PD-AAP-498
ISN= 35419

42

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number:

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Haiti

3. PROJECT NUMBER: 521-0181

4. BUREAU/OFFICE: USAID/Haiti — 05

5. PROJECT TITLE (maximum 40 characters): Haitian Development Foundation

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12, DD 31, YY 86

7. ESTIMATED DATE OF OBLIGATION (Under 'B:' below, enter 1, 2, 3, or 4)

A. Initial FY 84 — B. Quarter 4 — C. Final FY 86

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 84 B. FX	FIRST FY 84 C. L/C	FIRST FY 84 D. Total	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. Total
AID Appropriated Total						
(Grant)	(400)	(1,600)	(2,000)	(400)	(1,800)	(2,200)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	400	1,600	2,000	400	1,800	2,200

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1) ESF	710	810		0		2,200		2,200	
(2)									
(3)									
(4)									
TOTALS				0		2,200		2,200	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 840

11. SECONDARY PURPOSE CODE:

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	PART						
B. Amount	2,200						

13. PROJECT PURPOSE (maximum 480 characters).

1. Strengthen the Haitian Development Foundation's institutional and financial capability to meet the credit and managerial needs of the micro-enterprise sector in Port-au-Prince, Haiti.

2. Increase per capita income and employment in Haiti by improving the economic productivity of the micro-business sector.

14. SCHEDULED EVALUATIONS

Interim: MM 11, YY 85 — MM , YY — Final: MM 12, YY 86

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☒ 941 ☒ Local ☐ Other (Specify):

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

Approved: Donald K. Shannon, USAID Controller — 7/2/84

17. APPROVED BY

Signature: Harlan H. Hobgood

Title: Director, USAID/Haiti

Date Signed: MM 7, DD 20, YY 84

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM , DD , YY

AID 1330-4 (8-79)

PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS

Name of Recipient : Haitian Development Foundation

Name of Project : Haitian Development Foundation Project IV

Project Number : 521-0181

Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended and subject to the availability of funds in accordance with the AID/OYB allotment process, I hereby authorize a Cooperative Agreement to the Haitian Development Foundation (Recipient Cooperative) of not to exceed Two Million Two Hundred Thousand United States Dollars ($2,200,000) (the Grant) to help in financing certain foreign exchange and local currency costs of goods and certain services which will strengthen the Haitian Development Foundation's institutional and financial capability to meet the credit and managerial needs of the micro-enterprise sector in Port-au-Prince, Haiti under the NGO Support II Program. Two Million United States Dollars ($2,000,000) of the A.I.D. financing herein authorized for the project will be obligated when the Cooperative Agreement is executed.

I hereby authorize the initiation of negotiation and execution of the Cooperative Agreement by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority subject to the following essential terms and covenants and major conditions; together with such other terms and conditions as A.I.D. may deem appropriate:

1. Source and Origin of Goods and Services

Goods and services financed by A.I.D. under the Grant shall have their source and origin in A.I.D. Geographic Code 941 countries, or in Haiti, except as A.I.D. may otherwise agree in writing.

2. Conditions Precedent to Disbursement of Funds for Administrative Operations

a. Evidence acceptable to A.I.D. that the HDF has been reorganized substantially along the lines of the organization chart presented in the project paper, and that the departmental staff to implement the project has been identified.

b. Evidence acceptable to A.I.D. that the HDF has initiated the rescheduling of its past due payables and long-term debt.

3. Conditions Precedent to Disbursement of Funds for Technical Assistance

a. Evidence of the selection of an Executive Director or interim project manager satisfactory to A.I.D.

b. Evidence of the identification of additional technical assistance satisfactory to A.I.D. to provide the HDF with the CY 1984 support training activities described in the project paper technical assistance budget.

4. Conditions Precedent to Disbursement of Funds for Sub-Project Lending

Evidence acceptable to A.I.D. that:

a. A market survey has been completed to more specifically target HDF's lending operations and to further analyze the "good client" profile, and the results of that study have been used to formulate its new Loan Policy.

b. A new Collection Policy has been implemented by the HDF.

c. A new Portfolio Management system has been implemented by the HDF.

d. Effective interest rates have been raised from 13% to 20% for the first year of a loan and 18% for each year thereafter.

e. HDF has rescheduled its past due payables and long-term debt.

f. HDF has selected a system satisfactory to AID to computerize its operations.

5. Conditions Precedent to Disbursement of Lending Funds in Excess of $750,000

a. A detailed two year operating budget.

b. Evidence acceptable to A.I.D. that substantial progress is being made to obtain additional donor assistance to satisfy future loan program and operational requirements.

6. Covenants

a. Unless otherwise agreed to in writing, the HDF covenants that interest and loan repayment on new loans will be calculated on a normal amortization schedule.

b. Unless otherwise agreed to in writing, the HDF covenants that it will restrict its lending activities to micro-enterprises in the Port-au-Prince area.

c. Unless otherwise agreed in writing, deficit financing from A.I.D. funds will not exceed:

$117,000 in HDF CY 84
$236,000 in HDF CY 85
$ 62,000 in HDF CY 86

d. Unless otherwise agreed to in writing, HDF covenants that it will not apply A.I.D. deficit financing funds to other than HDF operational deficits, nor loan funds to finance operational expenses.

e. Unless otherwise agreed to in writing, HDF will submit to USAID/Haiti monthly financial reports to include the following information:

1) Interest due/interest received per month.

2) Principal due/principal received per month.

3) New loans made per month and to which location in Port-au-Prince.

4) T.A. fees received on new loans per month.

5) Actual versus budgeted expenses per month.

6) Payables incurred, due, and paid per month.

f. HDF will engage the services of an internationally recognized accounting firm to carry out an annual audit of the Foundation's operations.

g. Any financial assistance to the HDF to support a specific program or activity will be reviewed by USAID prior to the signature of any agreement with a potential donor institution in order to assure that it conforms with the goals and purpose of the A.I.D.-financed project.

h. From time to time when project issues require it A.I.D. will attend the HDF Board meeting in an ex-officio capacity.

7. USAID reserves the right to suspend disbursement of funds should the HDF fail to comply with any of the above conditions or covenants.

Victor Rivera
Assistant Administrator
Bureau for Latin America
and the Caribbean

HAITIAN DEVELOPMENT FOUNDATION
Project No. 521-0181

Table of Contents

Project Development Team

USAID/Project Development Committee

Reese Moyers, Chief, Office of Private Enterprise Development (OPED)
Barry Burnett, Chief, Office of Development Resources and Evaluation (DRE)
David Adams, Project Development Officer
Richard Byess, International Development Intern
James Walker, Economist
Margareth Cesar, Secretary/Typist

AID/Washington

Barton Goldenberg, LAC/DR

Trade and Development International Corp.

Cameron Smith
Bruce Tippett

Haitian Development Foundation

Board of Directors and Senior Staff

I. PROJECT SUMMARY

A. Recommendation

The USAID/Haiti Mission recommends that a $2.2 million grant be authorized with the Haitian Development Foundation (HDF) to continue the loan operations of the institution and to provide training to strengthen the HDF's institutional viability. The project will be implemented over a two year period by the HDF management team and USAID-financed technical assistance experts.

B. Summary Description

1. Goal, Purpose and Beneficiaries

The goal of the project is to increase per capita income and employment in Haiti by improving the economic productivity of the micro-business sector.

The purpose of the project is to strengthen the Haitian Development Foundation's institutional and financial capability to meet the credit and managerial needs of the micro-enterprise sector in Port-au-Prince, Haiti.

The direct beneficiaries of the project will include the owners and employees of between 300-350 microbusinesses in the Port-au-Prince area.

2. Background and Project Activities

A) Background

Haiti is the Western Hemisphere's poorest country where per capita income is less than $300. The Trade and Development International, Inc. (TDI) consultants, who visited Haiti for two weeks to help prepare background information for this project paper, concluded, "Haiti's extreme poverty and overpopulation compel those of us who have resources to think of ways in which we can best encourage income and employment generation. There is certainly a role for charity in Haiti, but there is a greater need for stimulating and supporting organizations which help the working poor to increase their own income and chances for employment. The Haitian Development Foundation is the only Haitian institution which provides this hope of opportunity, not charity, for Haitian micro-enterprises."

The Haitian Development Foundation (hereafter referred to as the HDF or the Foundation) was created in 1979 to provide both loan capital and necessary technical assistance to the micro-enterpreneur. To date the Foundation, with the help of A.I.D, the Interamerican Development Bank , Fonds de Developpement Industriel, the Pan American Development Foundation , and others, has loaned $953,000 to approximately 302 micro-enterprises, and the HDF continues to face strong demand from potential loan applicants to increase its loan portfolio.

The HDF, in addition to loan capital constraints, faces other problems, particularly in the areas of internal management and loan collection. These problems have led to large operating deficits at the Foundation over the past few years. Unfortunately, the operating deficits have reached so high a level that at the time of the writing of this project paper, the Foundation will find itself unable to meet its expenses and debt repayment obligations in the immediate future. (See Financial Analysis, Section V, A for details).

3. Project Activities

The proposed project is designed to address each of the above constraints. The project will provide available credit for the micro-enterpreneur. It will also provide short-term and long-term technical assistance to the HDF to help the Foundation improve its management capabilities and to move towards self-support over the longer term, and it will provide for deficit financing to help the HDF finance short and medium-term administrative operations.

Three project components are planned to carry out these activities:

(a) Lending Funds

A total of $1.5 million in lending funds is planned. The average loan is expected to be $4,000 with terms of 4 years and an effective 18% annual interest rate. Approximately 300-350 micro-enterprises will receive loans over the project period. A.I.D loan capital will have a substantial impact on improving the financial viability of the HDF, which in turn will help the Foundation attract loan capital contributions from other international donors (See Financial Plan, Section IV).

(b) Technical Assistance

A total of $285,000 is planned to strengthen HDF operating efficiency (including computerization of HDF books, improvement in financial and portfolio management, and implementation of a new loan collection policy), to strengthen personnel skills within the HDF (See Technical Assistance Budget, Section IV, C), and to continue efforts already undertaken to define more precisely the types of clients toward which HDF should be targeting.

(c) Deficit Financing

A total of $415,000 is planned to cover HDF operating deficits. In view of the large deficits which the HDF has encountered over the past few years, strict deficit spending limits per year have been set to encourage the Foundation to adhere to the financial projections.

C. Summary Findings

The Project Development Committee has reviewed all aspects of the proposed HDF project and finds that it is financially, institutionally, economically, and socially sound (See Section V and Annexes for detail). The economic analysis shows that although the HDF will not reach financial self-sufficiency over the project life, the extended benefits of the project will yield an internal rate of return of 20% (See Economic Analysis, Section V, C). The Project Committee concluded that before considering the possibility of creating new foundations to extend market coverage, the HDF should be further evaluated within the context of this project. Effective management and monitoring under this project should indicate much more clearly if a foundation type approach is feasible for replication in Haiti. The Committee also finds that the project is consistent with the objectives set forth in the USAID/Haiti CDSS and AID/W policy guidelines, as well as with the HDF Board's objectives.

D. Project Implementation

An implementation plan has been devised which includes Conditions Precedent to Disbursement, monthly and quarterly financial monitoring reports, and a number of Conditions and Covenants throughout the project life. A pre-operational phase of approximately four months will provide for specific Board and staff training in order to initially upgrade the HDF's capability to implement the two year operational phase of the project. It is then planned that during the follow-on operational phase lending funds will be disbursed in tranches based on verified demand and contingent on the HDF's ability to achieve specific performance targets throughout the project's implementation period.

E. Key Issues

Several key issues were raised in the HDF PID guidance cable (See Annex A). Each of these issues has been addressed in one or more sections of the Project Paper.

II. PROJECT BACKGROUND AND RATIONALE

A. Background

1. General

With per capita income less than $300 in current dollars, Haiti is not only the poorest country in the Western Hemisphere, but it is also the only country in Latin America included in the United Nations' list of thirty "relatively least developed countries" (RLDCs). These statistics, however, fail to communicate the level of poverty in Haiti. Income distribution remains highly skewed and only the substantial wealth of the small urban elite brings the national per capita income figure above the absolute level of poverty.

2. Small Business Environment

The core of Haiti's urban economy is composed of numerous micro-enterprises. They tend to be family owned and operated. Owing to their small-scale operations, they have not been in a position to provide the required cash collateral necessary to obtain loans for business expansion from private banks. Moreover, the Government of Haiti does not run any sort of Small Business Administration Program. While third parties may co-sign loans for individuals who lack adequate credit histories and/or collateral, these requirements tend to prohibit even middle class individuals from obtaining formal loans and generally deny small producers access to credit.

Tailors, shoemakers, iron-workers, cabinet makers, and shop-keepers are examples of the types of small scale businesses most commonly found in the Port-au-Prince area. In a country of 5.6 million, it is estimated that only 25,000 individuals are employed in businesses with more than 100 employees. In a survey conducted in 1979, it was estimated that there were roughly 8,500 small enterprises employing approximately 33,600 workers.

While Haiti's small business sector continues to grow, both in number of enterprises and in level of output, it continues to suffer from a number of constraints. These include:

- lack of capital and very limited access to credit
- limited tools and equipment
- low purchasing power
- preference for traditional methods of production and a reluctance to adopt innovations
- low level of productivity
- lack of rudimentary accounting techniques or the ability to maintain even a cash book

The great majority of these small businesses is integrated into the local community. Very few interact with larger businesses on a sub-contract basis or with the international export and marketing system. Many of these small businesses, therefore, are locked into a situation where antiquated production methods, limited local markets, and a lack of capital and limited access to credit severely restrict any increase in productivity or expansion. Though their contribution to industrial production, if viewed individually, is limited, these small enterprises occupy a central position in the economy of Haiti.

B. Historical Summary of the HDF

1. Origin of the HDF

The origin of the Haitian Development Foundation can be traced back to 1978 when the idea for an organization which would provide small enterprises with access to loan funds arose through discussions between the

Pan American Development Foundation (PADF), the Haitian business community, and civic leaders. Upon the completion of successful negotiations among all parties concerned, PADF submitted a proposal to USAID/Haiti for the development of a local institution to provide short and medium-term credit and business management skills to small entrepreneurs in the Port-au-Prince area. Thus, the Haitian Development Foundation was established with the approval of all local participants.

The HDF is the only institution in the formal sector addressing the credit needs of the small businessman who does not have access to traditional sources of credit. Over the past five years, the demand for HDF services has increased steadily.

