technical assistance should support broader participation of MFIs including *caisses populaires* in information exchange, collaboration around Bad Client Lists, the Performance Indicators Working Group, and eventually a national credit bureau

Human resource crisis. The most serious constraints in the MF sector are weak institutions and an acute shortage of well qualified human resources. There's a general problem of undue dependence on upper management, e.g., MFIs with expatriate staff are generally doing better. There is high turnover of middle management professionals with good skills in managing staff, problem solving, and delegating responsibility. These issues raise serious questions regarding long term sustainability. In response, the Mission should take a range of measures to improve human resources. It should train sizeable numbers of people to broaden the pool of talent.

PREFACE

The authors are grateful for the goodwill and tolerance of all those interviewed in the course of this review, including an impressive corps of credit officers and managers providing high quality financial services to the economically active poor. We are also deeply appreciative of the unfailing support and good humor of Mission personnel who went out of their way to create a pleasant living and working environment, especially George Callen, Susan Riley, and Andress Apollon. We thank Gabriel Verret for interpreting the historical and economic context of microfinance in Haiti and for being on call despite his busy schedule at the Ministry of Finance.

As team leader, I could not have fulfilled my tasks for this assignment without the high level financial expertise and insight provided by Anicca Jansen. I thank Jeanne Downing for a state-of-the-art crash course in microfinance theory and practice.

Finally, the team is appreciative of feedback and comments provided by George Callen and Eunice Irizarry of the EG office at the USAID/Haiti Mission as well as comments offered by Michelle Jumelle and Jessica François of SOFIHDES, Lauren Mitten of FINNET, and Soledad Gompf of FINCA/Washington. The present final version of the report takes this feedback into account.

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I. Introduction

Purpose. This is a rapid assessment of the USAID/Haiti Mission portfolio of microfinance support programs. The primary purpose is to assess performance of existing programs, measure progress with respect to targeted objectives, and suggest guidance for follow-on activities. The programs assessed include DAI/FINNET, FINCA/Haiti, and SOFIHDES/Enterprise Finance Facility (EFF). This assessment was carried out in roughly the same time frame as an assessment of the Mission's program of assistance to Haitian artisans through a cooperative agreement with Aid to Artisans and an assessment and redesign of the Hillside Agriculture Program (HAP). [1]

Methodology. The two authors of this report are a microfinance/microenterprise specialist with experience in many countries and a cultural anthropologist with institutional development expertise and extensive Haiti experience including study of informal credit markets. A new USAID microfinance program associate also worked closely with the team in its later phases of fieldwork and followed up certain issues for the present report while conducting interviews with commercial banks for a separate study.[2]

The assessment is based primarily on two types of data, (i) document review, work plans, and progress reports related to the three microfinance programs noted above, and (ii) a round of interviews including economists and key personnel of the three microfinance programs, commercial banks, micro credit departments, the national credit union movement and related technical assistance, a range of microfinance institutions, and two associations of microfinance institutions (see Annex E for a listing of interviewees). After the initial round of interviews and document review, the team sought additional information via follow-up phone calls and numerous email exchanges.

Other field contacts informing this report included interviews with microfinance and SME clients. These interviews included small farmers and agricultural producer groups associated with the Hillside Agriculture Program (Cap-Rouge, Fond Jean-Noel, Marmelade), mango exporters including the mango exporter association (ANEM), and members of a credit union in Marmelade. The cultural anthropologist also recently interviewed a women's solidarity lending group in Jeremie.

Sector Trends

Economic growth, decline in inflation. In general terms, the Haitian economy has been marked by high rates of inflation in recent years, but the current trend is in the direction of significantly reduced levels of inflation. End-of-year inflation in 2003 was 42.5

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[1] See Jeanne Downing for review of Aid to Artisans (2/05) and G. Smucker, M. McGahuey, B. Swartley, and G. Fleurantin for review of HAP and redesign (4/05).
[2] See Eunice Irizarry on obstacles to lending (3/05).

percent followed by 22.5 percent in 2004. Projections for the end of 2005 are 12 percent.[3] There is also evidence of growth in the economy. It was valued at 2.8 billion dollars before Aristide left (February 29, 2004) and is projected to attain over 4 billion dollars by the end of 2005. The economy is defined largely by commerce, especially informal trading and services. The service sector constitutes 80 percent of the labor force and 50 percent of the GDP. There is high demand for hard currency to cover the cost of imports amounting to around 1.2 billion dollars annually. The primary sources of hard currency are remittances along with textiles and mango exports. There is also evidence that drug money related to transshipment injects hard currency into the economy, primarily in the form of cash, particularly within the last 15 years.

Excess liquidity. Haiti's banking sector is presently characterized by excess liquidity. This is related to several factors including significant decline of investment in the formal economy. Lending in Haiti constitutes no more than 12 percent of GDP compared to 25 percent for example in Argentina and over 100 percent in the United States. In 1999 the entire banking sector had only 400,000 depositors and 3,000 loans. Haiti's largest bank, Sogebank, presently has a loan portfolio of 4 million dollars averaging $US 100,000. Excess liquidity continues despite the lifting of the interest rate ceiling in 1995 and reduction of the reserve requirements for deposits, previously 65 percent but only 26.5 percent after 1995. Bank liquidity also increased after the government lowered interest paid on treasury bonds, making them a much less attractive investment.

Excess liquidity in the banking sector tends to favor microfinance and increased investment in the informal sectors of the economy, especially since the late 1990s. Haiti's four largest banks are formally vested in microfinance. Even the Banque Populaire Haitienne, a government bank, is now investing in the microfinance sector. In Haiti's small economy, and with limited market potential in other sectors, the banks are going down market to compete for profits.

Microfinance as profit center. Microfinance is in fact a profit center for commercial banks as well as other microfinance institutions. This creates new opportunity to serve poorer social sectors of the economy, especially the "economically active poor." On the other hand, interviews for the present report also indicate that microfinance clients may be reaching their debt carrying capacity as a result of political and economic turbulence during the past year. For example, Micro Credit Capital notes that its portfolio-at-risk (PAR) during the first quarter of 2005 was almost double what it was last year, 12-16% compared to 8% to a year earlier. Other MFIs report PAR at up to 20 percent. In sum, it is evident that political and macroeconomic instability equally affects both small and large-scale enterprises, and both formal and informal sectors.

Challenge of production credit. The present challenge for Mission programs in microfinance is to deepen and strengthen linkages between formal and informal sectors of the economy. In this society of small traders, the greatest challenge is to promote

[3] This section of the report is based primarily on interviews and information provided by Pierre-Marie Boisson, Chief Economist at Sogebank, Gabriel Verret, Economist/Advisor to the GOH Minister of Finance, and Edgard Rosemond, USAID/Haiti Mission Economist.

economic growth through value-added enterprise, i.e., broader and deeper investment in productive sectors. The urgent priority then is to teach microfinance institutions to do production loans.

Savings culture. Finally, in such an uncertain environment, it is essential to inspire a savings culture and harness broad based aspirations for increased levels of savings. Of equal importance is the need to provide a secure environment for those savings so that households are better able to cope with economic shocks.

Evaluation Framework

This evaluation draws on the financial systems framework outlined in the document known as "the pink book," the CGAP produced document entitled "Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance." The framework in this document is based on the principle that "large scale, sustainable microfinance can be achieved only if financial services for the poor are integrated into overall financial systems." This guiding principle fits wells with the USAID/Haiti strategy for integrating microfinance into the financial sector including partnerships with SOFIHDES, DAI/FINNET, and FINCA.

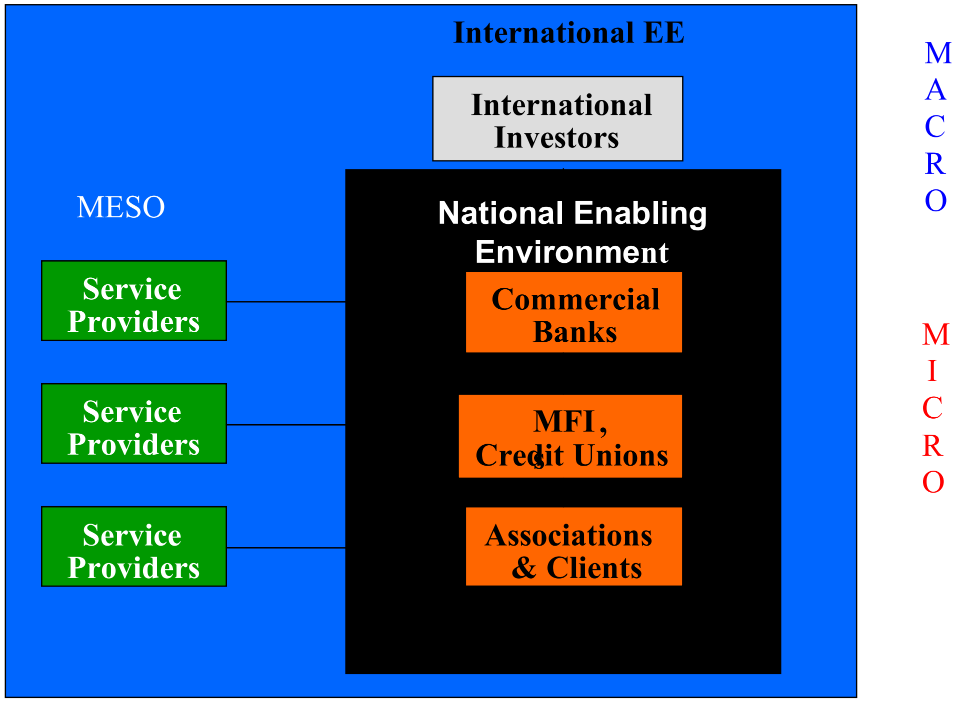
Donor Guidelines in the pink book target support for the financial system at three levels: *micro, meso*, and *macro*. In varying degrees USAID/Haiti and its partners have been operating at all three levels. This assessment will examine the effectiveness of these activities vis-à-vis these levels, and make recommendations for follow-on programming.

The *micro level* is the backbone of the financial system. This includes retail institutions that provide financial services directly to the clients. It also includes a wide range of products and services geared to meet client needs on a long term, sustainable basis.

The *meso level* refers to the overall infrastructure of financial systems including auditors, rating agencies, networks and associations, credit bureaus, transfer and payment systems, information technology, and technical service providers.

The *macro level* refers to the macroeconomic and policy environment which plays a supportive role in the development and delivery of financial services. According to this framework, rather than providing financial services directly, the primary role of government is to establish an enabling environment through interest rate liberalization, inflation control, and prudent regulation and supervision of institutions that lend funds. Together these levels form a market system as illustrated below.

Financial Services Sector



Summary Description of Activities

Three activities are being reviewed. A brief description of each is given below.

SOFIHDES/Enterprise Finance Facility (EFF)

The EFF is being implemented through a cooperative agreement with the Société Financière Haitienne de Développement, S.A. (SOFIHDES), a private development bank created in 1983 with support from USAID. Soficonseils, the SOFIHDES technical assistance department, is the designated technical manager of the EFF program.

This current agreement between USAID and SOFIHDES was signed in October 1999 for a value of $US 4.9 million. Through this agreement SOFIHDES also took over management of the Small and Medium Enterprise Fund (SME Fund), formerly managed by the PRET/DAI activity. Technical assistance to SOFIHDES in the early years was provided through the FINNET activity. FINNET continues to support EFF through the presence of its technical advisor on the Microfinance Innovation Fund (MIF) review committee. A no-cost extension was signed in February 2003 to broaden access to the guarantee by all productive sectors, and to extend training and technical assistance to benefiting enterprises and participating bank officers.

The objective of the EFF is to supply assistance to micro, small, and medium enterprises through two funds (see Tables 1 and 2 below for the original EFF budget and revisions as amended):

1. The *Fonds de Garantie pour Petites et Moyennes Entreprises (FGPME)*
    a. Loan Guarantees to commercial banks for loans to agro-industrial and technology firms throughout the country; and
    b. Loan guarantees for value adding industries, such as energy, tourism, transport, artisans, etc., in secondary cities.[4]

2. The *Microfinance Innovation Fund (MIF)*
    a. Capitalization
    b. Institution Capacity building
    c. Special Projects

The overall goal of FGPME is to grow Haitian enterprises for the purpose of promoting the agro-industrial and every productive sector, excluding commerce, creating value added, and generating orders and employment. According to the Cooperative Agreement with SOFIHDES, loan guarantee recipients must be national or permanent residents, or corporations that are majority owned by national or permanent residents of Haiti; however, field interviews indicated that SOFIHDES has declined to use the guarantee fund for non-Haitian owned enterprises, including residents of Haiti.

The purpose of MIF is to support the expansion of financial services to regions or micro-enterprises not well served and also the development of new products and services. The MIF funds are particularly intended to increase the capacity of non bank and community based organizations to provide quality financial services to their clientele.

[4] The "secondary cities" requirement was removed in a February 2003 amendment to the CA.

TABLE 1A. SOFIHDES/ENTERPRISE FINANCE FACILITY ORIGINAL BUDGET

	Year 1	Year 2	Year 3	Year 4	Total
1. Small & Medium Enterprise Fund (FGPME)					
Guarantee Line	975,000	500,000	400,000	0	1,875,000
Technical Assistance	25,000	25,000	25,000	25,000	100,000
Fund Management	60,000	60,000	60,000	60,000	240,000
Audit	0	25,000	0	25,000	50,000
Sub-total FGPME	***1,035,000***	***585,000***	***560,000***	***85,000***	***2,265,000***
2. Microfinance Innovation Fund (MIF)					
MFI Capitalization	220,000	200,000	180,000	140,000	740,000
Institutional Building	170,000	120,000	120,000	120,000	530,000
Special Projects Fund	130,000	100,000	120,000	100,000	450,000
Existing Loan Guarantee commitments	180,000	180,000	180,000	180,000	720,000
Management Fee	35,000	45,000	55,000	65,000	200,000
Sub-Total MIF	***720,000***	***630,000***	***640,000***	***650,000***	2,640,000
Grant Total EFF	**1,755,000**	**1,215,000**	**1,200,000**	**735,000**	**4,905,000**

Source: Enterprise Finance Facility proposal/program description, page 21 (for annual figures), reconfirmed through award agreement budget, page 5 of cooperative agreement (total figures).