Initially funding for the HDF came from USAID in the form of a $495,000 Grant (OPG 521-0118, May, 1979 - December, 1981) to the Pan American Development Foundation (PADF) to provide technical assistance as well as loan and operational funds for the establishment of the Foundation. A second $495,000 grant covering the period from January, 1982, to April, 1983, was made to PADF for the extension of HDF's small business skills development and loan programs and to cover HDF's operation costs. Finally, a $475,000 one-year "bridging" grant was extended to HDF in March 29, 1983, to "enable it to become sufficiently self-sustaining operationally to be eligible for a major capital loan."

From 1979 to 1983, additional financial support was provided by 1) the Interamerican Development Bank (IDB), in the form of a $500,000 loan for the revolving loan fund and $46,000 for technical assistance; 2) PADF, through two loans totaling $80,500, and 3) the World Bank supported Fonds de Developpement Industriel (FDI), in the form of a $200,000 loan plus limited loan rediscounting facilities.

2. HDF Structure and Organization

The Haitian Development Foundation's present structure has three principal components: the General Assembly, the Board of Directors, and the Staff.

General Membership: The General Assembly is composed of 230 members who individually contribute $120.00 in annual dues. This membership meets once a year to elect the Board of Directors and to review the annual report.

Board of Directors: The Board of Directors consists of nine persons who are elected annually by the General Assembly. The Board of Directors is responsible for establishing the policies of the Foundation, for reviewing and approving the budget, and for appointing the Executive Director.

Staff: Overall management of the Foundation is the responsibility of the Executive Director who reports to the Board of Directors. In addition,

until recently there were four departments which reported directly to the Executive Director:
(See Institutional Analysis, Section V for restructured organization plan)

- Promotion Department
- Credit Department
- Finance Department
- Resource Development and Public Relations Department

The Promotion Department has been responsible for the animateurs who were the extension agents of the Foundation. HDF animateurs identified potential beneficiaries and provided them with technical assistance and support.

The Credit Department has analyzed loan applications, monitored loans, and ensured their reimbursement. The Department also analyzed loan applications to determine both the eligibility of the proposed beneficiary and the viability of the proposed project.

The Finance Department has been responsible for the day to day financial management of the Foundation, and it maintained all Foundation accounts.

The Resource Development and Public Relations Department has been responsible for the development and implementation of fund-raising strategies for the Foundation. When such activities were approved by the Board, this Department was also responsible for their implementation. The Department also solicited funds from local sources and assisted the Executive Director in his efforts to develop support from international donor agencies.

3. HDF Activities

In the five years of its existence, the HDF has become an established and recognized organization in Haiti. The concept that one can expand a small business, increase one's income, and generate additional employment has been proven effective.

Loan Operations: The principal activities of the Foundation have been the disbursement of small loans to eligible microbusinesses and the provision of management support to beneficiaries. To date HDF has provided services to the target group identified by the 1979 Michigan State University/Pragma Corporation Survey. That survey identified some 1,400 small transformation firms in Port-au-Prince which were to represent the potential market pool for HDF assistance. An estimated 900 dossiers have been reviewed by HDF, the majority of which meet the small enterprise criteria established in the survey. The $953,000 portfolio of 302 loans reflects a sectorial distribution with 17% of the loans going to commercial enterprises, 63% to transformation businesses, and 20% to service-type businesses. Some 20% of the Foundation's total outstanding loans have been made to women. However, only 8% of the loans have been made to groups, which is an area of concentration.

Groups and cooperative organizations have not been active in the private sector in Haiti even though the HDF has tried to create such groups, and these often consist of only a partnership between two individuals.

Technical Assistance: An integral part of the HDF concept has been the provision of technical assistance to beneficiaries. The HDF is committed to serving the micro-business sector of the economy and is cognizant of the low level of existing management skills. At its inception, the HDF developed a comprehensive system of one-on-one training in small business management skills. These included instruction in accounting, record keeping, inventory control, procurement, and marketing. Clients who succeeded in achieving an adequate level of competence, particularly in the regular maintenance of a cash book and general ledger, were invited to submit an application for credit. This system was extremely costly, and technical assistance inputs for the Foundation's clients and potential clients were drastically reduced this year in order to decrease operational costs and improve cost-effectiveness. It was decided that for future operations technical assistance will be provided to clients on a limited basis by HDF loan officers, and more intensive technical assistance will be supplemented on a contract basis from outside sources (See Section III, D).

4. Progress to Date

Annual evaluations were an integral part of the two Operational Grants (OPGs) which were approved for the HDF. The first evaluation covered the period through June, 1980, and was a collaborative effort between the USAID/Haiti evaluation office, the HDF, the Pan American Development Foundation, and Partnership for Productivity. A second evaluation covering the period up to June 30, 1981, was conducted by the same parties. The third annual evaluation was conducted by an independent consultant and was submitted in July, 1982. The fourth, and most recent evaluation of the HDF, was submitted to USAID in November, 1983.

These evaluations indicate that the Foundation has consistently increased the number of clients assisted, the number of loans disbursed, and the average loan size. The HDF has also progressed toward the achievement of its long-range goal of increased economic impact within the targeted community. It is estimated that over 1,000 jobs have been created as a result of the investments made by the Foundation with earnings per worker estimated at $600 per year. Nevertheless, the evaluations revealed serious operating deficits which began during the first OPG.

Several other studies, including the Development Group for Alternative Policies, Inc. in December, 1981, Funderburke and Associates in February, 1982, and the Inter-American Development Bank in May, 1982, were undertaken to determine whether improvements had been made in operational efficiency. These studies concluded that the Foundation had made some progress in its internal management and loan processing system, but they expressed a continuing concern that HDF should demonstrate its ability to meet operational expenses, ensure the quality and viability of proposed loans, and increase its collection efforts.

The most recent USAID evaluation of the HDF concluded that the Foundation's administrative and organizational systems required significant restructuring. This evaluation also offered several recommendations to the HDF for achieving financial and institutional viability. One of the evaluation's recommendations focused on the infusion of a large sum of loan capital into the organization. The evaluation indicated the following constraints would affect the acceptance of such a recommendation: (1) A.I.D. must be satisfied that a significant improvement in the management of the Foundation will take place, and (2) it must be clear that the HDF Board and staff are committed to addressing and correcting the structural problems that presently beset the institution.

In fact, the HDF Board assumed a less active role during the last OPG. After the initial years of enthusiasm, disillusionment set in among its key members regarding the type of input they could provide the Foundation, and consequently, attendance at the regularly scheduled Board meeting became sparse. In response to this institutional weakness, the Executive Director, to the detriment of the Foundation, assumed greater decision-making responsibilities. In the recent evaluation an assessment was made of all documents sent to the Board which revealed sporadic reporting and an absence of detailed information. This inadequate flow of information regarding the HDF's activities has also undermined USAID's monitoring role.

In January, 1983, the Financial Manager resigned and was not replaced. Consequently, finance department operations were seriously hampered, with inspection and control of internal procedures, financial analysis, cash management, and financial planning being neglected. For example, long-term financial planning has been virtually non-existent. However, at its present stage of development and with the anticipated signing of a large, two year agreement with A.I.D., the preparation of such financial projections becomes essential.

Internal loan processing was found to be very inefficient in the 1980 and 1981 evaluations, but substantial improvement was reported in the 1982 evaluation. Nevertheless, with the Executive Director's expanded delegation of authority for loan approvals, the credit department lost much of its autonomy for loan processing. Portfolio management, as an essential management function, has never received sufficient attention. Proper guidelines to monitor the quality of the loan portfolio were not established, and this is reflected in low loan repayment rates.

Until recently, loan collection was perceived as only a problem area rather than a major managerial weakness in the Foundation's operations. Although a collection agent was appointed in June, 1983, no procedures for the collection of overdue loan existed, and of the several approaches tried none have been successful.

C. HDF's Present Situation

Since the November, 1983, evaluation, the financial situation of the Foundation has worsened as a result of the poor financial and administrative management practices used in the past. Poor client selection and a weak to non-existent collection policy have resulted in an unacceptable on-time collection rate of 50% for outstanding loans. Appropriate measures to take corrective action (legal, seizure of assets, or other) have been virtually absent. Moreover, the HDF management made numerous unsound business decisions over the past year which have led to both financial instability as well as a very evident decline in employee morale. HDF's inability to correct its financial problems has been further aggravated by a lack of effective portfolio management with no determination of total interest and principal due and interest and principal actually received each month. The Foundation has also incurred several large debts external to operations. Other practices, such as excessive expense accounts, salary advances, and the failure to hire a replacement for the departed finance manager, have also contributed to a further decline in HDF's credibility and viability.

In February, 1984, a new Board of Directors was elected. Fortunately for the HDF, this Board has taken an active role in investigating the Foundation's problems, and its members seem to be generating the fundamental consensus and commitment needed to undertake strategic planning and to develop objectives needed to redirect the organization. The new Board includes the Development Finance Corporation's Chief Credit Officer, the Administrative Officer of a major American company, and the Director General of a plastics company. These members are young and genuinely conscious of the important role the HDF should play in the overall development of the private sector. They also have the administrative and financial background that enables them to understand the precarious situation the HDF faces and the major corrective action that will be necessary. The Executive Director resigned as of June 30, 1984. Recruiting a new Executive Director and other senior staff is expected to take some time. During the interim period the Board has agreed to contract a long-term senior technical assistance advisor as part of the technical assistance component to assist the Board and staff to implement the financial and administrative reforms required for project financing. Once the management staff is recruited, the senior advisor will continue to provide direct assistance to the Board, Executive Director, and staff in the organization and management of the Foundation.

D. Relationship of the HDF Project to A.I.D. Policy and USAID/Haiti Strategy

In light of the problems facing HDF, it is critical to recognize the fact that the Foundation occupies a vital position in overall policy formulation for private sector development. HDF has been very successful in reaching its target market as evidenced by the total disbursement of all available lending funds, and it must now begin to operate on a professional basis in fulfilling its future responsibilities. The mandate of the HDF is unique. It does not duplicate any financial or related services offered by the commercial sector as there are no other institutions in Haiti which serve the needs of the small business sector.

Assisting in the formation and expansion of small businesses is a key element in both the Agency's and USAID/Haiti's private enterprise development strategy. This approach of providing financing in conjunction with limited technical assistance for micro-enterprises is also in concert with the program priorities of the LAC Regional Strategy. Finally, the proposed project will also respond to A.I.D. policy pertaining to the financial self-sufficiency of credit institutions. By utilizing improved management procedures and with careful monitoring by A.I.D., the HDF's financial condition should improve significantly.

III. PROJECT DESCRIPTION

A. Goal and Purpose

The goal of this project is to increase per capita income and employment in Haiti by improving the economic productivity of the microbusiness sector. To achieve this goal, the project's purpose is to strengthen the Haitian Development Foundation's institutional viability and thereby assure the continuation of credit and management assistance to the small business community. Contributing to the attainment of the project's purpose will be (1) the provision of additional loan capital for on-lending to targeted beneficiaries, (2) the provision of technical services to strengthen the Foundation's operational and managerial systems, including the improvement of loan collection procedures, the adoption of sound financial analysis criteria for approving loans, the establishment of a better budget forecasting system, and the upgrading of procedures and personnel concerned with portfolio management, and (3) deficit financing to assist the Foundation to meet its administrative expenses.

B. Program Strategy

The implementation of the project will proceed in two phases. A pre-operational phase of approximately four months will provide for specific Board and staff training as outlined in the CY '84 technical assistance budget (Section IV, C). This training will initially upgrade the HDF's capability to implement the follow-on two year operational phase of the project. It is then planned that during the operational phase loan capital will be disbursed in tranches based on estimated demand and contingent upon the HDF's ability to achieve specific performance targets throughout the project's implementation period. While total self-sufficiency based on interest earned and fees may not be feasible in the near future due to the marginal enterprises which are beneficiaries of HDF loans, there are a number of specific objectives in this project designed to increase the operational self-support of the HDF.

The first of these objectives is for the Foundation to operate within the guidelines of reasonable financial projections and budgeting. However, before the Foundation could expect to meet that objective, the Board and management had to identify the most critical issues facing the institution and develop a program strategy and a plan for implementing that strategy. Through the recent evaluation, the PID, interaction with the TDI team, and numerous meetings with donor representatives, the HDF is now well aware of the critical issues it must resolve. With the recommendation of TDI and USAID, a preliminary program strategy has been agreed to by the Foundation. Each of the five components of that strategy is listed below with the corresponding action plan for immediate implementation. The Foundation will:

1. Establish a successful base in market segments requiring a minimum utilization of resources for training, administration, and bad debts.

Action Plan: The HDF will concentrate its lending activities in the Port-au-Prince area until clear program success has been attained, and management will determine a low-risk client profile from the initial impact study already undertaken and further market studies to be conducted during the life of the project. The technical assistance package for the HDF will be designed with the fundamental objective of assuring loan repayment, i.e., financial planning, reporting, loan collection, and developing a group lending procedure and market testing that procedure.

2. Structure the relationship of operating costs to income so as to attain verifiable progress towards self-support.

Action Plan: The HDF will commence renewed operations utilizing "base case" financial projections (See Financial Analysis, Section V), and sensitivity analyses will be constructed to quantify the deficit impact of departures from the institution's "low-risk/lean operations" strategy. Major uncertainty elements in the projections will be determined for special monitoring. The Foundation will be reorganized with a staffing pattern that reflects a cost structure consistent with strategic necessities and not simply projections of present levels of employment. An auto-escalating collection procedure, including the use of legal remedies for probable default cases, will be implemented to apply increasing pressure upon deliquent clients for loan repayments.

3. To the greatest extent possible use the technical assistance services of existing Haitian institutions and businesses instead of creating its own.

Action Plan: Internally, the HDF will provide limited technical assistance during the loan evaluation process; however, external training resources will be utilized to make in-depth technical assistance available to its clients. Also, during the life of the project a group of outside experts, including retired professionals, successful clients, private voluntary organizations, etc., will be identified to participate in developing a program of technical assistance specifically related to each major client industry group and based on the experts' background and experience. The Foundation will develop a close relationship with small enterprise development finance institutions to encourage the financing of successful HDF clients who qualify for scale-up project funding.

4. Encourage donors to fund a single, uncomplicated credit assistance program.

Action Plan: The Foundation will utilize the assistance of A.I.D. and other qualified sources to determine the objectives of international donors, particularly those already established in Haiti, and a strategic plan will be developed to attract donor interest in the HDF program. The HDF will identify specific roles, which do not divert from present priorities, for donor participation. Except for the membership drive and the annual ball, all other fundraising activities will be phased out.

5. Set measurable targets for the achievement of its objectives and strategies in both the short (1-3 months) and long (1-5 years) terms.

Action Plan: The HDF will quantify indicators of success for all major strategy elements by time period and will measure such indicators against actual performance through a reliable reporting system. A data processing system will be installed to computerize the Foundation's accounts and to assist in measuring baseline data for progress reports. Formats will be developed to correlate reporting with correction recommendations and subsequent reporting on the implementation of recommendations.

As is described in the remaining sections of this project paper, a number of activities have already taken place to implement this program strategy, and USAID/Haiti feels that acceptable progress is being made on those remaining elements that need to be implemented during the life of the project.

One short-term strategy, that is still being discussed with the HDF, is the encouragement of payback by making small, short-term loans to new clients which, if repaid, will be renewed in larger amounts. This would also increase the opportunity for poorer people to participate in the program. The default rate adversely affects the ongoing costs of the program, the potential to attract additional funds, and the overall quality of the program. There is no consistant definition of the point at which a loan ceases to be overdue (delinquent) and when it is declared to be uncollectible (in default). Improving the repayment rate could possibly be achieved by spotting defaulters early through very small loans on short terms, by bringing social pressure to bear through such means as groups, but mainly by administering collections in a business-like way. A good example of the success of the group lending arrangement in Haiti is that of the Sociétés Agricoles de Crédit, where groups of farmers receive small loans for production inputs. Repayments under this program have improved due to the peer pressure exerted by group members.

C. Beneficiaries

The current size of the small enterprise market in Port-au-Prince has undoubtedly increased because of both population growth and the multiplier effect that results from the creation of new businesses. HDF's market has shifted from early reliance on established small businesses to a blend with higher-risk new ventures. Many of the recent projects submitted relate to assisting new businesses rather than helping established ones grow as such new ventures now represent about one quarter of all new applicants. (See Financial Analysis, Section V, and the HDF Loan Recipient Survey, Annex I for further discussions of beneficiaries).

Potential beneficiaries are increasingly coming directly to the HDF, and these individuals are generally more sophisticated. Although all screened potential beneficiaries fit the criteria of the Foundation as micro-enterprises, there appears to be a higher level of competence in basic management skills and a corresponding need for a higher level of funding among those individuals currently applying for loans. This suggests that while the HDF should continue to support the marginal client, attention should also be directed towards the more sophisticated small enterprises where the credit demand is higher and where there is also greater managerial competence and expertise.

The breakdown of the portfolio by business activity shows an undue preponderance of several types of enterprises, notably shoemaking, tailoring, and woodworking. In response to this trend, the HDF will make an effort to discourage the disbursing of a high proportion of its loans to such businesses. However, based on the survey it undertook in June and July, 1983, on the distribution of business types by zones (in Port-au-Prince), it was apparent that some zones were deficient in the above types of businesses while there was a heavy concentration in others. Thus, future loan approvals will allow additional loans to be extended to such businesses when they are located in "deficient" areas.

During the course of this project the HDF plans to maintain and expand its present market segment, concentrating on strong micro-enterprises in the Port-au-Prince area. Geographic expansion and new market plans will be suspended until the Foundation operates successfully in Port-au-Prince. Group lending will continue to be an area of concentration as groups and other cooperative organizations are widely recognized as important development tools. There are several advantages that micro-enterprises stand to gain from such organizations: a pooling of skills and resources, a decrease in operational expenses, and a change in social attitude from individualism to group work. This is a sound strategy that will enable the institution to reduce its operational costs per loan and give it a basis upon which to stimulate other community-based initiatives. The multiplier effect of group loans is also more effective. Extension of credit to groups will allow HDF to reach more clients through collective rather than individual credit. Groups can make a significant contribution to:

1) a more equitable distribution of new activities,
2) the financing of new activities,
3) a higher rate of repayment, and
4) the mobilization of savings.

D. Technical Assistance

1. Technical Assistance to the HDF

A crucial factor in the successful development and implementation of this project will be the effectiveness with which the HDF is able to develop its staff to improve its financial and administrative capabilities.

In order to assist the HDF in this objective, the project will be closely monitored by a USAID Project Officer. The Project Officer will provide management and planning support to the HDF, monitor the Foundation's activities through monthly reports, and conduct the evaluation which will be required for additional advances of lending funds. The Project Officer's services will be supplemented by a senior long-term technical advisor (10 PM) and short-term consultants (18.5 PM) contracted directly by USAID/Haiti who will provide technical expertise and training in specific operational areas.

The HDF will undergo a thorough reorganization and the entire spectrum of procedures and policies relating to operations will be substantially altered. The senior advisor will provide advice and, if necessary, the managerial input required to implement the reorganization and associated operational programs to be developed under the project.

The HDF's staff will benefit from training; this includes the loan officers who will be required to provide the basic training to clients called for under the project design. The long-term technical advisor will train the Board and senior staff. The short-term consultants will be relied upon for specialized training needs. These training activities will be directed to the HDF staff through on-the-job training provided by the short-term advisors. In addition, there will be short-term course work in management training, client selection and collection procedures, portfolio management, reporting systems, and group formation and lending.

The HDF is a member of SOLIDARIOS, and as such it is eligible for the technical assistance programs that that organization offers its members. SOLIDARIOS has indicated that there are three principal fields of technical assistance available:

- Management and Accounting
- Evaluation and Self-Evaluation
- Organizational Planning,

and two sub-categories:

- Program/Project Design
- Organizational Analysis

It appears that the accounting program particularly applies to the HDF. SOLIDARIOS is prepared to send an individual to hold seminars, to assist in the design of a chart of accounts, and to set up a financial management system. The technical expert could then make a follow-up visit after two or three months and possibly return for the fiscal year closing. Since SOLIDARIOS has a well-developed manual on the accounting system, this type of training may be feasible, but only in training an organization to set up books on the SOLIDARIOS model. This assistance may well fit the need of the Foundation to improve its reporting systems, and the possibility will be further explored as contracting for technical assistance takes place.

2. Technical Assistance to HDF Clients

A major issue facing the Foundation is how to drastically reduce its technical assistance to applicants and clients and yet increase the collection rate. The HDF has heretofore supplied technical assistance to its clients through a system of extension agents. At its outset, the HDF recruited extension agents whose skills and socio-economic levels were commensurate with the clients they were assisting. Early training of agents placed emphasis on bookkeeping since the absence of accurate records was seen as a basic obstacle to small business development. While this concept appeared manageable at first, over time it proved to be inappropriate for Haiti. Businesses assisted were often not viable, and the extension agents were not as technically qualified as the job required. There was a need to upgrade not only the level of the agents, but also the caliber of the clients. The HDF's decision to increase its portfolio of higher-level businesses then created new technical assistance needs from the agents. Increasingly, specific technical questions relating to production, equipment purchases, and market absorptive capacity were being asked by clients, and the extension agents were not prepared to answer such inquiries.

A controversy recently ensued over the cost-effectiveness of the extension agent program. With the management level of potential clients increasing, it became questionable if the one-on-one type program which was in place was actually essential for the client's success and whether overhead costs for the program could be significantly reduced or eliminated in order to improve viability. The extension agent program has absorbed 20-30% of the operational expense budget during the HDF's last three fiscal years; however, the average delinquency rate of loan repayments during those same three years has shown little improvement (average of 53.3%). Thus, in view of the precarious financial condition facing the Foundation, the system of one-on-one technical assistance was abandoned in February, 1984, and the HDF terminated the employment of the twelve extension agents.

The technical assistance delivery system will be fundamentally altered under this project in order to more easily respond to the changing needs of the clients and to decrease operational costs. A 1982 World Bank-financed survey of some fifty micro-enterprise assistance programs concludes that "the programs with the top index values were all practically limited to loans, and all use strategies to limit expensive interaction with beneficiaries." Both the Board and A.I.D. agree that the Foundation should concentrate on simplicity of operations to improve cost-effectiveness. At the same time it is agreed that technical assistance must be made available to selected clients for business skills development. Thus, we feel that the HDF should be in a position to facilitate in-depth technical assistance when necessary rather than actually providing it.

Two resource bases are envisioned for HDF clients under the revamped technical assistance delivery system. Internally, the Foundation's upgraded loan officer staff will interact with clients in the application approval and project monitoring process (See Institutional Analysis, Section V for organization plan). The first step in the application process will establish the general eligibility of the potential beneficiary along with basic data on the type of business, address, and size of business. This questionnaire will be evaluated, and during an extensive follow-up interview the applicant will be introduced to the aims and objectives of the HDF and the criteria which apply. The actual loan application process will put increasing burden on the potential beneficiary to exhibit his level of experience and sophistication, and the loan officer will visit the applicant's place of business. The purpose of this visit will be to review the state of the business in the light of the application, and then with the loan application to make a determination of the kind of technical assistance to be provided. It is anticipated that for the relatively sophisticated clients who meet certain "good client" criteria (See Financial Analysis, Section V and the HDF Loan Recipient Survey, Annex I) technical assistance will be provided by the loan officers in areas directly related to loan repayment, such as financial management. However, in the case of the marginal clients, who generally have no credit record, security, guarantee, or collateral, technical assistance beyond that which the loan officers can economically offer will be necessary. These clients will be referred to an external source of technical assistance, and the cost of such required training will be added to the client's loan amount.

USAID/Haiti is presently in the process of designing a Private Enterprise Management and Productivity Center project, which should initiate operations in early CY 1985. The Center will concentrate on providing support services for private sector development, including management training and project packaging. A specific component of the Center will be to provide business skills training for the micro-enterprise sector. The technical assistance needs of this sector are not presently addressed by any training institution in Haiti. In the case of HDF clients, economies of scale suggest that emphasis will be placed on group workshops and that one criterion for the approval of a loan would be that the potential client will attend and benefit from the Center's micro-enterprise training program.

Although the project is still in the design stage, it is envisioned that a series of modules will be prepared which will be responsive to the Haitian environment. Suggested topics will be bookkeeping, simple accounting, production planning, marketing, costing, and inventory control. There are, for example, several methods of inventory control with increasing complexity and sophistication. While most of the potential beneficiaries have been accustomed to only estimating inventory, even that rudimentary system could be improved for more efficiency and better cost control.

Therefore, the Foundation's short-term strategy until the Management and Productivity Center comes on stream will be to carefully identify and select only clients who will need internally provided technical assistance to assure loan repayment. This is a short-term solution to provide time for staff training while enabling the institution to restart loan operations on a limited basis after conditions precedent to disbursement are satisfied.

IV. FINANCIAL PLAN

A. Uses of AID Grant Funds

A.I.D. will provide $2.2 million in grant funds through a Cooperative Agreement over a two year period to finance lending funds ($1,500,000), technical assistance ($285,000), and administrative expenses ($415,000) that are required to maintain HDF operations which will not be covered by projected revenues and other resources (See Assessment of Methods of Implementation and Financing, Annex L). HDF will contribute its existing $828,000 net portfolio to the total project financial plan. This relent financing source should result in approximately 200 new loans. $2.0 million of project funding will be obligated under FY 84 Non-Governmental Organization (NGO) Support II (521-0181). The Mission intends to fund the outstanding $200,000 balance under NGO Support III in FY 85 (521-0182) or NGO Support IV in FY 86 (521-0185). It should be emphasized that funds expended for administrative operations will be closely monitored in order to adhere to financial projections (See Project Management, Section VI, A).

B. AID-Financed Budget

	CY '84	CY '85	CY '86	Totals
Lending Capital		750,000	750,000	1,500,000
Technical Assistance	85,000	150,000	50,000	285,000
Administrative Operations	117,000	236,000	62,000	415,000
	202,000	1,136,000	862,000	2,200,000

C. Technical Assistance Budget

	CY '84	CY '85	CY '86	Totals
1. Staff Support/Equipment - Total	85,000	150,000	50,000	285,000
Senior Advisor				
re: Management and Operations	15,000	35,000	-	50,000
Board Member Training	5,000	10,000	-	15,000
Senior Management Training	10,000	25,000	-	35,000
Sub-Totals	30,000	70,000	-	100,000
Short-Term Specialists				
re: Loan Officer Training	10,000	10,000	10,000	30,000
Reporting Systems	5,000	5,000	-	10,000
Client Selection and Collection Procedures	10,000	15,000	5,000	30,000
Portfolio Management	10,000	10,000	5,000	25,000
Group Formation and Lending	-	5,000	5,000	10,000
International Fundraising	-	5,000	5,000	10,000
Market Surveys	10,000	10,000	-	20,000
Evaluations	-	15,000	15,000	30,000
Sub-Totals	45,000	75,000	45,000	165,000
2. Computer Equipment - Sub-Total including training and maintenance	10,000	5,000	5,000	20,000

V. PROJECT ANALYSES

A. Financial Analysis

1. Market

The basic objective of the HDF remains to support the poor micro-enterprises in Haiti who are unable to get credit from other customary banking sources. Supplementary to this activity will be the facilitation of technical assistance to prospective and actual beneficiaries in basic management skills sufficient to enable them to handle small credits. The principal eligibility criteria are:

a. Beneficiaries must personally administer their own project or enterprise.

b. The business should provide a major part of the income or contribute to a significant increase in the income of each participant.

c. Beneficiaries must be willing to receive and demonstrate competence in basic management skills.

d. Net assets of individual enterprises should not exceed $15,000.

e. In the case of group loans, a ceiling is placed on total assets at $50,000 net.

The purpose of these regulations is to ensure that the beneficiaries are among the disadvantaged at the base of the Haitian economy.

The average loan value over the life of the HDF is about $3,500, with a current limit of $10,000 for individual loans and $35,000 for group loans. Experience has shown that the costs of developing a loan are fairly constant, without regard to the value of the loan itself. As a consequence of this factor and others and with the aim of achieving some measure of self-support, there has been a tendency to increase the average size of loan issued by the HDF. The guideline for the average size of loan for this project is $4,000 for individuals and sole proprietorships, with the limit remaining at $10,000 for those loans, and $35,000 for group loans.