With respect to the $720,000 shown under the MIF in Table 1A, see the SOFIHDES Program Description (page 17, section 4) which states:

> ***4. Commercial Bank – Continuing Responsibilities***
> *Under this component the MIF will provide continued support for the SME Funds' commercial bank guarantee program. As of June 1999, approximately $720,000 in outstanding guarantees under the SME Fund remained with two participating banks. The MIF will finance these commitments and pay for claims as they arise under the executed SME Fund agreements with the banking institutions. In addition, SOFIHDES will continue to provide management support for the existing NBI collateral deposits that are outstanding from the SME Fund.*

TABLE 1B. SOFIHDES/EFF ORIGINAL TOTAL BUDGET & AMENDED CHANGES

	Original	Revised Feb 2003	Revised Sept 2004
1. Small & Medium Enterprise Fund (FGPME)			
Guarantee Line	1,875,000[5]	1,000,000	1,000,000
Technical Assistance	100,000	150,000	195,789
Fund Management	240,000	300,000	359,708
Audit	50,000	0	0
TA SME/Commercial Banks	0	200,000	135,528
Sub-total FGPME	***2,265,000***	***1,650,000***	***1,691,025***
2. Microfinance Innovation Fund (MIF)			
MFI Capitalization	740,000	1,105,000	1,475,810
Institutional Building	530,000	600,000	216,561
Special Projects Fund	450,000	500,000	276,341
Existing Loan Guarantee commitments	720,000	720,000	609,136
Management Fee	200,000	230,000	286,127
TA: Institutional Evaluations	0	0	250,000
Sub-Total MIF	*2,640,000*	***3,155,000***	***3,113,975***
Audits for Both Funds	0	100,000	100,000
Grant Total EFF	**4,905,000**	**4,905,000**	**4,905,000**

Source: Enterprise Finance Facility proposal/program description, page 21 (for annual figures), reconfirmed through award agreement budget, page 5 of cooperative agreement (total figures).

FINNET

FINNET is a 5-year activity contracted to DAI for a total budget of $US 10,307,002. The objective of FINNET (Financial Services Network for Entrepreneurial Empowerment), is to facilitate development of the microfinance sector in Haiti in order to improve and expand the delivery of financial services, both in terms of products and geographic coverage, to the economically active poor.

DAI along with its subcontractors DID-Desjardins International and AGIR, S.A., work in five general areas:

1. Industry support (such as information exchange, auditing, credit bureau, regional support centers, training, networking, and financial linkages);
2. Institutional support (such as auditing, new product development, client impact, and performance-based agreements);

[5] The fund was not utilized as expected. The February 2003 Amendment dropped the guarantee line from 1.875,000 to 1,000,000.

3. Financial support (e.g., through SOFIHDES, new financial instruments, grants, and savings mobilization);
4. Policy (cooperatives, microfinance laws, performance standards, donor coordination, institutional dialogue and collaboration); and
5. Performance & Monitoring

Activities cover a broad range of support including technical assistance, training, mentoring, and policy advocacy. The DAI/FINNET activities are discussed in more detail later in this report.

FINCA

FINCA Haiti was established in 1989 and operated for the first eight years at what it calls a "subsistence" level serving only 250 clients in the Les Cayes area. FINCA uses a fairly rigid village bank methodology to target low-income borrowers. The original one-year agreement for $US 1,202,003 signed in 1999 between USAID and FINCA set a target of 1,250 clients and 50 village banks. FINCA exceeded these targets by November 2000 with 1,591 clients and 51 village banks. Under the current extension, FINCA has established certain programmatic goals for number of clients reached, amount of loans disbursed, portfolio at risk, and accumulated savings (these are not contracted project indicators). By 2004, FINCA had a portfolio of 9,240 clients and an outstanding loan portfolio of over 27 million gourdes (see Chapter II below on results in relation to targets).

FINCA's activities under the cooperative agreement are as follows:

1. FINCA Haiti institutional development, including staff training and geographic expansion;
2. the development of a financial relationship with commercial banks and other service providers; and
3. training and technical leadership to the sector at large.

II. Results in Relation to Targets

Contribution of Activities to SO1 Results

The three activities reviewed are intended to support USAID Haiti's efforts on behalf of *Strategic Objective 1: Sustainable Increased Income for the Poor,* and the following intermediate results:

IR 1.2 Small and Micro-entrepreneurs Economically Empowered
IR 2.1 Strengthened Financial Systems Serving Small and Micro-Enterprises (SMEs)[6]
IR 2.2 Strengthened Performance of Financial Institutions Serving SMEs
IR 2.3 Private Sector Investment and Savings Mobilized
IR 2.4 Improved Policy Environment for SMEs

Four indicators are used in reporting to Washington:

1. Value of targeted agriculture exports
2. Percent increase in crop revenue in project-assisted areas
3. Annual percentage increase in number of outstanding loans
4. Number of microfinance institutions reaching operational sustainability, i.e., operational self-sufficiency.[7]

The relevant indicators for this review are numbers Three and Four presented in Table 2 below. FINNET activity beneficiaries are the primary contributors to these results.

FINCA (which recently became a FINNET Tier 1 partner) also contributes to SO targets. From 2000 through 2004, loans outstanding grew from 2,003,800 to 27,230,644 gourdes (1,259 percent increase). FINCA is currently operating at about 79 percent operational self-sufficiency.

Table 2. USAID/Haiti Finance Indicators

Indicator	Base Year	FY 01 target	FY 01 actual	FY 02 target	FY 02 actual	FY 03 target	FY 03 actual	FY 04 target	FY 04 Actual (9/03)
Annual % increase in value of loans	1998	25	75	25	71	25	26	25	35
Number of MFIs at OSS	2000	0	0	1	2	2	4	4	4

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[6] Note that normally SME would refer to "small and medium" enterprises, and MSE would be used to refer to Micro and small enterprises. In the USAID Haiti portfolio, SME sometimes refers to small and micro.
[7] "Operational self-sufficiency" is defined as the financial capacity to cover all operating costs with operating income.

TABLE 3. KEY INDICATORS FOR FINNET PARTNERS

Partner	Loans Outstanding (HTG) 2000	Loans Outstanding (HTG) 09/2004	% change	Average Loan Size (HTG) As of 9/04	Ave Loan Size $US 37 / $ 1	PAR > 30 days 9/04	Operational Self-Sufficiency* Sept '04	Financial Self-Sufficiency Sept '04
ACLAM	4,637,403	20,205,417	336	2,544	69	4%	156%	NA
ACME	12,972,292	116,974,030	802	16,833	455	9.2%	137%	113%
BUH	85,540,165	97,895,783	14	29,293	792	*	NA	NA
COD/EMH	6,206,973	8,277,520	33	1,054	28	22.31 %	14%	NA
Fonkoze Foundation	9407,590	26,390,168	181	*	*	.05%	*	NA
Fonkoze Financial Services	0	110,334,577	*	4,870	132	.03%	*	NA
MCN	23,771,839	224,539,569	845	52,025	1406	6.87 %	104%	96%
FHAF	0	44,616,217	*	8,452	228	19%	156%	147%
Sogesol	0	198,421,553	*	30,461	823	16%	117%	100%
TOTAL/ AVERGE	Total 142,538,262	Total 847,654,834	Overall 495	Average 11,976	Average 324	Average 0.09 %	Average 0.94%	

NOTE: Operational Self-Sufficiency = ratio of operational income divided by operational costs (which includes loan loss). Therefore, a ratio of over 100 percent means that the MFI is able to cover all operational costs from income (fees and interest). Financial Self-Sufficiency is the ratio of operational income over the cost of lending capital, including the cost of protecting against inflation loss.

TABLE 4. SAVINGS MOBILIZED BY FINNET PARTNERS

FINNET Partner	Savings Gourdes Dec 2003	Savings Gourdes Sept 2004	% Change
ACLAM	2,707,812	3,403,925	25.7%
ACME	n/a	n/a	n/a
BUH	n/a	n/a	n/a
COD/EMH	5,235,195	5,595,659	6.9%
Fonkoze Foundation	163,091,418	17,894,110	
Fonkoze Financial Services		178,239,675	
MCN	n/a	n/a	n/a
FHAF	n/a	n/a	n/a
Sogesol	n/a	n/a	n/a
TOTAL/ AVERAGE	171,031,180	205,133,369	19.9%

The SOFIHDES-guaranteed loans have contributed indirectly to SO results by injecting loan capital and funding for institutional development and upgrading. The MFIs receiving support from the SOFIHDES/MIF activity, and the amount of support is given in Table 5 below. It's not clear from reporting what proportions of capitalization went for lending capital as opposed to cash collateral; however, when queried on this, SOFIHDES reported that FINCA and COD-EMH have used the funds under the Capitalization window for collateral. SOFIHDES reports that COD-EMH had also received a portion of funds to be used as collateral, but later reimbursed it because they had never used it.

TABLE 5. SOFIHDES/MIF DISBURSEMENTS TO MFIS, 2000 – 2004 (*GOURDES*)

MFI	Capitalization	Institution Building	Special Projects	TOTAL
GTIH	1,800,000	0	0	1,800,000
COD/EMH	2,250,000	0	444,536.15	2,694,536
FINCA	5,000,000	0	2,314,938	7,314,938
FONKOZE	8,483,660	0	735,500	9,219,160
COD	1,000,001	0	0	1,000,001
ACME	7,558,911.30	0	0	7,558,911
KOFIP	0	210,000	0	210,000
CECCOMH	0	175,275	0	175,275
Caisse Populaire Sud / Est	0	300,910	0	300,910
Initiative Development	0	1,121,296.90	0	1,121,297
Sogesol	0	71,867.90	0	71,868
GRAIFSI	0	0	667,892	667,892
TOTAL	26,092,572.3	1,879,349.8	4,162,866.15	32,134,788

SOURCE: "Rapport de Décaissement: Exercice 00-04," latest figures from SOFIHDES as of 2/05.

PERFORMANCE AGAINST TARGETS

These activities are broadly discussed below with respect to intended results, as interpreted by the evaluation team. In terms of performance against targets, only FINCA has quantitative targets. These targets are drawn form annual work plans and are used for FINCAs internal management purposes as well as to measure performance in keeping with the USAID agreement.

FINCA Performance

FINCA's key indicators cover four general areas: (1) growth, (2) portfolio quality, (3) profitability, and (4) savings (see Table 6 below). In the case of savings, it is technically not FINCA that holds savings but rather commercial banks, MFIs, or credit unions where village banks deposit their savings into group accounts. It is perhaps because of this lack of access to savings that FINCA actively discourages savers who are not borrowers. In fact, FINCA clients who do not have active loans are not allowed to save through the FINCA system. Data on projected targets are not available for comparison with results summarized in Table 6.

TABLE 6. FINCA PERFORMANCE RESULTS

Indicator	00 Results	01 Results	02 Results	02/04 Results	11/04 Results	3/31/05
Clients	1591	2,501	4,003	7,029	9,240	12,175
Village Banks	51	85	149	292	NA	484
Outstanding Portfolio (gdes)	1,989,115	3,146,300	5,728,900	13,299,405	27,222,652	28,660,551 ($US 774,191)
Portfolio at Risk (> 30 days)	0.0	0.00	0.18%	2.5%	2.05%	3.3% year to date average – not current value
Accumulated Savings* (gdes)	1,229,988	2,207,800	2,886,622	NA	9,837,436	15,864,238
Operational Self-sufficiency	37%	60%	70%	NA	79%	84%
Financial Self-sufficiency	34%	50%	58%	NA	NA	78%

SOURCE: For '00 – '04 data source is reports to USAID. Figures from 2004 were reported in US dollars and converted at the given rate of 37.02 gourdes: 1 USD. 3/31/05 data were provided to USAID Haiti in a letter dated June 1, 2005, with given dollar amounts also converted at 37.02 gourdes: 1 USD.

*Note that FINCA client savings are on deposit in non-FINCA credit unions or banks.

SOFIHDES

SOFIHDES has performance indicators for which it was apparently to report; however, no targets were set. The performance indicators reportedly to be tracked by SOFIHDES/EFF were the following:

1. Annual growth in number of loans granted
2. Increase in private sector credit
3. Creation of new enterprises in secondary cities
4. Development of new, commercially viable products
5. Development of the microfinance sector
6. Strengthening of microfinance institutions (MFIs)

SOFIHDES has not reported consistently or fully on these indicators.

It is unclear how the EFF/MIF activity would contribute to the last three factors, except through grants for operations or equipment. In that sense there is at least anecdotal evidence of an effect. For example, FINCA notes that the support they received through MIF to establish a computer link among their branches contributed significantly to their ability to increase portfolio size in a very short period of time. Based on the reporting, however, funds seem to pass through SOFIHDES without any appreciable technical assistance. This is, it is unclear what value-added is being provided by SOFIHDES.

On the sustainability issue, SOFIHDES gets a 2 percent commission on the amount guaranteed. So, for example, $100,000 x 50% = 50,000, and 50,000 x .02 = $1,000 for the first loan. SOFIHDES also receives a management fee of about $240,000 annually from USAID. There are not other revenues from the guarantee enterprise. The 2 percent commission fees are considered program income and are paid by the borrower either directly (as a fee) or indirectly (added into interest rate) through the commercial banks. According to USAID, program income can be used to further program objectives. SOFIHDES' real income comes from the management fees paid by USAID.

Of the 16 guarantees shown in Table 7 below, seven were repeats. It would have been useful to decrease the percentage of guarantee more aggressively. If lending then ceased, it would have shed light on where the breaking point was for banks, i.e., the level at which they were unwilling to take on risk. Banque Populaire Haitienne (BPH) signed a participation agreement in 2000, but is not mentioned in Table 7 as it has never been a lender through this activity. Citibank also signed an agreement with SOFIHDES but never used the program. According to SOFIHDES, Capital Bank withdrew from the program in 2004.

DAI/FINNET

The FINNET activity also did not have specific performance targets; however, FINNET reports regularly on the performance of its Tier One partners (see discussion of tier classification in Chapter IV of this report). Data reported includes the following:

1. Number of clients
2. Percent female
3. Value of loan portfolio (in both US$ and *gourdes*)
4. Savings (in both US$ and *gourdes*)
5. Average loan size
6. Portfolio at Risk (PAR) at both 1 and 30 days
7. Loan Loss rate
8. Operational and Financial Sufficiency

As these indicators in the earlier table show, FINNET works with a variety of institutions in terms of size, profitability, and portfolio quality. Not captured in this reporting is DAI/FINNETs work with the overall sector. This will be discussed later in response to questions noted in the scope of work for the present assessment. AGIR and Desjardin activities are not reported separately from those of DAI/FINNET staff.