As stated earlier, the Pragma study indicated that in 1979 there were at least 1400 micro-enterprises in Port-au-Prince alone; however, the TDI consultants feel that number is probably grossly underestimated (See Annex K). Even if the Pragma estimate is used, it stands to reason that over the past five years the total has increased substantially, and with the addition of only 300-350 clients under the project, there will be no problem in absorbing such funds. Thus, it is felt that the HDF does not face a market segment targeting problem but rather one of good client selection to help assure maximum repayment rates. During the preparation of this project paper, an impact survey among seventy of the Foundation's clients was conducted with one result being a "good client" profile. This analysis revealed definite sociological and economic characteristics that will become important areas of evaluation during the loan application process. The survey suggested that loan payback rates are positively associated with a limited number of variables: total family income, correct bookkeeping, profits before the loan, loan size relative to profits and net worth, savings accounts, assets and net worth before the loan, and loan duration. Basically, the size of the loan is not significant itself; it is the relationship between loan size and net worth and earnings potential that seems to influence timely repayment of loans. This indicates that if the HDF is to become financially sound, it will have to move toward more serious analysis of its potential customers and reduce its support for smaller financially unsound business ventures. More detailed studies will be conducted under the project to analyze different segments of the HDF market in order to better determine types of potentially good clients that should be targeted for loan consideration. The results of the impact survey are further discussed in the HDF Loan Recipient Survey, Annex I.

2. Present Financial Status

HDF's financial condition has been characterized by rapid growth over the past three years; however, its overall viability has deteriorated durng the same period.

HDF'S COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES

(U.S. DOLLARS)	FY 1982	FY 1983	(Estimated) FY 1984
INCOME	42,471	85,455	87,000
EXPENSES	282,470	378,066	387,000
DEFICIT	(239,999)	(292,611)	(300,000)

Income: Interest income increased dramatically in FY 1983, more than doubling from the previous year. During FY 1984, interest income as well as fees will remain approximately the same as 1983 due primarily to the poor loan repayment performance.

Fixed Expenses: Fixed expenses (payroll and operating) increased a sharp 34% from $282,470 in FY 1982 to $378,066 in FY 1983. Most of this growth came from salaries and other personnel expenses which increased by 39% to $220,708. In 1984 fixed expenses will remain approximately the same as 1983; however, it should be noted that the employment of twelve extension agents was terminated in February, which resulted in a savings of about $5,000 per month. Additionally, a shortfall in deficit financing of approximately $117,000 is forecasted for the remainder of CY '84 since all A.I.D. funds previously authorized for this purpose have been expended.

Loan Repayment Performance: In November, 1983, the team evaluating HDF calculated the repayment rates on loans already extended by the Foundation. Long-standing assumptions concerning HDF's successful collection performance were dispelled when the analysis revealed an average on-time repayment rate of only 53.2% on all loans extended since the inception of HDF's lending program and a rate as low as 45.6% and 47.7%, respectively, for loans extended during FY 1982 and 1983. The delinquency rate for 1984 has not appreciably improved, and a bad debt rate of 10-12% remains unacceptably high. The 1983 annual report states that the HDF experienced a 15% delinquency rate and a 5.4% bad debt rate, which can only be interpreted as a miscalculation on the part of the Foundation.

External Debt Obligations: The financial soundness of the institution has been consistently abused over the past few years through poor management decision-making. As can best be determined, below is a list of the HDF's June 30, 1984, payables and cash to meet those obligations.

June 30, 1984 Cash Forecast

	PAYABLES DUE OUT			CASH DUE IN	
	Principal	Interest	Other		
Interamerican Development Bank (IDB)		5,000	1,500	Interest	10,000
Fonds de Développement Industriel (FDI)	20,000	5,000		Principal	12,000
Mangones House (raffle)	29,000	9,000		AID Funding	16,000
Vaval House (raffle)	25,000	8,000		Member Dues	2,000
PADF		8,000			
Individuals	4,000				
Accts. Payable			9,000		
ONA (Soc. Security)			8,000		
BONI (13th month)			6,000		
Sub-Total	78,000	35,000	24,500		
Salaries			31,000		
Operating Expenses			16,000		
Sub-Total			47,000		40,000
	78,000		71,500		40,000
Total			184,500		40,000

The difference between cash and payables is a negative $144,500 ($184,500 - $40,000, which includes principal payments not normally considered income). Of the above payables, approximately $124,500 would most likely not be eligible for A.I.D. deficit financing since they are for the most part external to the operating budget of the Foundation. They include:

1) IDB, interest and other	$ 6,500
2) FDI, interest and principal	25,000
3) Mangones House, interest and principal	38,000
4) Vaval House, interest and principal	33,000
5) PADF, interest	8,000
6) Individuals, principal	4,000
7) Accounts Payable	9,000
TOTAL	$124,500

The HDF Board has initiated a process to renegotiate these debts. The most serious of the obligations is to the World Bank-financed Industrial Development Fund (FDI). The $25,000 interest and principal payments have been postponed until October, 1984; however, the HDF is requesting an eighteen month moratorium on all payments, which must be approved by the IBRD in Washington. The debts for two raffle houses have in principle been indefinitely postponed by mutual consent of both parties. The Interamerican Development Bank principal payments do not begin until 1990, and the IDB has indicated that a late interest payment can be negotiated. The remaining smaller debts will also require negotiations, but the Board indicates that this should be accomplished with no major complications. The cooperative agreement will require evidence acceptable to A.I.D. that HDF has rescheduled all its past due payables and long-term debt as a condition precedent to disbursement of funds for sub-project lending. (See Conditions and Negotiating Status, Section VII).

3. Financial Projection Methodology

It is evident that the HDF is not a financially sound institution when measured in conventional financial terms. The Economic Analysis Section examines the developmental impact that has occurred on the targeted market through employment gains, increased income, and expanded productivity as a result of the Foundation. The lesson that seems to be drawn is that micro-enterprise lending, at least in the initial years of operation, generates economic benefits although the program may not be financially viable.

Heretofore, major international donors as well as local sponsors have recognized the HDF's developmental nature and accepted its subsidized status. Maintaining this philosophy in future years will assume that operating expenses will continue to be met through large external contributions and/or local membership. The major limitations to this philosophy are: First, the emphasis remains on perpetuating the HDF as a subsidized institution, not on increasing benefits to the client. Since a high proportion of external funding would still go to operating costs, these same funds could not be programmed as additional loan funds. Second, at least part of the major international contributions may be in the form of loans instead of grants. The HDF would eventually be hard-pressed to repay these loans if it continues incurring operating deficits at the current rate. Third, large contributions come in bursts and are short-term in nature, which makes long-term planning by the Foundation all but impossible. Fourth, major donors will at some point in the future reduce or eventually cut off their contributions, at least until the Foundation can show its ability to repay earlier loans. Finding new donors willing to make contributions of similar magnitude will be very difficult. Finally, past experience has shown that local fundraising is very limited, and in turn these efforts have not been cost-effective.

It is consequently USAID's opinion that the HDF has little choice but to concentrate on improving its financial viability during its future operations, and the methodology used to prepare the financial projections is based on that premise.

4. Base Case

A computer model was used to produce a base case financial projection for the HDF through 1990 and sensitivity analyses of key variables which would affect the Foundation's performance. The projections which were prepared by USAID and AID/W TDY assistance in collaboration with the HDF staff are contained in Annex F. They reflect the anticipated performance of the institution using sound management practices, and they assume that a substantial market exists to absorb HDF's additional loan capital. The projections do not include the interest and principal payments on the Foundation's external debt obligations, most of which would not be eligible for A.I.D. deficit financing.

Basic assumptions used in the projections are as follows:

a) The present effective interest rate of 13% will be increased to 14% plus fees of 6% for the first year of a loan and 4% each year thereafter. This will result in an effective interest rate of 20% the first year of a loan and 18% each year thereafter.

b) A collection rate increase from 50% in 1984 to 60% in 1985, 70% in 1986, and 80% in 1987 and thereafter.

c) A bad debt rate decreasing from 10% in 1985 to 5% in 1986 and thereafter.

d) A lending capital increase of at least $3.1 million from international donors from 1986 through 1990.

e) Payroll and operating expenses will be cut 23% in 1985 in relation to 1984 and increased by a 10% inflationary rate each year thereafter. (See Institutional Analysis, Section V, B for Payroll and Operating Expense Budgets).

f) Local fundraising is estimated at $25,000 per year.

5. Base Case Analysis

a. Interest Rate: The present situation in Haiti regarding sources of financing for microbusinesses offers no alternative to the financing offered by the HDF. The only other recourse is the informal speculative market where interest rates are at least 10 percent per month. With this standard of comparison an increase in the effective interest rate from 13% to 18% should pose no threat to loan demand, and the risk inherent in leading to the target market provides further justification for an 18% rate. The long-term viability of the HDF will also automatically be assisted by a corresponding 28% increase in interest and fees on the portfolio growth occuring from this project. The Board has agreed to an increase in the lending rate since the Central Bank set spread for commercial bank lending is 14-19%, and the higher HDF rate would correspond to the upper end of that spread.

b. Collection Rate: Approximately 50% of the loans made by the HDF over the past four years are in arrears, and as most loans are in the early repayment phase, immediate effective measures must be taken to avoid defaults on future payments. The projections conservatively forecast an increasing improvement in the collection rate through 1987 and thereafter. The Institutional Analysis describes the loan collection procedures that will be established at the Foundaton through the creation of a new loan collection unit. It is expected that strict adherence to these procedures can result in an immediate improvement in the collection rate.

c. Bad Debt Rate: The present bad debt rate is estimated at 10-12%, which is forecasted to remain the same in 1985 but will decrease to 5% in 1986 and thereafter. For comparison, the loan loss experience for commercial banks averages between .25 and .50%, and the TDI consultants recommended a 2% bad debt reserve based on their experience with programs similar to HDF. Thus, it is felt that our projection is reasonable with the establishment of a well-managed loan and collection cycle.

d. Donor Assistance: The Foundation's program strategy will require substantial infusions of loan capital over the next six years. Early under-capitalization was at least partly responsible for the HDF's present financial condition, and relative viability will require at least a $3.1 million increase in lending capital from 1986 through 1990. USAID has coordinated the preparation of this project closely with the IDB, SOLIDARIOS, CIDA, and the UNDP, all of which have indicated an interest in assisting the HDF. However, these donors have conditioned their financial assistance on substantial management improvements and verifiable institutional progress. IDB has agreed to closely follow the progress of the Foundation in order to consider a 1986 financing package. SOLIDARIOS indicates that a loan is ready for approval, but AID/W approval is necessary first; however, the HDF should carefully analyze the conditions of this loan based on its future performance since a low concessional rate will not be offered. CIDA and the UNDP are proposing loan programs in the regions or emphasis on specific slum areas rather than the general microbusiness sector in Port-au-Prince. These proposals have been tabled for the foreseeable future due to the HDF's present managerial deficiencies (See Conditions and Covenants, Section VII); however the HDF should try to identify a role for these donors in its present program. In summary, we are reasonably satisfied that financing will be forthcoming from other donors if the administrative and financial situation shows significant improvement during the next two years.

Contributions are estimated as follows:

	1983	1984	1985	1986	1987	1988	1989	1990
AID	145	90	750	750	0	500	500	500
FDI	59	135	0	0	0	0	0	0
IDB	96	11	0	500	0	0	500	0
SOLIDARIOS	0	0	0	0	300	0	0	300
TOTALS	300	236	750	1250	300	500	1000	800

e. Payroll and Operating Expenses: The major cuts made to both payroll and operating expenses between 1984 and 1985 were arrived at in consultation with the HDF. In reducing the organization to the recommended size, all positions were eliminated that were not directly necessary to the key activities of loan approval and loan collection, and none of the cuts will adversely affect the Foundation's ability to conduct its business. This assumes that loan officers will only concentrate on technical assistance such as accounting to help assure loan repayment and that more in-depth training will be provided by outside sources and financed as part of the loan package.

f. Local Fundraising: Four years of efforts to establish a successful pattern of local fundraising has resulted in considerably more modest returns that the original projections. Nevertheless, in a social and economic climate basically different from that prevailing in the United States, it has succeeded in raising about $45,000 per year for the last two years. This has been derived from a membership drive which continues through the year and a major social event. This project envisions a continuing limited effort in this area with yearly contributions conservatively estimated at $25,000.

6. Efficiency of Base Case Program

The projected efficiency of the base case program in comparison to the Foundation's 1983 program is examined below. 1983 figures were used since that year represents a more typical operating year than 1984 when severe financial and administrative problems set in.

a. Administrative cost per loan: This measurement is defined as the total yearly administrative cost of the program, excluding the cost of capital, divided by the yearly number of loans:

	1983	1985 (Base Case Estimate)
Administration costs	466,000	457,000
Number of loans	73	220
Administrative cost per loan	6,384	2,080

Since HDF was giving both credit and training in 1983 the costs naturally would be higher than for a program concentrating mainly on credit extension. Nevertheless, the costs were still prohibitively high. Although the base case projects a 62% decrease in this cost measurement, the HDF should attempt to achieve a continuing curtailment of administrative cost per loan through economies of scale by attracting substantial additional lending funds.

b. Total cost as a percentage of loan revenues: This is a measurement of the ability of the program to break even on an ongoing basis, and the average value of this ratio indicates how far the program is from self-sufficiency.

	1983	1985 (Base Case Estimate
Interest and fees	76,000	228,000
Total administrative costs	473,000	489,000
Percentage of loan revenues	622%	214%

The 66% reduction in this percentage is significant, especially when one finds the measurement continuing to fall dramatically through 1990. This is very encouraging in view of the fact that only a very few development foundations break-even or are profitable.

Break-even Points ($000)

Assuming that all the projections remain the same in the base case analysis, break-even for each year could be reached with the following increases in portfolio levels.

	Base Case Average Portfolio	Break-even Average Portfolio	Base Case End Year Portfolio	Break-even End Year Portfolio
1985	1,116	2,324	1,404	3,821
1986	1,956	2,184	2,507	2,913
1987	2,574	3,011	2,640	3,514
1988	2,797	3,241	2,954	3,842
1989	3,338	3,531	3,723	4,108
1990	3,989	4,136	4,255	4,550

It is interesting to note that using the base case model with only a modest increase in fund-raising, self-sufficiency could theoretically be reached beginning in 1989.

7. Sensitivity Analyses

The sensitivity analyses listed below are intended to summarize the effects of changes in one or more variables that were determined through the base case analysis to be critical to the success of the HDF, and they illustrate the impact of various operating policy options. The projections in Annex F are an integral part of this discussion and are meant to provide easily understood bottom-line operating results of each case. For this project three key sensitivity analyses were selected which demonstrate critical scenarios.

a. Maintain interest rates at 13% rather than raising them to 18% from 1985 onward.

b. Maintain the collection rate on outstanding principal at 50% rather than increasing it to 60% in 1985, 70% in 1986, 80% in 1987 and all future years.

c. Maintain the bad debt rate at 10% rather than dropping it to 5% from 1986 onward.