Table 7. SOFIHDES Loan Guarantees since October 1999 (Q1 FY 2000)[8]

DATE	BANK	BORROWER	ACTIVITY	LOAN AMT*	DURATION	% GURANTEE	STATUS
Q1*	No report to team						Expired
Q2 FY00	Socabank	Agriplex SA	Grain transformation	$100,000	12 months	50%	Expired
Q2 FY00	Capital Bank	ANEM –1	Mango export	$200,000	12 months	75%	Expired
Q3 FY00	Report that there was no activity						
Q1 FY00	Sogebank	Agriplex 2	Stock grain	2,700,000 gdes	12 months	75%	Expired
Q1 FY00	Sogebank	CLODANA	Multi, incl dairy, bakery	$200,000		50%	Expired
Q2 FY 01	Capital Bank	ANEM -2	Mango Export	$200,000	12 months	75%	Expired
Q3 FY 01	Capital Bank	Tropical Seafood	Seafood export	$125,000	12 months	75%	Expired
Q 4 FY 01	Capital Bank	Compucas		1,000,000 gourdes	12 months	75%	Expired
Q 4 FY 01	Capital Bank	Agrotechnique		7,500,000 gourdes			
Q4 FY 01	Capital Bank	Transagri SA		$300,000	12 months	67%	Default, paymt req. Oct 2002
Q1 FY 02	Capital Bank	Compagnie Haitienne de Café	Coffee	3,900,000 gdes	12 months	75%	Expired
Q1/Q2 FY 03	Capital Bank	ANEM	Mango export	$267,000	12 months	75%	Expired
Q1 / Oct FY 03	Promobank	Agropak	Mango export	$97,513	12 months	75%	Expired
Q3/4 FY 03	Capital Bank	Tropical Seafood	Lobster export	Line of Credit $125,000	12 months	75%	Expired
Q3 /April FY 03	Capital Bank	ANEM	Mango export	$267,000	12 months	60%	Expired
Q1 FY 03	Capital Bank	Tropical Seafood	Seafood export	$125,000	12 months	50%	Exp 19/12/04
/ March FY 04	Promobank	Caripak SA		$150.000	12 months	75%	Exp 13/04/05
Q2 / March FY 04	Capital Bank	La Finca	Mango export	$300,000	6 months	67%	Exp 30/09/04

[8] This table is based on SOFIHDES reports and the annex for FY2004. Exchange rate: 37 gdes = 1 USD.

III. Addressing Questions In the Scope Of Work

The following questions are addressed using the evaluation framework presented earlier considering the macro, meso, and micro levels of the sector:

Assess the range and impact of project interventions on microfinance institutions, and, where appropriate, on borrowers. Assess the viability of these activities with respect to their sustainability.

For each activity review the management structure for implementation of field activities. Assess cost & implementation efficiency for delivery of assistance to local institutions.

How effective has TA been under each component? To what extent has it assisted local MFSs to be sustainable? Any possibilities for using local organization to provide TA with input from outside consultants as needed?

Macro Level

The USAID activities and partners reviewed here are far more affected by macro level factors than they are able to affect those factors that contribute to a stable macro-economic and policy environment.

Regulatory Environment

FINNET and various partners have met with the Central Bank at different times to encourage legal and regulatory change with respect to currently unlicensed MFIs. The key change that MFIs seek is a set of regulations and a supervisory body similar to those in the formal banking sector. They also seek the legal authority to intermediate savings (that is collect savings from one entity to on-lend to a second entity). A draft law was proposed four years ago but there has been no movement to pass this law. There seems to be no sense of urgency on the part of the Central Bank which told one MFI that current financial needs can be met through banks or cooperatives, and that they are unwilling to see poor people's savings put at risk in the form of unsecured loans to micro-enterprises.

There is a general perception among actors in the microfinance field that microfinance is not well understood by the Central Bank and is not a priority for the Government of Haiti. On the other hand, there is no evidence of government opposition to MFIs, just benign neglect. Nevertheless there is need for legal and regulatory change with respect to currently unlicensed MFIs, i.e., a regulatory framework comparable to the commercial banking sector. Among microfinance institutions, only credit unions are recognized as financial institutions with the authority to intermediate savings. The Central Bank excluded MFIs in consideration of the establishment of a national credit bureau.

FINNET has provided technical support to Fonkoze in that institution's effort to obtain a banking license. This has not been successful but a creative compromise has been reached. Fonkoze is able to on-lend savings as long as the saver provides written consent for Fonkoze to do so. All savers have given this consent, so Fonkoze is able to intermediate savings as if it were a commercial bank.

In response to large scale savings and loan cooperative fraud earlier in this decade, a new law was passed in 2002, *Loi sur les caisses populaires et les fédérations des caisses populaires*. This law requires federations of credit unions to assume financial responsibility for their members. Such federations must be recognized and supervised by the Central Bank. No proposed credit union federations have yet been recognized by the government.

MFI Association

A second effort at the macro level is the support that FINNET has given to develop the Association Nationale des Institutions de Microfinance d'Haiti (ANIMH), the association of Haitian microfinance institutions. With a membership composed of the majority of non-credit union/cooperative microfinance providers in the country, ANIMH is well situated to affect policy changes.

That fact that ANIMH has just been awarded a $450,000 capacity-building grant from UNCDF/UNDP should be taken as a sign of FINNETs success. FINNET has been ANIMHs major supporter to date. Some say that ANIMH would not exist without FINNET.

Loan Guarantees and Economic Stabilization

The SOFIHDES/EFF guarantee fund could be seen as supporting the macro environment by encouraging commercial banks to lend in the productive sector, even during times of high inflation and political uncertainty. As a result EFF guaranteed borrowers have been able to continue exports of mangos, cacao, seafood, and coffee. These activities provide a certain level of macroeconomic stability, although they fall primarily within agribusiness sub-sectors rather than a broader range of productive sectors, and there is little in-country value added.

An issue that arose during the review was uncertainty as to whether the Central Bank recognizes the EFF loan guarantees as a collateral substitute. It is unclear to the team whether or not this is a non-issue, despite some back and forth on it. The SOFIHDES staff raised this issue during the team's interview, indicating that this may be a factor affecting bank usage of the guarantee; however, the team did not encounter evidence that this in fact constrained banks from issuing guarantees. It is noted that this issue was originally raised as early as the first January-March 2000 report. SOFIHDES followed up with the Central Bank and subsequently received a letter indicating the Bank understood the situation and did not have any objections regarding the guarantee. SOFIHDES says that it is unsure if this approval continued after a change in Bank staff, and has seen no verification that the Central Bank treats the EFF guarantees as collateral. In actual practice, this loosely defined situation has not prevented the loan guarantee program from operating.[9] In retrospect, it would have been useful if SOFIHDES had been more pro-active in seeking a definitive response.

Interest Rates

It is often said that any policy that supports business and the banking sector in general will also support the microfinance sector. Recent government changes that support the macro-environment include removal of interest rate ceilings (1995), control of inflation, and decreased interest rates on treasury bills. As noted earlier, the drop in interest rates decreased incentives to stockpile capital in treasury bills, and created a situation of excess liquidity within the commercial banking sector.

When interest rate ceilings were lifted, the door was opened to microfinance which, because of higher management costs, generally requires higher interest rates in order to be profitable. Based on interviews and the FINCA market study, *nominal* (i.e., stated) interest rates range from 1.7 to 4 percent per month, and *effective* (actual) microfinance interest rates range from 1.75 percent (COD/EMH) to roughly 7 percent (FINCA) per month.

Most MFIs in Haiti charge an interest rate of around 4 percent per month. This is the "nominal" (or stated) interest rate. For varying reasons MFIs charge interest on either a "flat" basis (based on original loan amount) or on a "declining" basis, based on the remaining unpaid principle, similar to the way mortgage loans are calculated in the US. FINCA charges a flat interest rate, meaning that interest is calculated based on the original amount of the loan. See Table 12 for a price comparison of a number of microfinance providers in Haiti.

The following comparison of repayment schedules illustrates the cost difference to the client.[10] In this example, under the flat loan repayment schedule the client pays a total of $144 in interest, whereas under the declining schedule the client pays $80 in interest.

> *Principal*: $1000
> *Nominal Interest rate*: 4% per month (or 4 x 12 months = 48% per year)
> *Number of payments*: 16 weekly payments

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[9] When interviewed by Eunice Irizarry, Pierre-Marie Boisson of Sogesol/Sogebank stated that he felt this recognition could readily be obtained from the Central Bank in the form of a letter.
[10] Repayment schedule and effective interest rates obtained using CapAf interest rate calculator. See http://www.capaf.org/pages/Toolbox/Cacul_taux_interet_effectif.html

TABLE 8. FLAT VERSUS DECLINING INTEREST RATES AND REPAYMENT SCHEDULES

	FLAT Payments $71`/week			DECLINING Payments $67/week		
PMT Week	To Principal	To Interest	Remaining Principal	Principal Due	Interest Due	**Remaining Principal**
1	63	9	938	58	9	**942**
2	63	9	875	59	9	**883**
3	63	9	813	59	8	**824**
4	63	9	750	60	8	**764**
5	63	9	688	60	7	**703**
6	63	9	625	61	6	**642**
7	63	9	563	62	6	**581**
8	63	9	500	62	5	**518**
9	63	9	438	63	5	**456**
10	63	9	375	63	4	**392**
11	63	9	313	64	4	**328**
12	63	9	250	64	3	**264**
13	63	9	188	65	2	**199**
14	63	9	125	66	2	**133**
15	63	9	63	66	1	**67**
16	63	9	0	67	1	**0**
TOTAL	1008	144		999	80	
Effective Annual Interest Rate	144/1008 = .14 ave weekly interest. Annual effective interest rate 87%			80/999 = 0.08 ave weekly interest Annual effective interest rate 48%		

MESO LEVEL

The *meso* level is the heart of where donor activities can make a difference. As noted earlier, *meso* level refers to the overall infrastructure of the financial system. Early documents indicate that the project was designed to have its primary impact at this level. A strength of the FINNET activity is that funding and programming have been flexible enough to allow project managers to respond to the evolving needs of the sector at the *meso* level.

FINNET Technical Assistance and Training

FINNET has contributed to the *meso* level of the sector by facilitating training of trainer activities, thus building up the capacity of locally-available trainers; providing funding for audits, thus building up the capacity of local audit firms; and support to ANIMH. FINNET also provided access to training modules on various aspects of microfinance management, and sponsored students for high-quality overseas training.

Microfinance Associations

The microfinance sector in Haiti is served by three trade associations – ANIMH, KNFP, and ANACAPH (see Table 9 below). Each serves a different type of financial service provider although there is some membership overlap. As noted earlier, an important FINNET effort has been the development of ANIMH as a trade association of microfinance institutions (except for credit unions). ANIMH became a legally registered institution in June 2003 and held its first general assembly on December 4, 2003. ANIMH had 11 founding members and currently has 18 members.

The KNFP is an association of rural-oriented MFIs, the majority of whose members are also members of ANIMH, including FHAF, Fonds d'Espoir, COD-EMH, CRS, GRAIFSI, and ACLAM. None of the KNFP and ANIMH members are cooperatives. The largest association of microfinance institutions in Haiti is an association of credit union cooperatives, ANACAPH.

TABLE 9. ASSOCIATIONS OF MICROFINANCE INSTITUTIONS IN HAITI

Acronym	Full Name	Date Est.	#	Donors	Dues USD
ANIMH	Association Nationale des Institutions de Microfinance d'Haiti	2003	18	USAID, IDB	$1,000
KNFP	Konsey Nasyonal Finansman Popilè	1998	7	EU, SID,	$1,000
ANACAPH	Association Nationale des Caisses Populaires Haitiennes	1998	40	ACDI, USAID FINNET, DID	variable

ANIMH is potentially a key player for institutionalizing activities currently undertaken by FINNET. ANIMH is a prospective vehicle to ensure best practices among its members associations through training – either providing the training directly or else facilitating it, and also for market information and technical assistance (directly provided or facilitated). FINNET has also helped ANIMH prepare a briefing book for its lobbying efforts. If legal and regulatory change does occur, it will likely be the result of pressure from ANIMH, along with donor governments.

In addition, FINNET has supported ANIMH by providing meeting space and a document library. It hosted two working groups – the Bad Debtors Group and the Performance Indicators Working Group, and assisted ANIMH with strategic planning.

Local Technical Assistance Providers

As feasible, FINNET has used local firms to provide training and technical assistance. For example, a good portion of technical assistance provided by FINNET actually comes through its subcontractor, AGIR, and two other local firms, Grafin and CAFEM. These are all small firms. Grafin is basically just two people and AGIR is primarily one person. These local firms have benefited from training including CapAf (CGAP) training-of-trainers in Senegal; however, much technical assistance is still provided from outside of Haiti. In retrospect, FINNET should perhaps have taken greater initiative to develop and promote local service providers as independent actors, i.e., local consultants and service providers within the context of the local cost structure. Although this is a difficult market, the FINNET role should evolve further into its role as facilitator rather than direct provider of services to the MF community.

Through its sub-contractors, AGIR and Desjardin, FINNET has also provided direct technical assistance to local organizations that might not otherwise have access to these resources. Indeed, a major difference in terms of the financial viability of top performers is access to on-going technical support from international partners (e.g., FINCA, MCN, and Sogesol).

At the current level of capacity in Haiti, FINNET feels a need to be highly involved in training in order to assure quality control. Trainings cover a broad range of topics including credit management, cash flow management, and microfinance best practices. There is only a nominal charge for training (basically to cover lunch), so at this time MFIs do not have a true sense of the cost of training in the marketplace. This subsidy tends to hamper development of the market for providers of training. It also inhibits good understanding of what the true demand for training would be, and a test of MFI willingness to pay for it.

External audits in Haiti cost MFIs around $9,000 to $15,000. FINNET has subsidized the audits of some MFIs and has also trained local audit firms to do microfinance audits.

Evolving Credit Bureau

Another activity at the *meso* level has been FINNET support for development of the Bad Debtors List, a precursor to a credit bureau. Through its regional CARMs (Centres d'Appui Régionaux à la Microfinance), FINNET has also given rural MFIs an opportunity and mechanism to share the names of bad clients via the Bad Debtor's Working Group and the Bad Debtor's List. The plan is for the Bad Debtor's list to evolve from an excel spreadsheet to a Customer Liability Information System (CLIS), an internet-based system that would be the equivalent of a credit bureau. Further work needs to be done on institutionalizing the credit bureau. For example, should a credit bureau be a service of ANIMH or should it be a free-standing private entity?

Decentralized Services

FINNET provides decentralized services through two regional centers, or CARMs (Centres d'Appui Regionaux a la Microfinance). The CARMs provide technical assistance, training, and services at a nominal cost to MFI personnel outside of Port-au-Prince. Each CARM is run by one employee. Both CARM Managers report to the Regional Office Coordinator based in Port au Prince. Together, the Regional Office Coordinator and the managers develop and deliver training sessions to MFI employees in the provinces, organize foras/round table discussions, and coordinate the distribution of the regional bad debtors lists. The Managers also keep the resource centers up to date and provide basic technical advice to MFI partners in the provinces. The table below presents activities offered in 2004.

TABLE 10. CARM FIELD SUPPORT ACTIVITY 2004

Activity / Service	Number of times offered	Number of participants
Partner Forum	7	97
Training	11	145
Bad Debtors List	NA	7 MFIs
Internet Access	On-going	880
Document Preparation (computerized reports)		
Access to 200 publications		

SOURCE: FINNET Reporting.

CARM cost information is as follows:

<u>CARM Nord</u>
Rent: $4800/year
Electricity: $1000/year
Maintenance: $1,200/year
Monthly Salary: 27,996 gourdes (plus 15% social charges)

<u>CARM Sud</u>
Rent: $2,480/year
Electricity: $800/year
Maintenance: $800/year
Monthly Salary: 24,114 gourdes (plus 15% social charges)

The CARMs also provide rural MFIs with access to copiers, computers, and the internet. This service is used by MFIs to communicate with their central offices. A mid-term review conducted by DAI in 2002 found that CARMs were highly appreciated by rural MFIs. This service may not be sustainable in the long run and thus requires an exit strategy.

Local Capacity Building

The SOFIHDES/EFF has contributed to the *meso* level through funding for information technologies although this has primarily benefited individual institutions, i.e., "micro" level support. In September 2003, SOFIHDES contracted with the firm Cabinet d'Etudes de Gestion, d'Economie et de Comptabilité (CEGEC) to carry out periodic institutional evaluations of EFF beneficiaries. Local contracting such as CEGEC is a positive step toward building a service provider sector; however, this contracting may initially require simultaneous technical assistance and in some cases a certain degree of hand holding.

A model for this is the Chemonics DynaEntreprises project funded by USAID/Senegal. This project trained local service providers, and then used an Indefinite Quantity Contract (IQC) mechanism to contract project work to them. Work completed by local contractors included audits, training, accounting technical assistance, institution building, geo-referencing of all MFIs in the country, preparation of a directory of MFIs in Senegal, etc. Contracting for services is an excellent means to build better capacity.

It was intended that FINCA would contribute to the *meso* environment through the development of a financial relationship with commercial banks and other service providers, and training and technical leadership to the sector at large. The relationship with commercial banks is occurring as FINCA increasingly seeks loan capital from them. FINCA also reports that it has provided technical assistance to small credit unions where member savings are held. Through its membership in ANIMH, FINCA is also positioned to play a leadership role in the Haitian microfinance sector.

One concern, however, is the extent to which FINCA reliance on its headquarters for technical assistance may inadvertently decrease the impact that FINCA could potentially have in terms of sector leadership. This is not unique to Haiti, and it is not unique to FINCA. Other MFIs in Haiti (e.g., Sogesol and MCN) have international partners or "parents" that provide on-going technical assistance.

Through their parent organizations, these MFIs receive funding, training, technical assistance, and access to the latest information in the sector. This access and support gives these MFIs a comparative advantage over locally grown MFIs with limited external support; however, there is a broader aspect to this. Reliance on external partners and external resources means there is less pressure to develop that capacity in country.

Currently FINCA clients are assessed a 2% technical service fee, based on original loan amount, which is paid to the FINCA US headquarters for technical service and general support. So, for example, year-to-date disbursement on March 31 2005 was \$2,230,541[11], generating headquarter revenue of \$44,610 for the first quarter of the year (\$2,230,541 x .02 = \$44,610). In addition, FINCA Haiti pays \$7,000 per year as a maintenance fee for its software, SIEM, owned in part by FINCA International.

FINNET notes that whenever possible it uses in-country providers but that in-country capacity is very limited. FINNET's service providers are AGIR, GRAFIN, and CAFEM. These firms tend to be about two people deep. With the limited in-country capacity, anyone who is trained has great career mobility. This situation clearly contributes to a pronounced tendency for staff turnover among microfinance institutions, especially at professional levels and middle management.

In the interests of sustainability, the goal of a donor microfinance project should be that training and sustainable assistance dollars should ultimately never have to leave the country. USAID is well positioned to continue playing a major role in building up the *meso* level of Haiti's microfinance sector.

[11] Source: Letter from FINCA to USAID Haiti dated June 1, 2005.

MICRO LEVEL

The *micro* level in this framework refers to microfinance institutions as well as the products and services they provide. The table below presents the evolution of MFIs entering the Haitian market.

TABLE 11. NOTABLE MFIS IN HAITI ANDYEAR OF ESTABLISHMENT

							PRET ('96 – 2000?)		FINNET launched	
1979	**1982**	**1986**	**1989**	**1992**	**1993**	**1995**	**1996**	**1997**	**2000**	**2002**
FHD	FHAH	MEDA Closed 2004	FINCA	COD-EMH	ACLAM	GRAIFSI	Fonkoze Foundation	CRS	SADA	BPH
				Fonds d'Espoir		GTIH		ACME	Sogesol	
								FODEPE	MCN	
								BUH		
1	2	3	4	6	7	9	10	14	17	18

SOURCE: ANIMH Strategic Plan 2003 - 2008, Annex 3; FINCA reports; FINNET reports. This does not account for numerous cooperatives and credit unions.

The best overall view of the sector will be the forthcoming report from Microfinanza, an Italian rating company that has just completed a review of nearly all ANIMH members. This study was funded by FINNET with the intention of providing each MFI reviewed a confidential report on the status of their institution in terms of key factors such as growth, management, portfolio health, information systems, etc. In addition, Microfinanza is preparing an overview of the sector informed by these individual reviews.

Meanwhile, the ANIMH business plan and FINNET reporting are useful sources of information on the sector. Among ANIMH members, all but one (CRS) are FINNET Tier 1 or Tier 2 partners (see Annex A for ANIMH member profiles).

Credit Products

In terms of credit products offered, most loan portfolios are concentrated in the range of 2,500 to 125,000 gourdes ($US 68 - $US 3,378). The majority of COD-EMH (80%) and GRAIFSI (60%) loans are under 2,500 gourdes. Forty-four percent of the loans offered by FHAF are under 2,500 gourdes.

Loans are offered for cash flow (3 to 9 months), investment (8 to 36 months), and production (10 to 18 months). Production loans, of particular interest to USAID/Haiti, are offered by FHAF, COD-EMH, GRAIFSI, and GTIH. Data are not given as to the amount of loans in each category. The overwhelming majority of MFI loans are used for petty commerce rather than production sectors. For example, Micro Credit Capital has a portfolio of 28 million gourdes and 700 clients with 96% of its portfolio in commerce, 2.4% services, consumption 1.1%, and production 0.9%.

TABLE 12. HAITI - LOAN PRICE COMPARISON

					SAMPLE Loan 5000 gourdes for 6 months (FINCA loan limit is 16 wks)		
Name	**Method**	**Loan Size Range**	**Interest Rate**	**Terms**	**Nominal annual interest rate**	**Payment**	Effective Annual Interest Rate
FINCA	Village bank	1,700 to 10,000 gourdes	4% flat per month	Weekly repayment over 4 months	48%	359 / wk for 16 week loan	86.77
						238 / wk x 4 = 952 per month if offered 6 month loan at same interest	86.51
ACLAM	Village bank	1,500 to undefined (7,500 est)	2% flat per month plus 3% fee per cycle	Monthly repayment over 6 months	24%	933 / month	51.24
CARITAS	Village bank	1,5000 to 5000 gourdes	2.5% flat per month plus 3% per cycle	Monthly repayment over 5 or 10 months	30%	958 / month	61.10
COD/EMH	Solidarity groups	5,000 to 25,000 gourdes	1.7% flat per month plus 1% per cycle	Monthly repayment over 6 month cycle	20.4%	918 / month	37.81
FICES	SE loans to Groups of females	25,000 to 100,000 gourdes	2% to 3% per month plus 2.5% fee per month, and taxes	Monthly repayment from 3 to 15 month period	24%	969 / month	63.48
FODEPE	Village banking	1,500 to undefined (7,500 estimate)	2% flat per month plus 0.67% fee per month	Monthly repayment over 6-month period	24%	913 / month	32.04
Fonkoze	Solidarity group and association	1,500 to 50,000 gourdes	5 % per month	Monthly repayment over 6 month period	60%	564	60%
Caisse Populaire (generic)		5000 to 500,000 gourdes	18 – 36% per year plus 2% fee	≤ 30 months	24%	893 / month	31.22

SOURCES: FINCA Haiti. Fiscal Year 2000 Report and Fiscal Year 2001 Outlook. Caisses Populaires data from email correspondence with DID. Fonkoze data from Fonkoze.

New Products

The Mission recognized the importance of new product development when FINNET was designed. In collaboration with ILO, FINNET brought in an international consultant to help COD-EMH design an insurance product. There were problems with the pilot project but the end results of this effort have not yet been evaluated. More needs to be known about this initiative and how improvements could be made.

FINNET also promoted general product development skills for its partners. FINNET brought in a MicroSave trainer from Morocco to conduct a MicroSave New Product Development training course; however, the course offered in two parts could not be completed due to staff turnover among MFIs, i.e., people trained in Part One left before receiving training in Part Two; and political instability (the consultant was unwilling to travel to Haiti). Instead, the project sent a select group to Senegal for the CGAP New Product Development Course which builds on new product development work conducted by USAID under the DAI Microenteprise Best Practices Project. Sogesol has reportedly used this training to tweak some of its existing products.

FINNET advised Fonkoze in the development of an individual loan product. FINNET also reports that there has been some interest in developing housing loan products; however, as Lauren Mitten, FINNET Technical Director notes, "Given the challenges the MFIs face in developing their core microenterprise credit products, many are afraid to use their limited resources on new product development." So, in addition to know-how, other factors must be in place to successfully launch new products, including more limited country risk, institutional capacity to manage different types of loans, institutional tolerance for risk, client understanding of products and ability to repay them, and liquidity to effectively offer new products without compromising core products.

FINCA has also tried to break from its village bank methodology by offering a solidarity group loan called "Enterprise Banks." It ran into some common problems including inability of borrowers to guarantee loans of varying sizes, especially large loans, and lack of solidarity among members. Some of the growth in FINCA's portfolio at risk is due to the Enterprise Bank loans (7.94% PAR in November 2004, compared to Village Bank PAR of 0.26%). FINCA is currently reviewing individual loan possibilities.

SOFIHDES\EFF seeks to strengthen the microfinance sector through loan capital, financing for equipment, and expansion into new regions. In terms of New Products, the Microfinance Innovation Fund financed the following:

1. The pilot phase of the COD-EMH micro-insurance product in Petit-Goave: This product should be assessed and perhaps redesigned to enhance its prospects for success.
2. The design and pilot phase of the Fonkoze Business Development Program (BDP) in Jacmel: This product is a channel for financing agricultural producer cooperatives associated with the HAP.

3. The pilot phase of a methodology called "mutuelle de credit" which is a hybrid of village banks and cooperatives: GRAIFSI initiated this project in the North-East and South-East regions.

Impact on Clients

Another aspect of the micro level is the clients themselves, and how well they are being served by the products and services offered by the MFIs. Micro-entrepreneurs and, to a certain extent, small scale entrepreneurs have had increased access to credit during the lifetime of these activities. Loans outstanding tracked by FINNET have increased five fold; however, there is no information available on how and to what extent this credit has resulted in increased income. Whether access to credit has resulted in increased economic empowerment remains an unanswered question. It would be useful to follow up a certain percentage of loans to assess impact.

Also, while there is increased availability of credit, the nature of loans available is still quite limited. Among ANIMH members financial products tend to be centered around cash flow loans of 6 months or less (see Annex A). Only three ANIMH members offer loans for more than 12 months – COH-EMH (12-36 months), and GTIH and Sogesol (18 months).

Savings

Access to savings services is another aspect of economic empowerment. A market study conducted by DAI/FINNET in 2002 showed that while credit outstanding from assisted MFIs to microfinance clients averaged 8,359 gourdes per client, savings averaged only 3,182 gde. This is due in part to the legal environment which does not allow NGOs to mobilize savings. On the other hand, while NGO-held savings was 15,432,000 gourde, *caisses populaires* held 35,077,600 gourde.[12] Among FINNET Tier 1 partners, savings mobilization is about one-third that of loans granted, whereas among DesJardins-assisted *caisses populaires*, savings equal or outpace lending.

FINCA's Village Bank methodology requires borrowers to set aside savings for four consecutive weeks prior to loan disbursement, and weekly during loan repayments. FINCA deals with the legal barrier to taking savings by having clients deposit savings in group savings accounts in area banks or credit unions. According to Mike Gama-Lobo, former FINCA Country Director, FINCA Haiti's 50:100 ratio of savings to loans is the highest among all FINCA affiliates. FINCA has turned down client requests to hold their savings, even when they are not active borrowers.

There is good evidence of strong unmet demand for secure savings from the majority of borrowers and prospective borrowers. The inability to save means that people borrow money and pay interest to meet household demands for school fees, medical costs, and funerals. Because they have no savings, poor people end up paying more for goods and services than they would otherwise. In the case of school fees, students are not allowed

[12] DAI/FINNET. "Presentation de l'offre de Microfinance en Haiti. 2002. Table 2.

to attend school until fees are paid. When school fees are paid late, students finish out the school year, but may then required to repeat the grade, with school fees paid for that same level again the subsequent year. So, again, lack of secure savings mechanisms increases the cost of living for poor households.