Conclusion

The loss in revenue under each of these scenarios assures continued large deficits for future HDF operating years compared to those projections contained in the base case. Thus, we find no justification to deviate from the base case in implementing the financial management improvements at the Foundation. That strategy offers the HDF the opportunity to attain a measure of financial viability within the medium term, which could set the course for future expanded operations.

B. Institutional Analysis

1. Organization and Management

The HDF was conceived as a developmental organization which would provide technical assistance and small credit to micro-businesses in the metropolitan area of Port-au-Prince. However, the proposed project envisages a change in the institutional design of the HDF. The emphasis will now be directed toward the development of an effective and viable organization that can provide credit to small borrowers through a program that is market-oriented and that will move toward self-sufficiency over the longer-term.

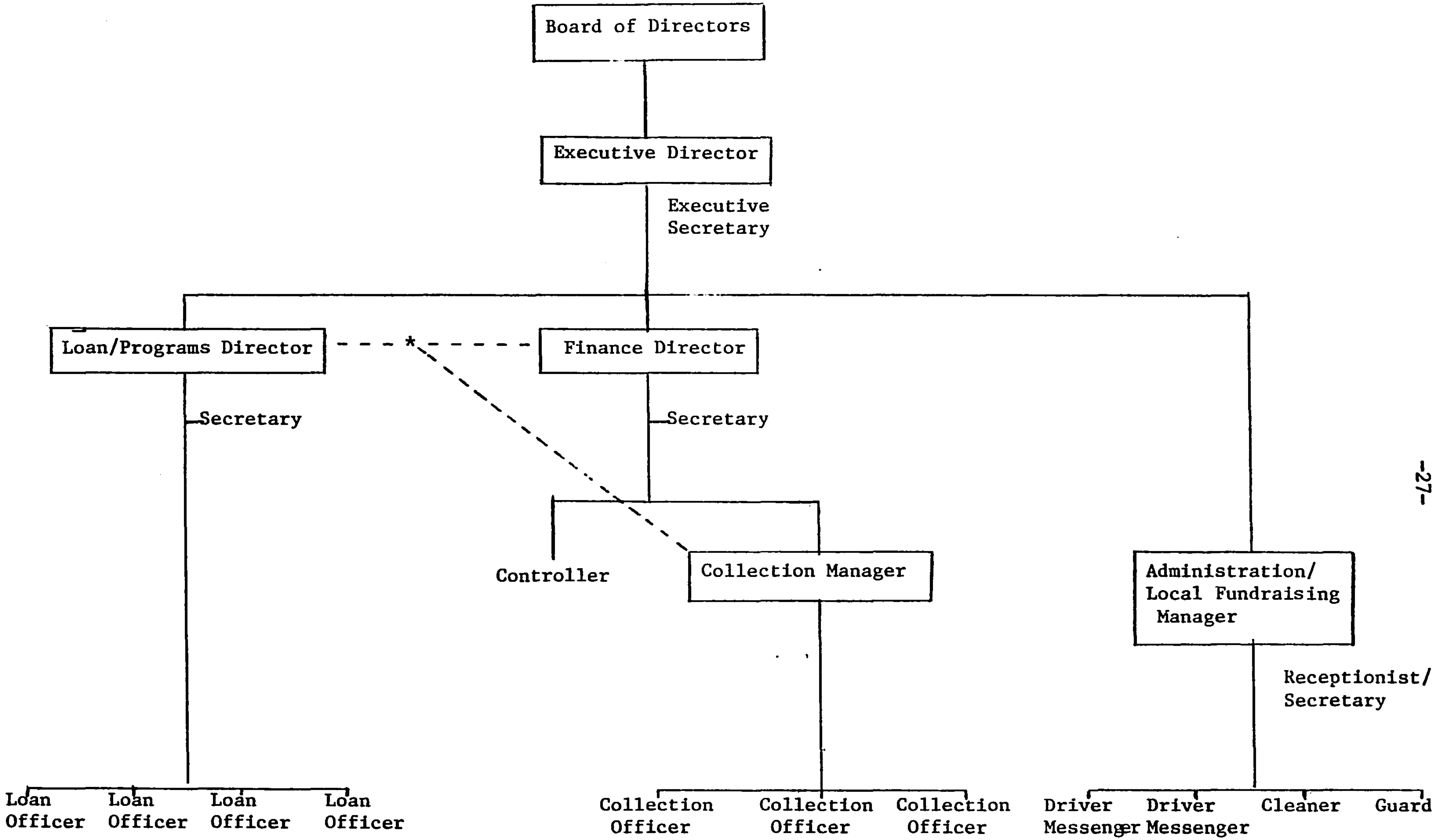
The management system presently in place has evolved over the life of the HDF in answer to specific operating constraints and to recommendations made in several of the evaluations conducted. The consequence is that, although some recent changes have responded to specific problem areas, the overall management system is not capable of efficiently responding to the level of operations proposed for this project.

The organizational chart shown on the next page is USAID's recommendation in collaboration with HDF and the TDI consultants who assisted in the design of the project during March, 1984 (See Annex G for HDF Staff Position Descriptions). All positions which are not directly necessary to the Foundation's key activities in the client identification, loan processing, and collection cycle have been eliminated. We feel the proposed staffing pattern reflects the importance that loan evaluations, financial management, and loan collection will have on the development and improvement of the HDF loan portfolio.

a. Board of Directors

The Board of Directors should always be a key element in the organization. As mentioned earlier recent changes in the Board membership are showing a renewed interest in assisting the Foundation with a restructured program. This participation is vital since during periods of organizational formation, major readjustment of institutional objectives and strategies, and change of top management, the role of the Board of Directors becomes critical.

The HDF Board is composed of a President and eight other members, and from its inception the Board has been given wide-ranging responsibilities, defined in the By-Laws and granted by the General Assembly. The Board is charged with formulating the Foundation's general policy, overall orientation of its activities, reviewing and approving the budget, and appointing the Executive Director.



* There is a functional reporting relationship between the Loan/Program Director and the Finance Director/Collection Manager to help avoid potential client problems. These 3 individuals form the "Credit Committee" and ought to meet at least bi-weekly.

USAID plans to work closely with the Board during the implementation of this project to assist the organization in developing specific strategies needed to achieve objectives. The organizational structure is evolving, requiring major adjustments. Many management decisions and some operational decisions will be in the hands of the Board until the Executive Director is recruited, a capable staff is formed, and technical assistance has been contracted. A critical role of the Board will be its development of a sense of commitment which will be the guiding force in most subsequent functions and tasks.

The Board, assisted by the staff and external resources, must define clear objectives and operational, financial, and structural strategies that are consistent with those objectives. A preliminary program strategy, along with steps to implement that strategy, has already been prepared in collaboration with the Board Budgeting to cover all aspects of operations and finance are an integral part of financial projections and they are further discussed in this section. This should not imply that the Board would get involved in operating decisions on loans, unless exceptional cases are involved or through a formal portfolio review. This function will be met through normal reporting procedures when the operating program and management are clearly on course.

The reorganized HDF must build an image of seriousness and confidence in the community; in the short-run, the Board will be the primary vehicle to accomplish this, particularly among private and public sector leaders, donors, and supporters. At this critical stage the Board's inaction or lack of enthusiasm will have an extremely negative impact among community leadership and supporters. The Board's workload need not be an excessive burden, as the above functions and tasks may indicate. The key will be to plan carefully and to create concensus and commitment. Allocating functions and tasks among members, especially in concert with the new Executive Director, will spread the load and utilize those involved in critical tasks to get results.

b. Executive Director

The Board's relationship to the management and the organization will be focused almost exclusively on the personality and management style of the Executive Director. Their willingness to perform their functions and often their capacity to understand them depend to a large extent on their confidence in the top manager. Also, when a change occurs and a new Executive Director is appointed by the Board, the members must adjust their role to compensate for the weaknesses and strengths of the new Director until he is adjusted and integrated into the organization. This creates a considerable additional burden for the Board.

Experience indicates that it is quite common for the first Director of a new development foundation type of institution to be a promoter and conceptual type executive with moderate to excellent capability to motivate and relate well with Board members. Seldom is the first executive a technical, administrative, or operations type executive. When the promoter type executive is replaced, there is a tendency to seek a replacement that is especially strong in administrative and line management functions with less attention paid to the candidate's capacity to motivate and relate well with Board members and other community leaders.

While recognizing the problems associated with recruiting qualifiedH aitian executives, it is still important to point out that all efforts should be made to recruit a new Executive Director with experience, strong initiative and capabilities in Board relations, as well as the ability to conceptualize policy and operationally manage the organization.

c. Departmental Organization

Loan/Programs Department: This department will be responsible for the loan application and approval process and the recommendation of training levels for clients. The entire application process and technical assistance provision systems will be revised to benefit from experience and also from the results of the impact survey.

No individual client searches will take place, although the staff may conduct occasional meetings and publicity campaigns with PVO's and community groups to attract desired applicants. Loan officers will explain the Foundation's lending terms, administer a screening questionnaire, and score the various criteria associated with the questionnaire. If the applicant initially qualifies, a detailed application form will be completed, and the loan officer will visit the potential client's place of business. The completed form with the loan officer's recommendation, including training requirements, will then be reviewed by the Program Director and submitted to the credit committee for approval.

Finance Department: This department will be responsible for the normal Controller bookkeeping functions and two new functions which will deal exclusively with portfolio management and loan collections. The previous organizational structure of the HDF did not emphasize the reimbursement program, nor was it recognized at the inception of the HDF that collection would become such a complex issue.

An effective loan maintenance and reporting system must be implemented to permit the determination of total interest and principal due and total interest and principal received. Repayment rates constitute the only true method of monitoring the quality of the loan portfolio on a regular basis. Loan repayment rates will initially be established through a system in which all loan maturities will be listed by month with a separate entry for each month and with a separate column to enter loan repayments. At the end of each quarter, the total of all loan repayments can then be directly divided into total maturities. Eventually this system will become computerized along with the HDF's other accounts.

In the reorganization, a new section will be created to address not only collection problems, but also to reevaluate projects with a view to rescheduling. The HDF will consider the need for the rescheduling of loans, since it is possible that a number of beneficiaries of good faith are unable to meet the reimbursement schedules but still want to repay. In addition, a rigid system of loan collection will be established to educate clients in the principles of loan repayment and when necessary to apply follow-up pressure to convince delinquent beneficiaries that the Foundation means to collect.

The loan collection procedure will commence immediately upon loan approval. The loan agreement will be signed in the presence of the Collection Manager, who will explain the portfolio management system which will indicate the ability of the HDF to monitor delinquency cases. The Loan Officer will visit the client on a scheduled basis to evaluate the need for extra assistance and to assure that cash flow is progressing as planned.

If the client misses a payment or makes only partial payment, he will be visited by the Collection Officer and called into the Foundation. Delayed or stretched-out payments may be negotiated but at a penalty rate of interest which will keep the HDF income as projected. Missing a payment for the second time will require a meeting with the credit committee to negotiate a new payment schedule and the client will be placed on the Executive Director's watch list. If the client misses a third payment, the case will be given to an outside commission lawyer for court solution, and the results will be formally communicated to other clients.

Even though the loan documentation and the promissory note is being modified to permit HDF to attach assets of the beneficiary in the event of non-payment, it is still felt that a loan collection system similar to this will be necessary to greatly improve the reimbursement rate. HDF beneficiaries rarely have many assets and the only collateral are the tools or equipment that they have for their trade plus the equipment purchased with HDF financing. Thus, it is to the benefit of both the Foundation and the client to try to keep loans current, even at a reduced rate.

Administrative Department: This department will be responsible for personnel, administration, and local fundraising. Although, as stated in the program strategy, local fundraising will be de-emphasized under this project, the Foundation definitely should consider such a program in its long-term planning. After demonstrating reasonable success, the HDF will focus a local funding campaign on the private sector leadership of Haiti. The initial goal will be to develop major financial supporters locally, including the owners or backers of banks, industries, and business associations. With that base, the HDF will later broaden the number of private sector supporters at reasonable contribution levels.

a. HDF Operating Costs (1985 Base Case Projections)

1. Staff Expenses (1)	Per Month ($)	Per Annum ($)
Executive Office		
Executive Director	3,955	47,460
Executive Secretary	600	7,200
TOTAL	4,555	54,660
Programs Office		
Loan/Programs Director	2,200	26,400
Secretary	450	5,400
Loan Officer	700	8,400
Loan Officer	700	8,400
Loan Officer	700	8,400
Loan Officer	700	8,400
TOTAL	5,450	65,400
Finance Office		
Finance Director	2,200	26,400
Secretary	450	5,400
Controller	1,000	12,000
Collection Manager	800	9,600
Collector	150	1,800
Collector	150 + commission (2)	1,800
Collector	150	1,800
TOTAL	4,900	58,800
Administration Office		
Administration/Local Fundraising Manager	800	9,600
Receptionist/Secretary	350	4,200
Driver/Messenger	250	3,000
Driver/Messenger	250	3,000
Guard	100	1,200
Cleaner	100	1,200
TOTAL	1,850	22,200
GRAND TOTAL PAYROLL	16,755	201,060

2. Operating Expenses (3)	Per Month ($)	Per Year ($)
Rent	1,000	12,000
Telephone	700	8,400
Electricity	500	6,000
Gas & Repairs	1,375	16,500
Office Supplies	700	8,400
Consultants	0	0
Executive Travel	350	4,200
Misc. Category		
Petty Cash	150	1,800
Promotional	200	2,400
Coffee, other misc.	80	960
Country side per diem	150	1,800
Country side gas costs	150	1,800
Total Misc. Expenses	730	8,760
TOTAL OPERATNG EXPENSES	5,355	64,260

(1) Salaries include base pay + 17% benefits.

(2) Commission is equal to 1.5% x (interest + principal collected in the given year). Commissions are paid from the operating expenses and do not affect the HDF payroll figures.

(3) Payroll and operating cost projections are reduced 36% from 1984 expenditures.

d. Conclusion

The HDF is not a financially or institutionally sound organization at present. It is felt that the seriousness of the Foundation's situation is well understood by the Board of Directors and the staff and that both are committed to professionally implementing the project described in this document. The organization must reconcile the immediate human need to encourage income and employment generation by financially assisting Haitian microenterprises with the long-term need to increase its scale of operations. This objective presents a difficult dilemma since both tasks will require raising the costs of lending while at the same time reducing services and the size of the HDF staff. There are competent HDF Board and staff members who want to see the institution improve its financial and institutional soundness and who are anxious to help make this happen. Thus, it is concluded that with the implementation of required financial reforms and institutional changes, plus careful monitoring from A.I.D., the HDF should move in a significant way towards viability during the life of this project.

C. Economic Analysis

This project will assist the Haitian Development Foundation (HDF) to continue to provide medium term credit and investment services to the micro-enterprise sector in Port-au-Prince. The increase in funds available for labor-intensive micro-enterprises is expected to create employment and increased incomes for the underemployed poor majority of the capital city. The economic soundness of the proposed project will be determined first through analyses of the impacts of the project on investment, employment and earnings, and gross domestic product. The economic costs of the project will then be compared with the benefits to determine the project's net contribution to real income and welfare. Finally, Annex I, HDF Loan Recipient Survey analyzes the factors affecting the loan repayment rate, which is a critical variable determining the overall level of loanable funds and the internal rate of return.

1. Economic Impacts of HDF Activities

a. Impact on Investments

The growth of private investment is fundamental in order to achieve sustained increases in the productivity and incomes of Haitian urban and rural poor. The core of Haiti's urban economy is composed of numerous micro-enterprises. While Haiti's small business sector grows both in number of enterprises and in level of output, it suffers from a number of constraints, including the lack of capital and very limited access to credit. Due to their small scale operations, micro-enterprises have not been in a position to provide the required collateral to obtain loans for expansion from commercial banks. Hence, HDF loan funds may realistically be expected to increase net private investment in this sector.

Based upon the initial availability of $1.5 million in AID loan capital and $828 thousand in HDF's beginning net loan portfolio, plus an additional $3.1 million in concessionary financing over the 1986-1990 period, the HDF will be able to provide almost $7.7 million in loans between 1985 and 1990. Re-lent principal is projected to generate over $3 million in loan funds.

PROJECTED GROSS LOAN VOLUME ($ U.S. 000s)

1985	910
1986	1,530
1987	835
1988	1,087
1989	1,668
1990	1,628
Total	7,658

This net addition to the flow of loanable funds to the micro-enterprises represents the major part of the investment that should be expected to be facilitated by the HDF. However, equity financing is expected to represent about 20 percent of micro-enterprise investments. In addition, it should be expected that a number of micro-enterprises, once developed with HDF financing, will eventually become eligible for commercial bank financing that would otherwise not be available.[1] But this source of funding is not expected to be significant for a number of years. Hence, it is conservatively assumed for the analyses that follow that HDF loan funds will constitute 80 percent of the new investments. Gross investment in constant 1985 dollars is projected to be as follows over the 1985-1990 period.

GROSS INVESTMENT ATTRIBUTABLE TO THE HDF
(1985 U.S. $000's)

1985	1,138
1986	1,739
1987	862
1988	1,021
1989	1,424
1990	1,261
Total	7,445

Compared to 1982 gross private sector investment of $127 million, the HDF-induced investment program is small but significant. If allowances were made for probable indirect impacts of the HDF, financing and investments might reasonably be expected to have on other sectors, the impact would be considerably larger.

b. Impact on Employment and Earnings

Employment and earnings opportunities provided by the project are especially important to the poor. The high rates of urban underemployment and unemployment, estimated to be around 50 percent by various sources [2], suggest that the need for employment is critical for urban areas. The micro-enterprise projects financed by the HDF will generally be labor intensive with the bulk going to the unskilled. The World Bank reported that new industrial projects in Haiti required an average investment per job of

1 Commercial banks have had excess reserves since 1980. IMF, "Haiti-Recent Economic Developments", October, 1983.

2 C. Zuvekas, Jr., Agricultural Development for Haiti, Agency for International Development, Washington, D.C., May 1978, pp. 136-146.

only $1,420 in 1981[3]. Based on data generated from a survey of previous HDF loan recipients, it is conservatively estimated that each job will require a $2,000 investment. The business investment generated by the HDF loan program divided by $2,000 yields the number of jobs. Employment could also be created by secondary construction activity, but given the small scale of most of the micro-business expansions, this employment impact will be minimal. Annual earnings per employee in the micro-enterprise sector is estimated to be approximately $700. Employment and earnings directly attributable to HDF loans is shown below. Employment rises from approximately 570 in 1986 to 2900 in 1991, while total wage and salary earnings correspondingly rise from $398 thousand in 1985 to $2 million in 1991. Indirect employment and earnings effects could be expected to significantly add to these estimates.[4]

HDF INDUCED EMPLOYMENT AND EARNINGS [5]

	Employment	Earnings (1985 $ 000's)
1985	0	0
1986	569	398
1987	1382	967
1988	1675	1173
1989	2019	1413
1990	2529	1770
1991	2907	2035

c. Impact on GDP

Significant increases in gross domestic product are especially important in Haiti. With a population growth rate of 1.8 percent, the 1980-84 1.3 percent annual growth rate in real GDP translates into a 0.5 percent decrease in real GDP per capita. While the HDF can hardly be expected to reverse this decline, it can play a small but important role as the economy recovers.

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[3] World Bank, Economic Memorandum on Haiti, Report No. 3931-HA, May 1982, p. 39.

[4] Employment and earnings generated by HDF operating and technical assistance are also excluded.

[5] Allows for a one year lag between loan disbursal and employment and earnings effects.

Based upon the composition of sub-projects to be financed by the HDF, the overall capital to output ratio is expected to be very low. It will probably be similar to that estimated by LAAD's experience in Central America during the first drawdown on the AID loan. Hence, the project's marginal capital to output ratio is assumed to be 1.5 to 1.[6] Assuming that investments take one year on the average to become income generating activities and that depreciation plus business failures are together 10 percent per year, the following additions to GDP over the 1985-1991 period are projected:

HDF ADDITIONS TO GDP IN 1985 $000's

1985	$ 0
1986	762
1987	1,851
1988	2,244
1989	2,703
1990	3,388
1991	3,893
Total	$14,841

2. Cost-Benefit Analysis

Assessing the economic soundness of the HDF requires a comparison of project costs with expected benefits. This is complicated because the proposed project is a credit institution which will fund business investments. Hence, the analysis must incorporate HDF costs with the costs and benefits associated with induced investments in the micro-enterprise sector.

The primary costs of the project are easy to identify. The HDF will incur operating expenses and technical assistance will be provided by AID and other donors.[7] In addition to these costs, loan disbursements of the HDF will facilitate real investments in the micro-enterprise sector. These investments are assumed to be equal to 125 percent of the volume of HDF loan disbursements with matching funds coming in the form of equity or other sources of credit.

The greatest costs to this project are borne by the new or expanding micro-enterprises. The managers must devote more time to the businesses, hire new workers, and increase purchases of raw materials and intermediate goods. Since the exact costs are not known, it is assumed that most operating costs and the associated benefits are approximately equal.

6 LAAD, Regional Agribusiness Development, Project Paper, AID-DLC/P-2127, Nov. 1975, p. 35.

7 The real level of technical assistance is projected to remain constant between 1986 and 1990.

Hence, the returns to capital listed in the cost-benefit table are net of these costs. However, where there are known differences between economic costs and financial costs, adjustments have been made.

In the absence of distortions between economic and financial costs, the market set return on capital would constitute the primary benefit to Haiti of HDF-induced investments. The market rate of return on Haitian industrial investments is variously estimated to range between 30 and 50, 35 and 50, and 40 and 50 percent by the Inter-American Development Bank[8] and the World Bank.[9] Data from a survey of current HDF loan recipients suggested that rates of return in excess of 50 percent were common. Using informed judgement conservatively, a 40 percent average financial return on equity is assumed for HDF-funded investments. Forty percent on equity translates into a 22.5 percent real rate of return to capital after allowing for inflation and debt/equity ratios of HDF loan recipients.[10]

Deviations of the economic rate of return on capital from the market rate may result from labor market imperfections, indirect taxes, and foreign exchange shortages. These are discussed in turn.

The HDF loan recipients are estimated to pay an average wage of $2.80 per day for semi-skilled labor. The shadow wage for labor is estimated to be closer to $1.00 given the high rates of underemployment and unemployment throughout the country. Agricultural labor can be readily had for $1.00 per day, and in the informal sector in Port-au-Prince, laborers often earn less than $1.00 per day. The HDF micro-enterprises will typically apprentice workers for a period of time at this very low rate. But once they acquire sufficient specific on-the-job training, their productivity will justify the higher wage. The $1.80 per day difference between the shadow wage and the micro-enterprise wage should be counted as an economic benefit in excess of economic costs. This implies the following wage benefit stream over the 1985-1991 period.

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8 IDB, Opportunities for Industrial Investment in Haiti, Washington, D.C., May 1979.

9 World Bank, Economic Memorandum on Haiti, Report No. 3931-HA, May 1982

10 Discounting for 50 percent debt financing (at 15 percent) and 10 percent expected inflation.

HDF WAGE BENEFITS IN EXCESS OF OPPORTUNITY COST (1985 $000's)

1985	0
1986	256
1987	622
1988	754
1989	909
1990	1,138
1991	1,308
Total	$4,987

These wage benefits may be expressed as a return to capital. So doing would add 25.6 percentage points to the estimated real rate of return to capital.[11]

Indirect taxes, because they are simply transfer payments and as such do not represent economic costs, need to be added to financial profits to obtain economic profits. The World Bank has estimated indirect taxes to be 19.7 percent of gross capital income for Haiti's modern industrial sector,[12] and indicates that this rate should be adjusted downward approximately 30 percent for the micro-enterprises sector. Applying this rate to the estimated 22.5 percent real financial profit rate yields an adjustment of approximately 3 percentage points to be added to the financial rate to obtain the economic rate of return on capital.

Haiti has experienced a balance of payments problem since the beginning of the 1980's. While the initial crisis has been overcome, given the anticipated pressures on increased GOH expenditures, limited export revenues from traditional exports, and rising demands for imports, a continuing balance of payments problem is anticipated. While the gourde to dollar official exchange rate is 5 to 1, the estimated shadow exchange rate is 5.5 to 1.[13]. Given the long-term nature of the balance of payments problems, a similar rate is likely to prevail over much of the life of the HDF. Hence, investments which are net exchange users will have higher real costs and lower economic benefits. Since HDF-financed projects are expected on average to be net foreign exchange users, the economic rate of return on HDF induced investments is according adjusted downward ten percent.

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[11] This is a conservative estimate of the wage benefit, given that a zero opportunity cost of labor could be reasonably applied with the high rates of underemployment and unemployment and the extremely low rates of productivity in agriculture and the urban informal sectors.

[12] World Bank, Current Economic Position and Prospects of Haiti, Vol II: Statistical Appendix, December 1978, p. 179.

[13] The parallel "free market" exchange rate is used as the shadow exchange rate.

Accounting for these combined effects yields an estimated economic rate of return on capital of 43.3 percent. Applying this rate to the business capital generated by HDF investments yields the gross benefit stream. This is compared to costs over the 1984-1990 period in the following table. Since the HDF would induce capital investments up through the last year, the return to the depreciating capital is allowed to continue for an additional ten years.

The net present value of the project is $3.9 million dollars when discounted with an opportunity cost of capital of 10 percent.[14] In other words, $3.9 million in benefits will be generated over the life of the project after all economic costs are covered, including the opportunity cost of capital. The internal rate of return is estimated to be 20 percent.

The precision of these estimates is, of course, limited by the difficulty of projecting a rate of return to a collection of micro-enterprise sector projects. However, the project would be economically viable as long as the economic return of micro-enterprise investments were greater than 29 percent. Given the estimated return of 43.3 percent, there appears to be considerable leeway before the project would become unsound. In other words, the economic justification for the project would not be reversed if reasonable alternative values were used for the financial rate of return to capital, the opportunity cost of labor, the effects of indirect taxes, or the shadow price of foreign exchange. It is reasonable to assume that the HDF project will be a sound economic investment.

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14 World Bank, Haiti: Economic Memorandum, Report No. 3079-HA, Feb. 1981.

HDF COST-BENEFIT ANALYSES (1985 $000's)

	Costs				Benefits				
Year	Tecnnical Assistance to HDF 1	HDF Operating Expences 2	Gross Business Investment 3	Total Costs 4	Business Capital 5	Gross Return on Capital (43.3%) 6	Net Benefit (Col. 6 -col. 4) 7	Net Present Value at 10 percent 8	Net Present Value at 20 percent 9
1984	94	129	0	223	0	0	(223)	(245)	(268)
1985	150	283	1138	1571	0	0	(1571)	(1571)	(1571)
1986	45	339	1739	2123	1138	493	(1630)	(1482)	(1358)
1987	45	286	862	1193	2763	1196	3	2	2
1988	45	280	1021	1346	3349	1450	104	78	60
1989	45	275	1424	1744	4035	1747	3	2	1
1990	45	270	1261	1576	5056	2189	613	381	246
1991					5811	2516	2516	1419	843
1992					5230	2265	2265	1162	632
1993					4707	2038	2038	952	475
1994					4236	1834	1834	778	356
1995					3813	1651	1651	637	267
1996					3431	1486	1486	520	201
1997					3088	1337	1337	427	150
1998					2779	1203	1203	349	101
1999					2501	1083	1083	285	84
2000					2251	975	975	233	76
								3927	297

D. Social Soundness Analysis

Summary. The project responds to the principal design criteria for a socially sound development intervention. As described in the previous project documents for USAID/Haiti assistance to the HDF, the activities of the HDF are tailored to the sociocultural environment in which the Foundation operates. Furthermore, the project promotes the following social development goals:

- the principle of upward social mobility through increased income levels resulting from Foundation loans,
- the introduction of appropriate accounting and organizational techniques, which improve traditional business practices;
- the strengthening of urban community networks through the institution of centers of manufacture and processing,
- the creation of employment, oftentimes for previously unemployed individuals, and
- helping to break the cycle of hopelessness often felt among micro-entrepreneurs.

Effectiveness of capital: In a background document on the micro-enterprise sector, Haggblade et al attempt to identify constraints in the sector to increased earnings (Small Manufacturing and Repair Enterprises in Haiti: Survey Results; MSU Rural Development Series, Working Paper No. 4). The study identifies the lack of capital as one of the principle constraints. However, survey results also indicate that for ongoing enterprises, "...72 percent of the initial capital was provided from the personal savings of the entrepreneurs... Those savings were primarily generated in agriculture in the rural areas while in the large urban areas the majority of the entrepreneurs saved money from earnings in other businesses." This observation underscores the urbanizing influence of microenterprises in the rural areas. The rural-to-urban migration is a widespread and increasingly important phenomenon in Haiti; it is not merely a people migration but one of capital as well.