Creative savings mechanisms targeting low income people are possible. One example is the group savings product developed by the Self Help Development Foundation in Zimbabwe. The SHDF model involves group savings accounts, much like that required by FINCA. Members have individual savings cards and a group registrar for tracking individual savings. Each group maintains one joint account at a financial institution. Since group money is co-mingled, individual savings are protected from preying friends and relatives. Term or targeted savings accounts for school fees and other predictable expenses are another type of savings product that could be offered (like Christmas Clubs in the US).

Future programming should put greater emphasis on savings mobilization. While microcredit NGOs cannot on-lend savings collected, they can facilitate savings as FINCA does; however, in view of the current legal environment, banks and credit unions may be the primary vehicles for new savings products. In particular, credit unions – often described as "savings led" – may be the ideal partner for encouraging savings at a national level. That is why the inclusion of Desjardins in the FINNET activity is so essential to meeting the financial needs of poor households.

Credit unions are more available than commercial banks in rural areas; however, most rural areas are not served by credit unions. Furthermore, many credit unions are poorly developed unless they have had the benefit of technical assistance from Desjardins or other comparable service providers.

Indebtedness

Haitians in certain markets may be over-indebted. There are anecdotal reports of clients with loans at up to five institutions at one time, and clients who engage in *"papillonage"* or "bicycling," i.e., using a loan from one institution to repay a loan at another. Portfolio at Risk (PAR) greater than 30 days in some MFIs is reaching over 20 percent. In addition to over-indebtedness, high PAR can also be a sign of poor loan portfolio management, fraud, and a mismatch between client cash flow and loan repayment schedule.

Reflecting market saturation, some mergers and acquisitions are occurring. For example, during 2004, Fonkoze acquired the MEDA program. Institutions like COD/EMH are faltering with seriously high arrearages. On the other hand, other portfolios remain strong, e.g., Fonkoze and FINCA, suggesting that strong institutions may be able to overcome country and borrower risk.

IV. Recommendations for Future Programming

The questions below are also drawn from the scope of work and are addressed on a one-by-one basis.

Successful activities for Continued Support

Growth Trend in Microfinance Sector

In the wake of PRET and FINNET, the microfinance sector has grown immensely, including unprecedented levels of microfinance services offered by the commercial banking sector. AID-assisted microcredit loans increased from about 8,000 to 90,000 outstanding loans between 2001 and 2004. Portfolio size increased by a nearly 500 percent from 143 million to 848 million gourdes, 2000 - 2004. The large increase in portfolio size and loans suggests a large reservoir of unmet demand.

A Sector Based Strategy

FINNET programming has been undertaken from the perspective of developing microfinance as a sector including NGOs, commercial banks, and savings and loan associations. The latter should be even more closely integrated into the program of activities.

Microfinance Associations

Fostering the creation of ANIMH has been an important contribution of DAI/FINNET. It is imperative that follow-on activities in the microfinance sector provide ongoing support to ANIMH.

Credit Union Subsector of Microfinance

New credit unions have been developed by Desjardins under the FINNET project although this component was added after other FINNET activities had already begun. Support for these largely rural savings and loan associations is an important element of strengthening microfinance as a sector. For example, FINCA village banks have strong links with credit unions that offer decentralized “banking services” and serve as a channel for FINCA funds and savings accounts, especially in rural areas and small towns where commercial banks are not available.

TABLE 13. RESULTS FROM DESJARDINS-ASSISTED CAISSES POPULAIRES

Indicators	September 30 2002	September 30 2003	Estimated December 31 2004
Savings	13.3 million	32.7 million	50.0 million
Average savings per member	1,962 gourdes	2 298 gourdes	2 206 gourdes
Loans Outstanding	13.5 million	23.5 million	35.1 million
Average Loan size	11,600 gourdes	9,430 gourdes	13,029 gourdes
Delinquency rate ≥ 30 days	16%	8,0 %	< 8 %

TABLE 14. ACTIVITY SITES FOR DESJARDINS TECHNICAL ASSISTANCE

	List of Sites	Active	Underway	Caisses
South East	Jacmel 1	X		SUCCES
	Marigot	X		CPRCM
	Pérédo		X	Comptoir (Marigot)
	Cayes-Jacmel	X		CPAC
	Thiotte	X		CREPES
	Bainet	X		SOCOB (plan de redressement)
	Belle Anse	X		CODEB
South	Les Cayes 1	X		CAMEC
	L'Ile à Vache		X	Comptoir (Les Cayes)
	Les Cayes 2	X		CEC
	Chardonnières	X		CECC
	Les Anglais		X	Comptoir (Chardonnières)
	Port à Piment	X		CECAP
	Maniche	X		CPSRM
	Arniquet	X		CAPOMA
North West	Port de Paix 1	X		KOPLES
	Port de Paix 2	X		SOCOMEK
	St-Louis du Nord	X		COOPECS
	Chansolme		X	Comptoir (Port de Paix)
	Jean Rabel	X		SOCOREDNO
	Môle St-Nicolas/Mare Rouge	X		CAPOMAR
Les Nippes	L'Asile		X	KSPPL
	Petite Rivière de Nippes	X		CECANIPPES

SOURCE: Desjardins workplan.

Synergy: Microfinance, Producers, and Exporters

Fonkoze loans to agricultural producer cooperatives have shown dramatic synergy across project lines linking microfinancial services with the export of coffee, cacao, and mangos. Financial services included a 200,000 dollar loan guarantee, and 6-month loans to cooperatives allowing them to buy the harvest, bypass market intermediaries, and sell export-quality product directly to exporters. Mango exporters and the association of mango exporters (ANEM) benefited from SOFIHDES loan guarantees provided to commercial banks (Capital, Promobank). The Hillside Agricultural Program (HAP) facilitated these arrangements via market information and ties to both exporters and producers. As one result, farmers in Baptiste near the Dominican Border shifted away from cross-border coffee markets to local coffee cooperatives paying much higher prices.

Absorptive Capacity of High Performing MFIs

MFIs that have international partners and/or are able to benefit from vertical networks have demonstrated excellent absorptive capacity for external support, e.g., FINCA, Fonkoze, MCN, Sogesol, and Micro Credit Capital.

Internet as Microfinance Tool

SOFIHDES funding for wireless internet access set the stage for rapid growth of the FINCA network from 3,000 to 13,000 clients between 2003 and 2005. FINNET has expressed a desire to promote an ICT (information communications technology) structure "*…that allows [MFI] branch offices to share, upload, and access critical information on a real-time basis*" to help MFIs compile financial reports on a timely basis.

Such an effort would aid in participation in the CLIS as well as provide more up-to-date reporting which could aid in portfolio quality control; however, this could be an expensive endeavor that would first require a serious and accurate review of the costs involved, the time frame for implementation, and an unbiased consideration of incidental costs such as staff training. An alternative approach would be to consider whether the CARMs could not be further developed through a cost-share basis with participating MFIs. Donor support for ICT risks creating an infrastructure that is unsupportable by the benefiting MFIs over the long term. Even if initial costs could be covered through FINNET, and even if implementation could occur before the end of FINNET, the MFIs might not be able to keep up with recurring costs without continued subsidy.

For many MFIs, the primary constraint to accurate and timely reporting is not technological but the result of poor systems, inadequate training, or an institutional culture which does not insist upon accurate data. Therefore, the review team is not opposed to ICT support, but encourages a full consideration of all costs relative to benefits before embarking on this effort, as well as an accurate assessment of MFI reporting capacity.

Diversification of Financial Products

FINNET assistance to FONKOZE facilitated its evolution to a higher level with the capability of providing services comparable to a commercial bank. Fonkoze and FINCA have been forced by their success in creating “bankable” clients to offer new financial products enabling them to keep clients who would otherwise seek the services of commercial banks, and to move away from concentrating solely on higher risk clients and group lending to more individual lending. This type of diversification is healthy for the MF industry and the economy.

Commercialization

In general, there’s evidence of strong movement toward the commercialization of microfinance, faster in Haiti than other countries. Haiti’s four largest banks are engaged in microfinance and consider it a profit center, especially in an economic environment with limited opportunity in other sectors. There’s evidence of considerable potential to expand the range of products and services in the informal sector.

Tangible Impact of Technical Assistance

FINNET training and technical assistance have had a tangible impact, including the MFI association, better trained MF employees, the introduction of bad client lists, and emergence of the Performance Indicators Working Group. There is a great deal of overlapping membership between the Indicators Working Group and ANIMH members.

FHAF reports that FINNET provided the only outside credit training they have received in 20 years of operation. Many MFIs have never been audited. FINNET has trained local audit firms in MF audits, and ACME, COD, ACLAM, and Fonkoze have been audited by local firms.

COLLABORATION WITH LOCAL INSTITUTIONS

Microfinance Association

As an association of MFIs, ANIMH represents an important new development on the institutional horizon. There may be a donor expectation that ANIMH will be able do more than what it can reasonably handle. New activities need to be phased in gradually. The association is still a newly established institution, and only a minority of its members are themselves well developed institutionally. Therefore, its ambitious program will need ongoing accompaniment by a FINNET-II in order for it to fulfill its mission, and it will need to grow into its slated roles over time.

Targeting Productive Subsectors for Microfinance & Technical Assistance

Other sectors such as artisans would stand to benefit from the mix of services provided by Fonkoze and SOFIHDES to producer associations and agribusinesses as facilitated by HAP with its knowledge of the market and the value chain.

Linkages among Microfinance Associations

In view of the existence of three microfinance associations, it is also important for the three to collaborate around shared interests. This is one element of working with microfinance as a sector rather than as discrete projects. Shared interests include Bad Clients, Customer Liability Information, national credit bureau, a microfinance regulatory framework that provides an enabling environment, promotion of savings, and promotion of production in a range of sectors. KNFP has taken a special interest in training credit officers through the Institut Mobile de Formation (IMOFO).

Credit Unions

Closer integration. There should be closer integration of savings and loan associations in the follow-on project, especially those accompanied by Desjardins. For example, the FINCA methodology creates synergy and accesses decentralized services to its primarily rural clients via credit unions. FINCA opens its own parallel accounts at local *caisses populaires* where village banks also hold accounts. The local savings and loan is then a valuable conduit for repayment.

Credit unions and savings. Credit unions are legally recognized as savings institutions. Credit unions could thus be used to promote higher levels of savings by other MFI clients interested in opening savings accounts with a view to paying school fees and meeting special needs such as health and burial costs.

Credit unions and production credit. Some credit unions are deeply involved in production credit as in the case of farmers engaged in more intensive forms of agricultural production in irrigated zones around St. Raphael. Follow-on services should actively seek out ways to maximize credit union impact on production.

Linking Microfinance with Other Sectors

Health & Education SO Teams. There should be closer collaboration and sharing of strategies among SO teams for education, health, and enterprise development. The education team has shown an interest in exploring microfinance as a tool for assuring timely payment of school fees, enhancement of the quality of entrepreneurial schools, pension plans for teachers, and health insurance. Likewise, the health sector should explore the potential of microfinance as a tool for assisting AIDS affected families, and the viability of microinsurance health plans. FINNET should review lessons learned via the pilot project for health insurance implemented by COD-EMH in Petit-Goave. The education office should commission a market study of education as a sector and its potential to use microfinance products developed by EG partners, or new ones adapted to the education sector. FONHEP would be a logical partner for such initiatives.

Linking Microfinance with incubators and mentoring. There is at least one local microbusiness incubator and mentor program operated by the Haitian Partners for Christian Development (HPCD). The HPCD presently has a grant from the Inter-American Foundation to operate this program. There may be other such incubator or mentor programs. Follow-on services should actively seek out such programs to make them aware of microfinance products, and offer targeted training to help prepare incubator clients for the discipline of microcredit, especially for clients engaged in production rather than commerce.

Microfinance and value chain analysis of targeted sectors. Assuming that the future of microfinance lies ultimately in productive investments, follow-on services should explicitly address this issue with MF partners, i.e., teaching MFIs to do production loans. This would undoubtedly require sector-specific market studies, some of which may be carried out with funding by other donors, e.g., forthcoming IDB funding for technical assistance to Micro Credit Capital.[13] Productive sectors of special interest to the Mission such as artisans could be served, for example, by advocating with Micro Credit Capital to use IDB funding to carry out a market study of the export market for artisans.

MECHANISMS TO ADDRESS THE POOREST OF THE POOR

Savings

There is evidence of strong unmet demand for secure savings from the overwhelming majority of borrowers and prospective borrowers. For example, among affiliates of Finca International, Haiti has by far the highest loans-to-savings ratio in the world; however, in the Finca methodology, these savings are used primarily for collateral. Follow-on services for the MF sector should actively promote savings for other purposes than collateral for loans. Savings methodologies should be adapted to the Haitian legal and socio-cultural environment, including the need for a firewall to secure savings from pressures by family members and others aware of such funds. Term savings products could be developed with a view to client targets such as school fees, health costs, burial funds, or a household crisis fund.

Microinsurance Products

Follow-on services should take another look at the market for microinsurance products. The first step would be to evaluate the FINNET-supported pilot microinsurance product implemented by COD-EMH. Its preparation included a market assessment, client survey, product design, and consultant-support to develop the reporting, monitoring, and evaluation database. FINNET also worked with a trainer financed by ILO to develop the

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[13] The team was informed of this assistance by Eric Jabouin, a micro credit director of Micro Credit Capital.

training curriculum for COD staff and clients. The COD health microinsurance product offered coverage for hospitalization, childbirth, and ambulance service (transport).

There were implementation problems, but the pilot project should be evaluated with a view to lessons learned and prospects for improving or replicating this microinsurance health product. Some effort should also be made to test other microinsurance products of interest to the poor including life insurance and loan insurance.

Other efforts worthy of review include the Fonkoze partnership with Zami Lasante (Partners in Health) on the Central Plateau, and the new Maison Arc en Ciel program promoting microfinance for urban households living with HIV-SIDA. Microcredit is not always the best program for reaching the poorest of the poor. Therefore, non-financial alternatives might include programs that target youth for business skills development or workforce readiness. Also, Fonkoze helps prepare prospective clients for microcredit by teaching literacy.