The role of traditional moneylenders, another potential source of credit, is the subject of a report by Smucker (1983), undertaken for the Agricultural Credit Bank. In it, he discusses the complex series of arrangements prevalent in rural areas for provision of capital for a variety of uses. Other authors deal with the same subject. Haggblade et al reports that "...among those loans for which it was possible to calculate the interest rate, the rate varied between 40 percent and 240 percent per year." The HDF project offers an alternative to this usury practice, and will continue, as in the past, to make inroads into a more equitable distribution of available capital.

Effect on traditional values: The second HDF grant (521-0144) indicated that the negative effects on the traditions and values of loan recipients were minimal, particularly in view of the fact that loans to micro-enterprises were made for activities in which borrowers were already active. The present HDF project will continue to facilitate the process of commercialization of products and services, an action also totally consistent with traditional values. In addition, the benefits of the credit program engage the client's understanding of the business process and enhances his motivation to perform better, again consistent with tradition.

<u>Links to the banking and larger business sectors:</u> In addition to the frequently cited goals of promoting small-scale enterprises, the HDF provides another equally important one, which is the creation of a more progressive attitude on the part of larger entrepreneurs towards micro-enterprises. By enhancing the respectability of the microbusiness sector through the institution and its loan mechanism, the project continues to cause a shift in the behavior of the larger business community with regard to owners of micro-enterprises. It is anticipated that the success of the HDF will be demonstrated by an increased willingness of banks to make credit available to small entrepreneurs, and by the increased involvement in HDF's activities by large entrepreneurs in their participation with the Foundation's General Assembly and Board of Directors.

<u>Women in the industrial sector:</u> About 20% of the HDF loan recipients are women, and it is felt that the needs of women are appropriately addressed by the HDF. As Haggblade, Defay and Pittman (<u>op. cit.</u>) observe:

> "Women account for 16 percent of the employment in Haitian small enterprises. The importance of women employees varies markedly by industry. Of total pastry shop employment, women account for 50 percent ...Tailors are next with 30 percent, followed by manufacturers of straw products at 27 percent. At the other extreme, carpenters employ only 1.2 percent women, metal workers .8 percent, while the tire repair and leather workshops surveyed employ no women. Across locality sizes, though, the employment of women is fairly uniform. It is expected that the percentage of loan applicants from women will continue to outpace their percentage representation in the micro-enterprise sector."

<u>Education and social mobility:</u> Unlike Africa, the stratification of society in Haiti is based upon social and economic standing. Some writers have adopted the approach of stratifying the society by color, but this is an incomplete explanation of variations between family income levels. A wider combination of factors better explains these interfamiliar variations. Of critical importance to upward social mobility is the attainment of education. Informal surveys of urban consumption patterns indicate that the education of children is among the highest household priority; the greater the disposable income, the more it will be spent on expenses related to accessing an educational edge for the children. In Haiti, where school uniforms, books and even school lunches are economic burdens for marginal family incomes, the extent to which HDF is successful in raising the income levels of borrowers and their employees makes the goal of upward social mobility more attainable.

<u>Conclusion</u>. Stated briefly, the performance to date of the HDF has demonstrated a sensitivity toward existing community and social structures. There are no known sociocultural barriers in Haiti to an increase in socio-economic status resulting from increased income. The role of women is integrated into the HDF's activities in accordance with their special needs, and the impact of the HDF upon traditional values and behavior patterns is not deleterious.

E. Environmental Analysis

The object of this project is to assist Haitian microbusinesses through the continued development of the HDF. The assistance provided to these microbusinesses will result in negligible positive or negative environment consequences and therefore further environmental examination is not warranted. This determination is in conformance with guidelines contained in Handbook 3, Appendix 2 D, 22 CFR Part 216.2 (c) (x) which deals with Categorical Exclusions. The pertinent sections are quoted as follows: " 216.2 (c) Categorical Exclusions (1) the following criteria have been applied in determining the classes of actions included in 216.2 (c) (2) for which an Initial Environmental Examination, Environment Assessment and Environmental Impact Statement generally are not required: ... (x) support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by an institution."

VI. PROJECT IMPLEMENTATION

A. Project Management

1. Role of USAID/Haiti

USAID/Haiti's Office for Private Enterprise Development (OPED), with the assistance of the Project Committee, will have primary responsibility for managing the project. The USAID/Haiti Project Officer will be assigned from OPED and will work closely with the HDF Board of Directors, the HDF staff, representatives of other participating agencies and consultants to ensure that the provisions of the A.I.D. Project Cooperative Agreement are met and that A.I.D.-financed activities function efficiently and effectively.

From its experience with previous A.I.D. agreements, HDF is familiar with the general administrative requirements such as the financial reports which USAID/Haiti established; however, it is anticipated that close monitoring by USAID will be necessary to assist the HDF in achieving the objections of the project. As outlined in the Conditions and Covenants, detailed monthly financial reports will be required from the HDF, and USAID reserves the right to suspend disbursement of funds should HDF fail to comply with financial and other requirements. USAID/Haiti will be extremely careful to closely monitor the reports and take appropriate actions. Additional information to be forwarded to USAID will be reports from short-term and long-term consultants, as stipulated by the terms of the contracts, regular reports to and by the HDF Board and any Board Committees, and information developed by other agencies and organizations which collaborate with or complement HDF activities.

2. Role of the HDF

The Executive Director, working in conjunction with the HDF Board, will have overall responsibility for project implementation. There are three key managers reporting to the Executive Director. The Loan/Programs Director will be responsible for implementing the HDF Loan Policy through the Loan Officers as well as for recommending new loan program strategies. The Financial Director will be responsible for implementing the HDF Collection Policy through the Collection Manager and in turn the Collection Officers. He will also keep the HDF on a solid financial footing through financial forecasting and portfolio management and by working closely with the Controller. The Administration/Local Fundraising Manager will be responsible for day-to-day office administration as well as for local fundraising activities. A further description of HDF job responsibilities is given in Annex G, Job Descriptions.

B. Implementation Schedule

	Date
1. AID/W review/approval	August 15, 1984
2. Issue Request for Proposals (RFP) for technical assistance team	August 15, 1984
3. Negotiate/sign Cooperative Agreement	August 31, 1984
4. Select Financial Director	September 1, 1984
5. Conditions Precedent to Disbursement of Funds for Administrative Operations met	September 15, 1984
6. Closing date for RFP receipt of proposals	October 1, 1984
7. Select/contract technical assistance team	October 15, 1984
8. Select Executive Director	November 1, 1984
9. Conditions Precedent to Disbursement of Funds for Technical Assistance met	November 1, 1984
10. Arrival of Senior Advisor and initial short-term training specialists	November 15, 1984
11. Market survey completed	December 1, 1984
12. Computer equipment selected	December 15, 1984
13. New collection policy and portfolio management system implemented	January 1, 1985
14. CY 84 short-term training program completed	January 15, 1985
15. Conditions Precedent to Disbursement of Loan Funds met	February 1, 1985
16. Mid-project evaluation	November 1, 1985
17. Conditions Precedent to Disbursement of Loan Funds in Excess of $750,000 met	January 1, 1986
18. End of project evaluation	December 1, 1986
19. PACD	December 31, 1986

C. Disbursement Procedures

USAID will utilize the following for the disbursement of project funds:

1. Direct Reimbursement - For Sub-Project Lending: The HDF will be required to submit monthly sub-project lending estimates based on projected loan demand. Based upon these requirements, USAID/Haiti will establish a revolving fund which will be replenished as deemed necessary by A.I.D. Detailed procedures governing the revolving fund will be spelled out in Project Implementation Letters (PILs).

2. Direct Payments - For Goods and Services to be Procured by USAID/Haiti: For these items, USAID will issue PIOs, Purchase Orders, and other appropriate documentation.

D. Procurement Procedures

The HDF is an intermediate credit institution and its procurement policies will be in accordance with Handbook 1, Supplement B, Chapter 19. The source and origin of U.S. dollar procurement will be in those countries included in Code 941 of the A.I.D. Geographic Code Book and Haiti.

E. Evaluation Plan

Two formal evaluations will be conducted during the life of the project. In addition, a financial audit of the HDF will be conducted annually.

Approximately twelve months after the initial disbursement, an outside consulting team selected jointly by USAID/Haiti and the HDF will conduct an evaluation to determine if the new Loan Policy and the new Collection Policy are functioning and if the training at the HDF is succeeding. Since achievement of the desired results outlined in the project will take time, the goal of this evaluation will be to monitor the efficiency of HDF operations and in turn to assure A.I.D. that HDF is satisfactorily progressing.

Approximately twelve months after the first evaluation, a second evaluation will be conducted. The objective of the second evaluation is twofold: First, to determine whether the changes brought on by this project are succeeding since enough time will have elapsed for results to be verified. This part of the evaluation will thus measure the HDF's progress in relation to established benchmarks and indicators. Second, to measure project impact on the target population, including effects on income, employment, and technology.

VII. CONDITIONS AND NEGOTIATING STATUS

A. Conditions and Covenants

The following conditions and covenants will be included in the Cooperative Agreement:

1. Conditions Precedent to Disbursement of Funds for Administrative Operations

a. Evidence acceptable to AID that the HDF has been reorganized substantially along the lines of the organization chart presented in the project paper, and that the departmental staff to implement the project has been identified.

b. Evidence acceptable to AID that the HDF has initiated the rescheduling of its past due payables and long-term debt.

2. Conditions Precedent to Disbursement of Funds for Technical Assistance

a. Evidence of the selection of an Executive Director or interim project manager satisfactory to A.I.D.

b. Evidence of the identification of additional assistance satisfactory to A.I.D. to provide the HDF with the CY 1984 support training activities described in the project paper technical assistance budget.

3. Conditions Precedent to Disbursement of Funds for Sub-Project Lending

Evidence acceptable to AID that:

a. A market survey has been completed to more specifically target HDF's lending operations and to further analyze the "good client" profile, and the results of that study have been used to formulate its new Loan Policy.

b. A new Collection Policy has been implemented by the HDF.

c. A new Portfolio Management system has been implemented by the HDF.

d. Effective interest rates have been raised from 14% to 20% for the first year of a loan and 18% for each year thereafter.

e. HDF has rescheduled its past due payables and long-term debt

f. HDF has selected a system satisfactory to AID to computerize its operation

4. Conditions Precedent to Disbursement of Lending Funds in Excess of $750,000

a. A detailed two year operating budget.

b. Evidence acceptable to AID that substantial progress is being made to obtain additional donor assistance to satisfy future loan program and operational requirements.

5. Covenants

a. Unless otherwise agreed to in writing, the HDF covenants that interest and loan repayment on new loans will be calculated on a normal amortization schedule.

b. Unless otherwise agreed to in writing, the HDF covenants that it will restrict its lending activities to micro-enterprises in the Port-au-Prince area.

c. Unless otherwise agreed in writing,deficit financing from AID funds will not exceed:

$117,000 in HDF CY 84
$236,000 in HDF CY 85
$ 62,000 in HDF CY 86

d. Unless otherwise agreed in writing, HDF covenants that it will not apply AID deficit financing funds to other than HDF operational deficits, nor loan funds to finance operational expenses.

e. Unless otherwise agreed to in writing, HDF will submit to USAID/Haiti monthly financial reports to include the following information:

1) Interest due/interest received per month.

2) Principal due/principal received per month.

3) New loans made per month and to which location in Port-au-Prince.

4) T.A. fees received on new loans per month.

5) Actual versus budgeted expenses per month.

6) Payables incurred, due, and paid per month.

f. HDF will engage and finance the services of an internationally recognized accounting firm to carry out an annual audit of the Foundation's operations.

g. Any financial assistance to the HDF to support a specific program or activity will be reviewed by USAID prior to the signature of any agreement with a potential donor institution in order to assure that it conforms with the goals and purpose of the AID-financed project.

h. From time to time when project issues require it AID will attend the HDF Board meeting in an ex-officio capacity.

6. USAID reserves the right to suspend disbursement of funds should the HDF fail to comply with any of the above conditions or covenants.

B. Negotiating Status

The design of the proposed project has been developed in close consultation with the HDF. The design team, including the outside consultants, spent over four months working with HDF Board and staff on all planned activities.

Although USAID/Haiti believes all issues have been discussed with the HDF during the design process, owing to the strict conditions set forth to bring HDF onto a sound financial footing, the Mission is aware that further discussions may ensue in negotiating the Cooperative Agreement. It is for this reason that disbursement of loan capital to the HDF will not begin until approximately four months after the project authorization, when the Mission can assure itself that required training and organizational changes have taken place.

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SECTION VIII - ANNEXES

AMERICAN EMBASSY, PORT-AU-PRINCE

UNCLASSIFIED
Classification

ANNEX A.

ACTION:
AID 2
INFO:
AMB 1
DCM 1
POL
ECON 1
COMM
CONS
ADM
PER
B&F
GSO
ICA
AID
DAO
MSG
CRO
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CHRON

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ACTION TAKEN

Date:

By:

Due: 3/13/84

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R 010343Z MAR 84
FM SECSTATE WASHDC
TO AMEMBASSY PORT AU PRINCE 3130
BT
UNCLAS STATE 060511

AIDAC

E.O. 12356 N/A
TAGS: N/A
SUBJECT: HAITI DEVELOPMENT FOUNDATION HDF, PROJECT
NO. 521-0121,

1. BUREAU REVIEWED SUBJECT PROJECT PID ON JANUARY 10, 1984. MISSION MAY PROCEED TO PROJECT PAPER DEVELOPMENT SUBJECT TO THE GUIDANCE PROVIDED BELOW IN PARAS 2 THROUGH 5. BECAUSE OF THE SERIOUS FINANCIAL DIFFICULTIES FACED BY THE HDF AND THE NEED TO FURTHER DEFINE A STRATEGY FOR DEALING WITH THIS, THE BUREAU WOULD LIKE TO REVIEW THE PP IN AID/W. SINCE, FURTHERMORE, WE BELIEVE THESE PROBLEMS ARE COMMON TO MANY NATIONAL DEVELOPMENT FOUNDATIONS (NDFS) THROUGHOUT THE REGION, AN AID/W REVIEW WOULD CONTRIBUTE TO OUR KNOWLEDGE AND UNDERSTANDING OF THESE ORGANIZATIONS. CONSEQUENTLY, THE BUREAU REQUESTS THAT THE DETAILED ANALYSIS OF THE HDF'S MANAGEMENT AND FINANCIAL DIFFICULTIES TO BE CONDUCTED DURING PROJECT DEVELOPMENT TAKE INTO CONSIDERATION THE POTENTIAL CONTRIBUTION THESE STUDIES COULD MAKE TO OUR BROADER UNDERSTANDING OF THE THE PROBLEMS FACED BY NDFS.