THE FINNET TIER SYSTEM

The tier system used by FINNET is in part an artifact of the first group of MFI partners benefiting from FINNET during the early phases of the project. The original Tier One partners were ACLAM, COD, BUH, MEDA, and ACME. In April 2000 they were deemed to have the greatest potential for outreach and sustainability. They were also the largest in terms of portfolio size and number of clients, and were committed to best practices, certain indicators, tailored technical assistance, and other training and seminars. Tier One partners then and now are not synonymous with strength or best performance; however, they are the most intensively served partners. What distinguishes them from other partners is an annual, individualized FINNET work plan. This work plan is based on individual partner assessment and geared to work on specific weaknesses.

As the sector evolved, other new institutions became Tier Two, e.g., FHAF, GTIH, Fond d'Espoir, Fonkoze, Sogesol, MEDA, MCN, and MCC. Tier Two partners have the potential to move up to Tier One; however, FINNET services to Tiers Two and Three are not governed by annual, individualized work plans. The tier system is a tool of program management that defines the level of engagement. It is a practical approach that seems to work. The strategy of preparing an individualized work plan for Tier One partners is an excellent tool for program management.

IS FINCA UNFAIRLY IMPACTING OTHER MFIS?

From one perspective, direct support for Finca may give them an unfair competitive advantage in relation to other MFIs, especially if they are operating in the same market either currently or in the future. Fonkoze serves virtually the same target population as Finca, but Fonkoze has a much wider distribution network. There may be some geographic competition in Cayes and eventually in Ouanaminthe.

From another perspective, it may be deemed unfair for USAID to provide direct support if it has taken the trouble to set up a project such as FINNET to provide services to MFIs. Direct support makes USAID an investor in Finca comparable to IDB support for Capital Bank. In contrast, other MFI partners have to go through MIF procedures and meet the prescribed criteria for loan guarantees.

Aside from FINCA, the Mission has also provided special assistance to Fonkoze and ACME. Therefore, from the perspective of the Mission, the issue is perhaps one of maintaining balanced support for its partners, and targeted support in keeping with specific needs. Finca has demonstrated the absorptive capacity for loan funds if the Mission needs to spend money quickly; however, this is a separate issue from training and technical assistance.

The most important question may be, "Does Finca really need special assistance from USAID?" For training needs and technical assistance, the answer is undoubtedly "no" since Finca has the benefit of a well qualified expatriate director, various types of support from Finca International, and virtual self-sufficiency in terms of training since it uses the Finca method. It is worthy noting, however, that relying primarily on external training resources tends to undercut pressure on the local market to provide training resources.

V. LOAN GUARANTEES AND THE DEVELOPMENT CREDIT AUTHORITY

This section addresses several issues around the SOFIHDES Loan Guarantee program, especially vis-à-vis the new Development Credit Authority (DCA). In 2004, USAID Haiti contracted two development credit authority mechanisms, one with Sogebank, and one with SOFIHDES. This has raised certain issues for USAID Haiti:

- Is there is redundancy between the DCA agreements and the earlier loan guarantee program with SOFIHDES?
- Is there reason to continue this program in light of the DCA agreements?

In addition to the discussion below, see Annex B for a tabular comparison of the two programs.

HAS THE FGPME BEEN SUCCESSFUL?

The Small and Medium Enterprise Guarantee Fund (FGPME) was established to provide working capital credit to complement two USAID activities, the Hillside Agriculture Program (HAP) and the Secondary Cities activity. The Secondary Cities focus ended when the USAID Mission dropped its Secondary Cities program**.**

It is difficult to properly judge the success of the FGPME program due to certain gaps in information. For example, ANEM used the guarantee facility nearly constantly during the past four years; however, it is not clear whether or not banks would have continued to make loans to ANEM without the benefit of the guarantee. Later in this discussion it will be suggested that SOFIHDES conduct a study and prepare a status report that can go into more detail.

The Fund has successfully provided a guarantee to allow primarily agriculture producers and exporters on-going access to working capital.

- The fund has primarily been used to insure lines of credit (not medium or long term loans).
- Only one guaranteed loan defaulted. That was to Transgari. The gurantee amount was $200,000 (the fund limit) and the lender was Capital Bank. (More needs to be reported on repayment efforts undertaken by Capital Bank).

Reporting

While the banks are have to report to SOFIHDES on a quarterly basis, USAID is missing reporting on the actual utilization of the guarantee, and project impact in terms of employment, creation of new enterprises. Reporting fell from a quarterly basis to an annual basis starting in FY 2001. Reports for FY 2001 and 2002 were three pages each, with the first 1.5 pages giving program background plus three table annexes.
More details need to be provided, for example, on how SOFIHDES used technical assistance funds and the impact of TA provided.

Weak reporting applies both to the FGPME portion of the agreement as well as the Microenterprise (MIF) portion of the agreement. No reporting could be found on the $720,000 under this agreement for continuation of the loan guarantee program begun under PRET.

USAID Oversight

The EFF was set up through a cooperative agreement and has a "Substantial Involvement Clause" stating that USAID will be substantially involved in the following ways:

- Review, monitoring of quarterly reports and the status of all credit facilities extended;
- Serve on the application review committee as an observer;
- Review and monitor SOFIHDES performance;
- Review and approve drawdown of guaranteed amount in payment of losses;
- Develop a scoring system for guaranteed credit facilities with SOFIHDES; and (which apparently was not developed).
- Determine disposition of remaining funds upon completion of the program.

Substantial involvement for cooperative agreements is discussed under ADS 303.5.11a. According to ADS, "where there are specific elements in the Program Description for which USAID's technical knowledge would benefit the recipient's successful accomplishment of stated program objectives, the joint participation of USAID and the recipient can be authorized." Project oversight has probably suffered from disruptions in USAID staffing, including change of the CTO and temporary evacuations of US staff. In future activities, USAID Haiti may wish to take a more proactive role in accordance with the above language, though a vigilant contracting officer will want to limit USAIDs role when the agreement is not a contract.

Reaching Targets

The cooperative agreement identifies targets for the combined EFF activities – the FGPME and the MIF. See Table 15 below:

TABLE 15. SOFIHDES/EFF TARGETS

MICROFINANCE			COMBINED FGPME & MIF
YEAR	No. Outstanding Loans	Outstanding Loan Value (in $US million)	*Cumulative* amt. of mobilized commercial capital ($US million)
2000	11,479	5.100	1.981
2001	14,349	6.460	5.222
2002	17,935	8.070	9.527
2003	22,420	10.090	14.224

SOFIHDES does not report on either the number or value of loans outstanding of assisted MFIs. Of the $14.2 mobilized loan capital, $8.6 million was to be mobilized by the FGPME. In reality, the maximum amount mobilized is about $2,212,068 using an exchange rate of 37 gourdes per dollar for the loans made in gourdes.

SOFIHDES also said that they expected to provide 13 guarantee certificates annual for a total of 51 over the duration of the program. In fact, a total of 16 were given through December 2004.

SOFIHDES said that, in terms of direct results, it would report on the following indicators from the USAID Performance Monitoring Plan (FY 1999 – 2004).

- Annual percentage increase in number of outstanding loans
- Real increase in credit to the private sector (above mobilization of private capital)
- New business start-ups in target secondary cities

Utilization

Usage peaked in April-September 2004 when the guarantee was about 32 percent utilized. Note, however, since these guarantees were for lines of credit and not loans, usage was likely less than the amounts presented, and the utilization rate should be considered a potential maximum. There does not seem to have been the on-going, proactive marketing that the program description required; however, SOFIHDES reported marketing efforts made in the early stages of the project. These efforts were ineffectual because SOFIHDES found later that information was not passed on to loan officers, or that people who attended orientation sessions did not recall hearing about the guarantee. Marketing agents were to be hired for the north and south-east regions (there is little reporting on this activity). Six-month renewable contracts were to be signed in the Fall of 2000, and the marketing agents were to submit quarterly reports. SOFIHDES felt at the time that banks simply lacked any inclination to use the guarantee.

Early quarterly reports show that some credit officers were interested in using the guarantee for purposes other than agribusiness (e.g., industry in general, commerce, packaging food products, etc.[14] In February 2003 the cooperative agreement with USAID was amended to expand availability of the guarantee to all productive sectors of the economy and all geographic areas.

Support for Investment

Guarantees have been primarily for a one-year period, and have been renewable. See Annex C for a listing of all guarantees (*FGPME Guarantees Outstanding by Quarter & Guarantee Fund Utilization 2000-2004*). The only long-term loan for equipment purchases was a three-year loan to Agropak. In the case of multi-year loans, borrowers were required to obtain guarantees for each new year and pay the 2% commission (on the outstanding balance of the loan).

Sustainability

Decreasing loan guarantee level. The level was supposed to decrease by 10 percent each time. Guarantees available ranged from 50 to 75 percent, but most loans were guaranteed at 75 percent. It is possible that political and economic uncertainties precluded the anticipated decrease in guarantee levels. ANEM's first three loans were guaranteed at 75% and the fourth at 60%. Agriplex began with a guarantee of 50% with Socabank, and increased to a guarantee of 75% at Sogebank.

Agrotechnique had received three guarantees under the Agribusiness Guarantee Fund, a former USAID project managed by SOFIHDES, ending in 1998. Under that program, guarantees for this firm decreased from 50 to 40 percent. The one guarantee they obtained under FGPME was at 65 percent. No other borrowers under the former program used the FGPME.

Financial sustainability. The FGPME was foreseen to exist after the program ended. Steps were not put in place to make this happen. For example, the commission fee was to have increased in order to cover costs. The borrower pays the commission fee (not USAID). If the commission fees became too high, then the borrower/lender would choose not to use the guarantee. A not particularly viable idea in the proposal was to borrow funds to finance the guarantee fund.

As a rough estimate, in order for the fund to be financially self-sustaining the following costs would need to be covered through commission fees and investment income: [15]

1. Administrative expenses
2. Preserving value of capital (protection of loss of value due to inflation or exchange rate risk)
3. Loan loss, and
4. Fund growth (optional).

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[14] Quarterly report FGPME/MIF to USAID. January – March 2000. page 6.
[15] It would be useful to have a financial analyst make a more thoroughgoing estimate.

The original value of the guarantee fund was $1,875,000, and administrative expenses have been $60,000 per year or 3.6 percent (60/1,675,000 = 3.6%). Capital should be maintained in $US to protect against exchange rate losses and Haitian Inflation. Based on US inflation rates, a rate of 3-5% could be used to protect against capital value loss. The actual loan loss averaged 2.65 percent [(200,000/1,875,000) = 10.6% / 4 years = 2.65 % average].

The commissions tabulated in Table 16 below are based on 0.02% of the guarantee amount. Assuming no fund growth, in order to preserve the fund value now estimated to be $1,675,000 at the above costs,[16] a commission fee of 2% is not sufficient without investment income (e.g., income earned on treasury bills or other investments).

TABLE 16. COMMISSION INCOME BY LOAN (2% OF GUARANTEE AMOUNT)

Date	Source	$US	Gourdes
Jan 2000	ANEM 1	3,000	0
Feb 2000	Abriplex 1 / Socabank	1,000	0
Nov 2000	Clodana / Sogebank	2,000	0
Dec 2000	Agriplex 2 / Sogebank	0	40,500
Mar 2001	ANEM 2 / Capital Bank	3,000	0
May 2001	Tropical SeaFood 1/ Capital Bank	1,875	0
July 2001	Compucas / Capital Bank	0	15,000
Nov 2001	Agrotechnique /Capital Bank	0	97,500
July 2001	Transgari / Capital Bank	4,000	0
Dec 2001	Agropak / Promobank	2,790	0
Mar 2002	ANEM 3 / Capital Bank	4,000	0
June 2002	Tropical Seafood 2 / Capital Bank	1,875	0
Dec 2002	Compagnie Haitienne de Café	0	78,000
Apr 2003	ANEM 4 / Capital Bank	3,204	0
Oct2003	Agropak 2 / Capital Bank	1463	0
Oct 2003	Tropical Seafood 3 / Capital Bank	1250	0
Mar 2004	Caripak SA	2250	0
Mar 2004	FINCA SA	4000	0
Total Commission Fee Income		$US 35,707	231,000 gourdes

[16] SOFIHDES should confirm this fund value.

Using 5% to protect value of capital, the following formula can be used to solve for investment income needed:

Commission fee =

(administrative expenses + inflation rate + loan loss rate) – investment income

.02 = (.036 + .05 - .0265 + .05) – investment income

Investment Income = (0.036 + 0.0265 + .05) - .02

Investment Income = .0925

That is, with a 2% commission fee, investment income would need to be equal to 9.25% of the portfolio value or $154,938 per year, in order to maintain fund value and cover all costs. Or, commission fees could be raised to offset lower investment returns.

DCA VERSUS FGPME

In light of the new Development Credit Authority, should the FGPME loan guarantee be continued?

Reasons to Continue the FGPME

- There may be industries that might require more than the 50% guarantee offered by the DCA.
- The DCA expires in two years
- Funds are already obligated and sitting in the guarantee fund. Will you have to do a de-obligation/re-obligation and will you be able to keep the funds?
- The DCA is limited to two banks, SOFIHDES and Sogebank. Currently the biggest user of the fund is Capital Bank which would not benefit from the DCA.
- Currently one of the biggest users of the guarantee is ANEM (a USAID/HAP partner for mango exports) and they have developed a relationship with Capital bank. Will ANEM and other users be left hanging? Is Capital Bank ready to take on all the risk? (The Mission should consider transferring the guarantee to the Capital Bank.)
- If country risk gets much higher, the DCA might get cancelled.

Reasons to end the FGPME

- Management costs. The cost has been $240,000 ($60,000 per year)
- Funds are underutilized
- Real need is unknown
- Impact is unknown.
- Reporting has not been sufficient.

RECOMMENDATIONS FOR THE SOFIHDES LOAN GUARANTEE PROGRAM

For the time being, it is recommended that the loan guarantee program continue; however, SOFIHDES should be asked to prepare a status report including detailed information from borrowers and lenders on utilization, and strengths and weakness of the FGPME. See Annex D, *Proposed Outline of FGPME Status Report* to be prepared by SOFIHDES.

Oversight of SOFIHDES management of the FGPME should be shifted to the contractor providing DCA management. This oversight should include bringing SOFIHDES reporting up to required standards.   Reports should include analysis of utilization and needs for the loan guarantee program. The contractor should analyze the feasibility of the FGPME becoming a free-standing, financially self-sufficient loan guarantee program, and if deemed feasible, should work with SOFIHDES on the development of a business plan to take the necessary steps (e.g., plan to generate investment income).

VI. OTHER SUMMARY RECOMMENDATIONS

GUIDELINES

The Donor Guidelines give five elements which contribute to donor effectiveness in identifying their comparative advantage, and identifying partners who can complement their capacities. These elements are useful guides for ongoing assessment of current and future Mission microfinance partners and activities:

- Strategic clarity and coherence
- Strong staff capacity
- Accountability for results
- Relevant knowledge management
- Appropriate instruments

SUMMARY OF OPTIONS FOR MISSION MICROFINANCE PORTFOLIO

1. Increased use of local service providers
2. Increased use of open bids to get service providers
3. Heightened emphasis on savings including tracking and incentives for savings
4. Linkage of financial sector activities with other activities such as agriculture and handicrafts
5. Increased synergy with other SOs
6. FINCA – No further assistance is required for training and technical assistance. FINCA has successfully developed to a point where funding should be more specifically targeted, based on a more limited cooperative agreement. For example, future funding should be tied to FINCA/Haiti initiatives to seek more commercial capital, including use of the newly established DCA, as well as product development and market expansion that complements USAID/Haiti efforts to develop the microfinance sector as a whole.
7. FINNET
    - This activity should continue but now with an eye toward exit.
    - FINNET II should focus on hard-to-serve areas while building up service providers and new products.
    - Continue to support ANIMH as it builds its technical capacity, especially for targeted activities but with strong coordination with other donors.
    - Groom ANIMH to take over activities currently supported by FINNET.
8. SOFIHDES should,
    - Prepare a close-out report on the MIF activity
    - Continue to operate the loan guarantee program,
    - Make the SME loan guarantee available to qualified local residents (non-Haitian owned enterprises) as well as Haitian enterprises in keeping with the SOFIHDES cooperative agreement,
    - Be more proactive in marketing its SME loan guarantee,
    - Actively promote use of the SME guarantee program for productive loans.

- Bring reporting up to date and comply with terms of agreement with respect to monitoring and reporting on activities.

HEIGHTENED ORIENTATION TO PRODUCTION

Microfinance and agricultural exports. The Mission should build on its success with financial products that support agricultural exports and producer associations. The HAP model should be more closely examined with a view to the intermediary services it provides (market information, ties at all levels of the value chain), sustainability, and realistic assessment of prospects for local actors to take on more of these intermediary roles. The mission should consider whether there are elements of this model applicable to intermediaries in specific sectors such as artisans (ATA) or education (FONHEP).

Broaden productive sector financing. The use of SME loan guarantees should go beyond support for agribusiness and actively target other productive enterprises including tourism, industry, transport, handicrafts, and energy as originally planned. SOFIHDES should be more proactive in marketing its services to SMEs and MFIs including, for example, a booth at the annual Femmes en Production fair.

Sharpened focus on production loan guarantees. Loan guarantees should be used primarily if not exclusively to encourage production lending. Project staff should evaluate loan requests both for the guarantee program and microfinance activity to ensure that loans are going for production, similar to FINNET representation on the loan review committee for SOFIHDES.

Assess prospects for fishing sector. Some SOFIHDES loan guarantees have supported seafood exports. The mission should take a closer look at what is being done in this sector, and assess the potential for expanding sustainable seafood production for internal, regional, and other external markets.

FINNET II

Enabling environment. Ongoing FINNET programming should maintain its focus on microfinance as a sector including NGOs, commercial banks, and savings and loan associations.

- Follow-on programming should build on this stance and broaden the scope, targeting support for microfinance within the context of the broader financial sector including public policy, and development of service providers.
- USAID has supported efforts to improve the enabling environment for microfinance. There is now greater opportunity than before to establish a sustained dialogue with the Central Bank.
- A donor group being set up by UNDP/UNCDF around support for ANIMH could be a vehicle for donor coordination and further joint dialogue with the Central Bank

- USAID funded public good activities should take into account the efforts of other donors including the planned UNDP/UNCDF training on microfinance for the Central Bank and microfinance-related ministries.
- Follow-on programming should enhance ANIMH's capacity to advocate with the Central Bank and other centers of financial policy.

ANIMH. It is imperative that follow-on activities in the microfinance sector provide consistent support to ANIMH, including the following:

- To the extent possible, ANIMH should sponsor training that is currently provided by FINNET. This includes eventually contracting directly with trainers and private firms to provide training, and/or building up ANIMH training capacity. As a corollary, FINNET should not compete with ANIMH by offering services provided by ANIMH. In short, support should be geared to strengthen ANIMH rather than to undermine it.
- ANIMH should offer training at a price that covers cost but, at least initially, with scholarships available through FINNET or other sources. This will help send market signals that inform training participants of the true cost of training and prepare them to pay full cost. Again it may not be ANIMH actually providing the training. This aspect should be phased in gradually as participating institutions have confidence in ANIMH and as ANIMH evolves and gains increased capacity.
- Greater effort should be put into developing the meso level, i.e., local service providers including auditors, trainers, business development specialists, etc.
- FINNET, USAID and other donors can support this capacity development via training that is unsubsidized or only partially subsidized, and by opening bids for services that FINNET presently provides, including AGIR.
- USAID supported activities should take into account the ANIMH business plan. Accordingly, FINNET's work plan should note how it assists ANIMH to carry out ANIMH goals and activities, and how it strengthens ANIMHs position in relation to its members.
- USAID support for ANIMH should take into account the UN Capital Development Fund (UNCDF) and UNDP Haiti funding, including a forthcoming $450,000 grant for three years. UNDP funding will support an office, equipment, staff, and some activities. Program support should thus serve to complement UNDP assistance.
- ANIMH, with support from FINNET, should create a map of MFIs as part of a GIS database to better identify service areas and over or underserved clients, to serve as a tool for planning and for enhancing linkages with other Mission activities, and to enforce ANIMH lobbying efforts with the Central Bank

Cooperative credit unions (*caisses populaires*). The Mission should assure that there is a program of ongoing assistance for credit unions both during the option year and in follow-on programming, and should do so in a manner that complements ACDI assistance in this sector.

- Project support should allow for ANIMH dialogue with the credit union sector of MF around shared issues and interests, including the macro level or enabling environment for microfinance as a sector.
- The project and ANIMH should build on these ties and shared interests through sharing Bad Client Lists, and joint participation in a Customer Liability Information System (CLIS), and eventually a credit bureau.
- The project may want to work with credit unions on special products, e.g., school savings accounts.

Target training to specific needs, reduce subsidy as feasible.

- Broad training for MFIs-in-general is less needed by MFIs with international partners and vertical linkages. Furthermore, MFIs such as FINCA are basically self-sufficient in terms of training needs and should be a low priority for assistance.
- In the follow-up programming, higher priority for assistance should be given to MFIs that do not have access to parent institutions.
- Training should be market driven and strategically targeted to specific needs. In some cases, this may mean specific training that is targeted at specific MFIs. The nominal fees paid by MFIs for training makes it difficult to determine how necessary the more general training really is.

New financial products. FINNET-II should provide support as feasible for new financial products, including savings products, and the evolution of MFIs as regulated entities.

National credit bureau. FINNET training and technical assistance should support broader participation of MFIs including *caisses populaires* in information exchange, collaboration around Bad Client Lists, the Performance Indicators Working Group, and eventually a national credit bureau

Human resource crisis. The most serious constraints in the MF sector are weak institutions and an acute shortage of well qualified human resources. There's a general problem of undue dependence on upper management, e.g., MFIs with expatriate staff are generally doing better. There is high turnover of middle management and MF trained professionals with good skills in managing staff, problem solving, and delegating responsibility. These issues raise serious questions regarding long term sustainability. In response, the Mission should take a range of measures to improve human resources.

Training. The Mission should train sizeable numbers of people to broaden the pool of talent including advanced training in microfinance, masters training, intensive in-country training of middle managers and MF professionals via six week courses and one week seminars, drawing on models used in such training centers as Boulder, Turin, or American University's Microfinance Institute;[17] work with Education SO to develop leadership seminars, curriculum development via the education office targeting secondary

[17] Consult http://www.microlinks.org/ev_en.php?ID=2120_201&ID2=DO_TOPIC for a list of trainings.

school students for training in financial literacy and enterprise management; targeting secondary school students for weekend classes or seminars and junior achievement clubs.

ANNEX A. CHARACTERISTICS OF ANIMH MEMBER INSTITUTIONS

		FHAF	MEDA	COD-EMH	GRAIFSI	FONKOZE	FONDESPOIR	CRS
Statut légal		Fondation	ONG	Instit. religieuse	Association	Fondation	ONG	ONG
Date démarrage		1982	1996	1992	1995	1996	1992	1997
Localisation interv.	*Port-au-Prince*	28%		3%	10%	10%	50%	
	Villes province	23%	1%	7%		30%	15%	
	Rural	49%	99%	90%	90%	60%	35%	100%
Type de clients		EI, inf., form.	EI	EI	EI, inf., form.	EI,inf.	EI, inf., form.	EI
Ciblage clientèle		pauv., genre	pauv., genre	pauv., genre	pauv., genre	pauv., analph., genre	pauv., genre	pauv., genre
Méthodologie crédit		CI, MS	BC	BC	CI, MS, BC	GS, CI	CI, MS, BC	BC
Structure portefeuille	*< 2 500 HTG*	44%		80%	60%		10%	15%
	2 500 à 12 500 HTG	18%	100%	20%	30%	80%	75%	85%
	12 500 à 25 000 HTG	19%			3%	20%	7%	
	25 000 à 125 000 HTG	19%			6%		8%	
	> 125 000 HTG	0%			1%		0%	
Produits financiers	*fonds de roulement*	36%, 6 mois	42%, 6 mois	24%, 6 mois	36%, 6 mois	4%, 3 mois	36%, 6 mois	30%, 5 mois
	investissement	36%, 8 mois		24%, 12-36 mois	30%, 10 mois	4%, 6 mois		
	production	30%, 10 mois		24%, 12 mois	36%, 12 mois			
	consommation							
Autres services		/	conseil, alpha	assur., conseil	conseil entrep.	alpha, conseil ent.	conseil, form.	formation
Nombre emprunteurs			5 000	14 000	1 700	15 000	1 600	7 000
Nombre épargnants			5 000	6 000	1 500	30 000	600	7 000
Encours crédit			2 080 000	13 000 000	11 000 000	56 000 000	20 000 000	32 000 000
Prêt moyen			416 (?)	929	6 471	3 733	12 500	4 571
Origine ressources	*dons publics internat.*	70%	80%	40%	11%	oui	95%	75%
	dons ONG		20%	20%	14%	oui	5%	25%
	prêt trésor public	4%		40%	46%			
	prêt banques commerc.					oui		
	investisseurs privés				15%			
	capitalisation							
	épargne clients	26%			14%	non		
Contrôle	*supervision BRH*	non	non	non	non	non	non	non
	audits annuels	oui	oui	oui	non	oui	non	non
	évaluations externes	oui	non	oui	oui	non	oui	non
	mesure impact	oui	oui	oui	non	oui	oui	oui
Appartenance réseau	*national*	non	KNFP	KNFP	KNFP	non	KNFP	KNFP
	international	oui	oui	oui	non	non	non	oui
Perspectives 5 ans	*emprunteurs*	12 000	15 000	15 000	8 000	20 000	15 000	10 000
	épargnants	12 000	15 000	7 000	3 000			10 000
Contraintes dével.	*première*	cadre légal	formation RH	situat. sociopolit.	information	cadre légal	rareté fonds	rareté fonds
	deuxième	concurrence	situat. sociopolit.	syst. inform.	risques déval.	rareté fonds	situat. sociopolit.	syst. inform.
	troisième	rareté fonds	déficit infrastruc.	rareté fonds	formation			formation

SOURCE : ANIMH Strategic Plan, Annex 3.

ANNEX A (CONTINUED): CHARACTERISTICS OF ANIMH MEMBER INSTITUTIONS

		GTIH	ACME	SADA	SOGESOL	MCN	ACLAM
Statut légal		ONG	Association	OI	SA services	Société anonyme	ONG
Date démarrage		1995	1997	2000	2000	2000	1993
Localisation interv.	*Port-au-Prince*	100%	100%		80%	52%	20%
	Villes province			30%	20%	48%	
	Rural			70%			80%
Type de clients		EI	EI, inf.	EI	EI, inform., form.	EI, inf., form.	EI
Ciblage clientèle		genre, secteur	pauvres	genre	petits commerçants	non	femmes
Méthodologie crédit		CI	CI	BC	CI	CI	BC, (CI)
Structure portefeuille	*< 2 500 HTG*	0%	10%	100%			
	2 500 à 12 500 HTG	25%	55%		12%	15%	100%
	12 500 à 25 000 HTG	50%	19%		21%	20%	
	25 000 à 125 000 HTG	25%	15%		56%	50%	
	> 125 000 HTG	0%	1%		11%	15%	
Produits financiers	*fonds de roulement*	4%, 6 mois	48%, 6 mois	3%, 4 mois	4.5%, 8 mois	5,75%, 9 mois	
	investissement	3%, 18 mois	48%, 10 mois		3%, 18 mois	3%, 12 mois	
	production	3%, 18 mois					
	consommation						
Autres services		conseil, form.	/	santé, alpha	/	/	formation, santé
Nombre emprunteurs			4 600	600	6 900	3 800	7 000
Nombre épargnants			0	600	1 000		7 000
Encours crédit			67 000 000	1 000 000	150 000 000	160 000 000	13 000 000
Prêt moyen			14 565	1 667	21 739	42 105	1 857
Origine ressources	*dons publics internat.*	oui	25%	90%	oui		25%
	dons ONG	oui	25%	10%			70%
	prêt trésor public						
	prêt banques commerc.		30%			45%	5%
	investisseurs privés				oui	50%	
	capitalisation		20%			5%	
	épargne clients	oui					
Contrôle	*supervision BRH*	non	non	non	oui	oui	non
	audits annuels	oui	oui	non	oui	non	
	évaluations externes	non	oui	oui	oui	oui	
	mesure impact	oui	oui	non	oui	oui	
Appartenance réseau	*national*	non	non	non		non	oui
	international	non	oui	non	oui	oui	oui
Perspectives 5 ans	*emprunteurs*	10 000	12 000	3 000	30 000	8 000	15 000
	épargnants			3 000		0	14 000
Contraintes dével.	*première*	fonds	cadre légal	rareté fonds	situat. sociopolit.	situat. sociopolit.	situat. sociopolit.
	deuxième	cadre légal	formation RH		RH intermédiaires	cadre légal	rareté fonds
	troisième	formation				rareté fonds	

Annex B
Comparison of DCA Agreements with FGPME

	DCA		FGPME
Institution	**SOFIHDES**	**Sogebank**	**SOFIHDES**
Legal Status	Development Finance Corporation	Commercial Bank	Development Finance Corporation
Participating Financial Institutions	SOFIHDES Note that Sogebank is 10% shareholder in SOFIHDES. (source: DCA agreement)	Sogebank	Capital Bank Promobank Socabank Sogebank Banque Populaire Haitienne (signed, not used)
Strengths	• Management is experienced and capable • SOFIHDES has financial support from USAID, the European Investment Board, and the GOH • SOFIHDES knows its borrowers well and knows its markets • Will have TA for its operations and those of its borrowers paid for by USAID	• Sogebank is the largest and strongest bank in Haiti • Excellent management and solid operational and credit processes • Experienced in SME and commercial lending/knows market place in Haiti	• Development objectives • Historic relationship with USAID • Soficonseil / TA unit in bank •
Weaknesses	• Management is thinly staffed • Small compared to the size of its individual loans • Equity is small compared to the size of USAID guarantee • Lending environment in Haiti is volatile in terms of interest rates and exchange rates • Substantial number of watch-listed loans	• Adverse political and economic environment in Haiti • Weakening ratios for Sogebank in leverage and profits • Loans under guarantee will be on more concessional terms than those in Sogebank's existing portfolio	• May have staff capacity issues

Annex B (continued).
Comparison of DCA Agreements with FGPME

DCA			FGPME SOFIHDES
Institution	**SOFIHDES**	**Sogebank**	
Activity Description	Use of LPG to stimulate economic growth and employment generation by facilitating increased lending to a diverse range of sectors in Haiti	Use of LPG to stimulate economic growth and employment generation during a period of political transition. Through risk sharing with Sogebank, USAID intends to facilitate increased lending ot sectors that Sogebank deems to have employment and growth potential, including textile manufacturing, fruit and vegetable export, micro and very small enterprises involved in various services, art, handicraft, and light manufacturing.	Guarantee financing **through commercial banks** to firms owned by Haitian nationals and permanent residents in productive sectors. Increase geographic availability of credit (i.e., outside PaP). Generate jobs.
Max Cumulative Distribution	$2,000,000	$3,000,000	$2,500,000 (w/ 75% guarantee through $3,750,000 (w/ 50% guarantee)
USAID Haiti Subsidy cost (cost to USAID Haiti to establish guarantee) amount obligated for actual guarantee)	$82,200	$139,800	$1,875,000 (was this available guarantee amount later decreased in an amendment?)
Collection of guarantee	Have to exhaust own recollection procedures before claiming DCA	Have to exhaust own recollection procedures before claiming DCA	"make concerted effort" in agreement. Need to see what was done in in practice.
Guarantee Ceiling	$1,000,000	$1,500,000	$300,000 (max guarantee $200,000)
Guarantee Percentage	50%	50%	50 – 75% (Up to 80% since 2003)

	DCA		FGPME SOFIHDES
Institution	**SOFIHDES**	**Sogebank**	
Targeted Sectors	Industry, agribusiness, tourism, communication, transportation, construction, technologies, and handicrafts		
Objective	That SOFIHDES will continue medium term loans at end of DCA		Create permanent fund (see agreement)
Loan Term	"medium term loans" (i.e., 3 – 5 years, and up to 7 years)		
Revolving?	No	No	Yes, in effect
Interest Rate	Market	Market	Need to get actual interest rate charged by lender
Indicators	1. Number of SMEs accessing financial products from SOFIHDES 2. Number of jobs generated by assisted SMEs 3. Number and value of loans to targeted enterprises	1. Number of MSEs accessing financial products from Sogebank 2. Number of jobs generated by assisted MSEs 3. Number and value of loans to targeted firms	
Management Cost to Mission	Salaries of 2 full time credit officers e.g, if $75,000 x 2 staff = $150,000 per year x 2 years = $300,000		Mgmt: $60 / year x 4 years =$240,000 – Audit: $50,000 (total for 4 years) TA to borrowers $100,000 (from original budget shown in Table 1-A, see Table 1-B for changes,See amendments for modifications)
	Targeted training courses (mainly for SOFIHDES, but Sogebank will be invited) $200,000 per year x 2 years		
	US staff management costs – could be as high as $200,000 per year depending on degree of engagement and type/grade of staff used		
Fees	Commitment fee 1% up front of guarantee Utilization fee 0.5% of outstanding guarantee	Commitment fee .25% up front guarantee Utilization fee 0.75% of outstanding guarantee	2% of guaranteed amount
Reporting	Every 6 months, internet based		Quarterly (in practice, looks like slipped to annual in 2002)

ANNEX C
FGPME GUARANTEES OUTSTANDING BY QUARTER & GUARANTEE FUND UTILIZATION 2000 – 2004

	Borrower New Guarantees marked in BOLD	Total Outstanding Loan Value	Total Outstanding Guarantee Value	% Utilization of Guarantee fund of $1,875,000
2000				
Jan – March	**ANEM ($200,000@ 75%)** **AGRIPLEX 1 ($100,000 @75%)**	300,000	200,000	200,000/1,875,000 = 10.7%
April – June				
July – Sept				
Oct - Dec	ANEM (cont) AGRIPLEX 1 (cont of above) **CLODANA ($200,000 @ 50%)** **AGRIPLEX 2 (2,700,000 gds @ 75%) =$72,973**	$572,973	354,730	18.9%
2001				
Jan – March[18]	ANEM (cont) AGRIPLEX 1 (cont) CLODANA (cont) AGRIPLEX 2 (cont)	$572,973	354,730	18.9%
April – June	CLODANA (cont) AGRIPLEX 2 (cont) **ANEM 2 ($200,000@75%)** **TROPICAL SEA FOOD (($125,000@75%)**	$597,973	$249,730	13.4%
July – Sept	CLODANA (cont) AGRIPLEX 2 (cont) ANEM 2 (cont) TROPICAL SEA FOOD (cont) **COMPUCAS (1,000,000 GDS @ 75%) = $27,000** **TRANSGARI ($300,000@ 67%)**	$924,973	$470,000	25%
Oct - Dec[19]	ANEM 2 (cont) TROPICAL SEA FOOD (cont) COMPUCAS (cont) TRANSGARI (cont) **AGROTECHNIQUE (7,500,000 GDS @ 65%) = 202,702** **AGROPAK ($186,000 @ 75%)**	$924,973 -200,000 -72,973 + 202,702 +186,000 =$940,702	$470,000 - 100,000 - 54,730 + 131,163 + 139,500 $485933	25.9%

[18] For the period of Dec 13 200 – Feb 21 2001 Agriplex appears to have had guarantees for two institutions (Socabank and Sogebank)

[19] Clodana and Agriplex 1 guarantees expired before Agrotechnique and Agropak guarantees began.

Annex C (continued)

2002				
Jan – March	ANEM 2 (cont) TROPICAL SEA FOOD 1(cont) COMPUCAS (cont) TRANSGARI (cont) AGROTECHNIQUE (cont) AGROPAK (cont)	$940,702	$485933	25.9%
April – June[20]	TROPICAL SEA FOOD 1 (cont) COMPUCAS (cont) TRANSGARI (cont) AGROTECHNIQUE (cont) AGROPAK (cont) **TROPICAL SEA FOOD 2 ($125,000@75%)** **ANEM 3 ($267,000 @ 60%)**	$940,702 -200,000 + 267,000 =$1,007,702	$485,933 -150,000 +200,000 = $535,933	28.6%
July – Sept	COMPUCAS (cont) TRANSGARI (cont) AGROTECHNIQUE (cont) AGROPAK (cont) TROPICAL SEA FOOD 2 (cont) ANEM 3 (cont)	$1,007,702	$535,933	28.6%
Oct – Dec	AGROTECHNIQUE (cont) AGROPAK (cont) TROPICAL SEA FOOD 2 (cont) ANEM 3 (cont)	$664,000	$441,875	23.6%
2003	Agreement was amended Feb 2003 lowering guarantee fund to $1,000,000			% Utilization of Guarantee fund of $1,000,000
Jan – March	TROPICAL SEA FOOD 2 (cont) ANEM 3 (cont)	$392,000	$293,750	29.4%
April – June	TROPICAL SEA FOOD 2 (cont) ANEM 3 (cont) **Compagnie Haitienne de Café (5,200,000 gds @75%) = $140,541**	$532,541	$399,155	39.9%
July – Sept	Compagnie Haitienne de Café (cont)	$140,541	$105,405	10.5%
Oct – Dec	Compagnie Haitienne de Café (cont) **Agropak-2 ($97,513 @ 75%)** **ANEM -4 ($267,000 @ 60%)** **Tropical Seafood 3 ($125,000 @ 50%)**	$630,054	$401,240	40.2%
2004				
Jan – March	Agropak-2 (cont) ANEM -4 (cont) Tropical Seafood 3 (cont)	$489,513	$295,835	29.6%
April – June	Agropak-2 (cont) ANEM -4 (cont) Tropical Seafood 3 (cont) **Caripak SA ($150,000 @ 75%)** **FINCA SA ($300,000 @ 67%)**	$939,513	$608,335	60.8%
July – Sept	Agropak-2 (cont) ANEM -4 (cont) Tropical Seafood 3 (cont) Caripak SA (cont) FINCA SA (cont)	$939,513	$608,335	60.8%
Oct – Dec	Agropak-2 (cont) ANEM -4 (cont) Tropical Seafood 3 (cont) Caripak SA (cont)	$639,513	$408,335	40.8%

[20] Tropical Seafood 1 guarantee expired on May 21 2002, and TS2 guarantee began on June 25 2002.

ANNEX D
PROPOSED OUTLINE OF FGPME OR EFF STATUS REPORT[21]

PART I. Program and Results

1. Description of Agreement, any amendments made, and justifications for any amendments.
2. Program results, in terms of indicators and targets agreed upon.

PART II. FGPME

3. Financial Status of FGPME, including income and expense report(s) for the life of the FGPME, balance sheet, and portfolio report. Financial reports should include income earned from the funds, including investment income and commission fees.
4. Portfolio oversight. MIS mechanisms for follow up.
5. Technical assistance given and results
6. Management Structure & Implementation Issues
7. Audit reports

PART III. MIF

8. Capitalization fund use and results
9. Institutional building funds use and results
10. Special projects fund use and results
11. Loan guarantee from PRET: use and results – tracking of funds

PART IV: **Business / Sustainability Plan**

NOTE: Part IV could also be prepared as a separate report.

Final report: The SOFIHDES final report should include a table of accomplishments for each year in keeping with each line item noted in Table 5 of this report, "SOFIHDES/EFF Budget."

[21] The evaluators propose that SOFIHDES update its reporting in keeping with this outline.

ANNEX E
LIST OF INTERVIEWEES

<u>Economists</u>
Gabriel Verret, Ministry of Finance
Edgard Rosemond, USAID Mission
Pierre-Marie Boisson, Société Générale Haitienne de Banque (SOGEBANK)

<u>Mission Personnel</u>
Susan Riley, EG Head
George Callen, EG
Andress Appolon, EG
Eunice Irizarry, EG
Grace Lang, Education Officer

<u>Mission-funded Micro-Finance Assistance Programs</u>
Lloyd A. Freeman, Director, DAI/FINNET
Lauren Mitten, Director of Technical Services, DAI/FINNET
Michele Cesar Jumelle, Directeur Général Délégué, SOFIHDES
Jessica Valerie François, Director of Soficonseils, SOFIHDES
Sylvie Gauvin, Chief of Mission, Desjardins Développement International

<u>Microfinance Institutions</u>
Mike Gama-Lobo, Director, Finca/Haiti
Daphné Louissaint Héraux, Financial Director, SOGESOL
Pierre-Marie Boisson, President, SOGESOL Board of Directors
Eric Jabouin, Director, Micro Credit Capital
Francine Jean Marie Célestin, Director, Fonds Haitien d'Aide à la Femme (FHAF)
Téodor Jean-Chenet, Director of Credit, FHAF
Sinior Raymond, Director, Assoc pr la Coopération avec la Micro Entreprise (ACME), President of ANIMH
Anne H. Hastings, Director, Fonkoze
Louis-Henri Mars, Haitian Partners for Christian Development (HPCD)
Marcelle Exumé, Director, GRAIFSI
Jude Jacoten, Senior Credit Officer, GRAIFSI
Ismène Paul, Trainer, Institut Mobile de Formation (IMOFOR), KNFP/IMOFOR trainer, ex-director of COD micro insurance pilot project
Jeanty Durand, Director, COD/EMN

<u>Microfinance and SME Clients</u>
Jean Marc Vital, Operations Manager,
Federation of Cooperative Coffee Associations (FACN)
Stephane Jn-Pierre, Director, FACN
Groups of farmers/members of coffee producer associations affiliated with FACN:
Fond Jean-Noel, Marmelade, Verjon, Kanyèt

Commercial Banks
Franck Lanoix, SOGEBANK
Pierre-Marie Boisson, SOGEBANK
Banque Populaire Haitienne
Capital Bank

Other Programs interested in SME and microfinance services
Frantz Prinvil, Director, Conseil National des Coopératives (CNC)
Lunise J. Cerin, Director, Fondation Haitienne de l'Enseignement Privé (FONHEP)
Jeff Kerzner, Country Director, Aid to Artisans
Tom Lenaghan, Deputy COP, DAI/HAP
Guilaine Victor, Executive Director, Association des Industries d'Haiti (ADIH)
A group of members, National Association of Mango Exporters (ANEM)