2. OTHER DONOR ASSISTANCE: THE ISSUE OF OTHER DONOR INVOLVEMENT AND COORDINATION WAS RAISED AT THE DAEC. DUE TO THE FACT THAT HDF'S OTHER PRINCIPLE DONORS HAVE CONDITIONED FURTHER FINANCIAL ASSISTANCE ONSUBSTANTIAL MANAGEMENT IMPROVEMENTS, THE BUREAU BELIEVESTHAT BY COORDINATI IDS POSITIO WITH OTHER DONORS IT CAN ASSIST USAID/HAITI TO LEVERAGE MANY OF THE FINANCIAL REFORMS AND THE ADMINISTRATIVE RESTRUCTURING WHICH IT SEE S. THE MISSION SHOULD COORDINATECLOSELY WITH S CH ORGANIZATIONS AS THE IDB AND SOLIDARIOS TO DETERMI E WHAT CRITERIA WOULD HAVE TO BE MET BY THE HDF,IN ORDER FOR THAT ORGANIZATION TO RECEIVE ASSISTANCE FROM THEM. WHILE WE RECOGNIZE IT MAY NOT BE POSSIBLE TO UIRE MATCHING OF A.I.D. FU DS IN THE BEGINNING OF THE PROJECT, THE MISSIO IS URGED TO BRING OTHER DONORSINTO THE NEGOTIATIONS WITH THE HDF PRI THE STAGE IN ORDER TO REACH MUTUAL AGREEMENT IN ORGANIZATIONAL RESTRUCTURING AND FINANCIAL MANAGEMENT CHANGES, TO THE EXTENT PO SIBLE I FURTHERANCE OF OUR STRATEGY TO STRENGTHEN THE HDF.

3. FINACIAL MANAGEMENT: THE PID REVEALED THAT THE HDF IS IN A; EXTREMELY PRECARIOUS FINANCIAL SITUATION, DESPITE THE BRIDGING GRANT MADE LAST YEAR AND PRIOR ATTEMPTS BY THE MISSION TO PLACE THE HDF ON A SOUND FI ANCIAL BASIS. THE SPECIFIC CAUSES OF THE LARGE OPERATING DEFICITS, THE FAILURE TO RAISE REVENUE, AND THE LOW REPAYMET RATES, WHICH WE NOTE DIFFER SIGNIFICANTLY FROM THAT CONTAINED IN THE 1982-1983 HDF ANNUAL REPORT, NEED TO BE FULLY ANALYZED INTHE PP. WEASSUME THAT THE IMPACT STUDY, WHICH WE UNDERSTAND IS PRESENTLY BEING UNDERTAKEN BY THE MISSION, IS DESIGNED TO ANALYZE CAREFULLY THE U DERLYING CAUSESOF THESE PROBLEMS. BASED ON THESE FINDI GS, THE PP SHOULD CONTAIN AN ACTION PLAN FOR ADDRES ING THESE PROBLEMS IN T E SHORT- AND MEDIUM-TERM, SPECIFYING PERFORMANCE TARGETS AND OUTLINING PROCEDURES FOR MONITORING PROGRESS. THEPP SHOULD ALSO CLARIFY THE DIFFERENCE BETWEEN THEREPAYMENT RATE CONTAINED IN THE PID AND THE HDF ANNUAL REPORT. THE MISSIO SHOULD CONSIDER THE NEED TO MONITOR THE FISCAL

UNCLASSIFIED

BASIS, AND TO CONDITION OUR FUNDING MEETING SPECIFIC GOALS IN THIS AREA. ONE POTENTIAL SOURCE OF TECHNICAL ASSISTANCE IN FINANCIAL MANAGEMENT IS SOLIDARIOS, WHICH HAS RECEIVED AID FUNDING TO ENABLE THEM TO PROVIDE THESE SERVICES AT NO CHARGE TO THE NDFS. THE MISSION SHOULD URGE THE HDF TO APPROACH SOLIDARIOS AS SOON AS POSSIBLE TO REQUEST THIS ASSISTANCE, IF THIS APPROACH COINCIDES WITH THE MISSION'S VIEWS.

4. LONG-TERM STRATEGY:

--(A) SINCE OPERATING DEFICITS HAVE BEEN A CONSISTENT PROBLEM SINCE THE INCEPTION OF THE HDF, THE MISSION SHOULD PRESENT IN THE PP A LONG-TERM FINANCING STRATEGY; THIS STRATEGY SHOULD BE DEVELOPED IN COLLABORATION WITH THE HDF, BASED ON A CHOSEN "DEVELOPMENT PHILOSOPHY" FOR HDF (I.E., ITS CLIENT AND PORTFOLIO MIX) AND WHAT LEVEL OF EXTERNAL FUNDING WILL BE NECESSARY TO SUPPORT THE HDF. GIVEN THE PRESENT TARGET GROUP OF MICROBUSINESSES, WE QUESTION WHETHER THE HDF WILL EVER BE ABLE TO TOTALLY SUSTAIN ITSELF. IT WAS CONCLUDED AT THE DAEC THAT FUNDRAISING MAY HAVE TO BE RELIED UPON, TO SOME EXTENT, TO FILL THIS GAP. THE PP SHOULD LOOK CAREFULLY AT WHETHER FUNDRAISING SHOULD BE PART OF THIS PROGRAM AND, IF NOT, HOW THE HDF SHOULD HANDLE THIS NECESSARY FUNCTION.

--(B) IN ADDITION, THE PP SHOULD ELABORATE ON HDF'S OVERALL PROGRAM STRATEGY. THE PID DISCUSSES VERY BRIEFLY THE PROPOSED PLANS OF THE HDF FOR EXPANSION INTO RURAL AREAS AND THE DESIRE TO GREATLY EXPAND THE LENDING PORTFOLIO OF THE ORGANIZATION BOTH IN TERMS OF SIZE AND TYPE OF RECIPIENT. WE QUESTION WHETHER THIS IS THE APPROPRIATE WAY TO EXPAND COVERAGE OVER THE LONG TERM. THE DAEC RECOMMENDED MAINTAINING A SMALL ORGANIZATION AND A LESS COMPLEX PORTFOLIO TO ACHIEVE A MORE FINANCIALLY AND ADMINISTRATIVELY SOUND ORGANIZATION. THIS WOULD MEAN THE CREATION OF NEW FOUNDATIONS TO EXTEND COVERAGE; THIS WOULD SEEM TO BE A SOUND APPROACH. THE PP SHOULD EXAMINE THIS ISSUE AND PRESENT ITS CONCLUSIONS IN TERMS OF A LONG RANGE STRATEGY FOR THE HDF.

5. ORGANIZATIONAL COMMITMENT: THE GROWING DISILLUSIONMENT OF THE BOARD OF DIRECTORS OVER THEIR ABILITY TO PROVIDE ANY INPUT TO THE HDF AND, CONCOMITANTLY, THE LESSENING OF THEIR ROLE IN THE ADMINISTRATION OF THE ORGANIZATION, WAS DISCUSSED WITH GREAT CONCERN AT THE DAEC. ACCORDING TO THE MISSION REPRESENTATIVE, THIS GROWING APATHY MAY BE ATTRIBUTABLE TO THE FINANCIAL AND MANAGEMENT PROBLEMS OF THE ORGANIZATION AND THE PERCEPTION THAT THE SITUATION IS WORSENING. THE MISSION SHOULD ACTIVELY INVOLVE THE BOARD IN DISCUSSING THE PROBLEMS WHICH THE HDF FACES AND SHOULD, FURTHER, CONSIDER SPONSORING STUDY TRIPS FOR BOARD MEMBERS TO VISIT OTHER SUCCEEDING NDFS TO REVIEW ISSUES AND ALTERNATIVE SOLUTIONS.

FURTHER, IT WAS CONCLUDED AT THE DAEC THAT THE COMMITMENT OF THE BOARD AND THE PRINCIPAL MANAGEMENT TEAM OF THE HDF TO THE FINANCIAL REFORMS AND ORGANIZATIONAL CHANGES SOUGHT BY THE MISSION IS ESSENTIAL TO THE SUCCESS OF THE PROJECT. THE MISSION SHOULD NOT PROCEED WITH PROJECT DEVELOPMENT UNLESS IT CAN ASSURE ITSELF THAT THESE CHANGES WILL BE MADE. IN ADDITION, THE MISSION SHOULD CONSIDER A CONDITION PRECEDENT WHICH REQUIRES ADMINISTRATIVE RESTRUCTURING, AND ANY OTHER NECESSARY REVISIONS IN THE HDF, PRIOR TO DISBURSEMENT OF FUNDS.

6. TECHNICAL ASSISTANCE: GIVEN THE MAJOR ORGANIZATIONAL AND POLICY CHANGES SOUGHT BY THE MISSION, THE BUREAU BELIEVES THAT THE TECHNICAL ASSISTANCE LEVEL CONTAINED IN THE PID MAY BE TOO LOW. THE MISSION IS ASKED TO INCLUDE FUNDING UNDER THIS PROJECT SPECIFICALLY WITH REGARD TO REVISING THE HDF'S COLLECTION PROCEDURES, AND, IF POSSIBLE, TO ASSIST IN MOBILIZING LOCAL RESOURCES AND

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Page State 60511

OTHER FUNDRAISING. IN ORDER TO PROVIDE THE MISSION WITH THE MAXIMUM POSSIBLE OVERSIGHT OF THESE CONSULTANTS, WE UNDERSTAND THAT THE TECHNICAL ASSISTANCE WILL BE CONTRACTED DIRECTLY BY USAID/HAITI.

7. TRAINING: THE PROBLEM OF HOW THE PROJECT WOULD HANDLE THE INSTITUTIONAL TRAINING NECESSARY TO EFFECT THE DESIRED MANAGEMENT AND INSTUTIONAL REFORMS WAS REVIEWED AT THE ISSUES MEETING. IT WAS DETERMINED THAT THE PP SHOULD DISCUSS HOW THIS TRAINING WOULD TAKE PLACE, ALTHOUGH IT NEED NOT BE HANDLED AS PART OF THIS PROJECT.

8. STAFFING IMPLICATIONS: THE DAEC NOTED THAT THE MISSION WILL NEED TO PROVIDE VERY CLOSE AND CAREFUL MONITORING OF THIS PROJECT IF IT IS TO SUCCEED IN GETTING HDF INTO A SOUND FINANCIAL AND ADMINISTRATIVE FOOTING. WE ARE DOING EVERYTHING POSSIBLE TO IDENTIFY AND PLACE A SUITABLE CANDIDATE IN THE MISSION'S PRIVATE SECTOR OFFICE TO SUPPORT THE COMMITMENT IMPLIED BY THIS PROJECT. SHULTZ
BT
#0511

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AID 1020-28 (1-72)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 84 to FY 86
Total U.S. Funding 2,000,000
Date Prepared: Dec. 1983

Project Title & Number: Haitian Development Foundation, 521-0181

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: Increase per capita income and employment in Haiti by improving the economic productivity of the micro-business sector	Measures of Goal Achievement: Rising employment and per capita income in Haiti, and an increase in overall production.	- HDF client dossiers - Project monitoring - Project evaluations	Assumptions for achieving goal targets: -Economic conditions remain relatively stable. -Strong demand for micro-business loans.
Project Purpose: 1. Small business enterprises established and/or strengthened. 2. HDF attains greater financial viability.	Conditions that will indicate purpose has been achieved: End of project status. 1. 1,500 jobs created through HDF extended credit. 2. 300-350 loans provided to micro-businesses. 3. Managerial competence of targeted beneficiaries upgraded. 4. 50% increase in loan collections and 15% decrease in operating expenses.	- HDF client dossiers - Project evaluations - HDF Quarterly Reports - JPIPs	Assumptions for achieving purpose: - Rate of rural to urban migration remains relatively stable. - HDF staff accept and adopt newly instituted management systems and procedures. - Appropriate management assistance can be provided to HDF clients.
Outputs: 1. Short and medium term credit and management assistance provided to eligible entrepreneurs. 2. HDF's operational and managerial systems strengthened.	Magnitude of Outputs: 1. 300-350 loans to micro-businesses totaling $1,500,000. 2. Mgmt. assistance provided as necessary. 3. Collection procedures improved; sound financial analysis criteria adopted and employed; budget forecasting improved; portfolio mgmt. upgraded.	- HDF loan records - evaluations - HDF Quarterly Reports - JPIPS	Assumptions for achieving outputs: - Small businesses trust and utilize HDF financial and technical assistance
Inputs:	Implementation Target (Type and Quantity) ($000)	PILs; PIOs; Contracts; Grant disbursement records.	Assumptions for providing inputs: - Forthcoming funds from USAID and other donors are provided on time and in the required amount.

Inputs	CY 84	CY 85	CY 86
1. Capital for Revolving Fund		750	750
2. Administrative Costs	85	150	50
3. Technical Assistance	117	236	62
TOTAL	202	1,136	862

ANNEX B

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COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBLITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No
2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?	No.

G. 2

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	N/A
4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?	No
5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.	N/A
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?	No

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7.	FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?	No
8.	FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?	No
	(b) If so, has any deduction required by the Fishermen's Protective Act been made?	No
9.	FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?	No
10.	FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into	Yes

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Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

11.	FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No
12.	FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)	Haiti is not in arrears
13.	FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or	No

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abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? — No

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — No

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed — N/A

to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti.

Special requirements have been met.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.? N/A

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier? N/A

III (2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

   (a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

   A Congressional Notification was submitted

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,00, will there be

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	(a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	N/A, intermediate credit institution
3.	FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	Key approvals have been received. Only final actions which are formality are pending.
4.	FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)	N/A
5.	FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	N/A

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6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	Will foster private initiative; improve technical efficiency of industry.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	Technical assistance services and equipment will be procured from U.S. (000) sources.

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9.	<u>FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507.</u> Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	A substantial contribution in relendable loan funds will be made by the HDF in support of the project.
10.	<u>FAA Sec. 612(d).</u> Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11.	<u>FAA Sec. 601(e).</u> Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
12.	<u>FY 1982 Appropriation Act Sec. 521.</u> If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	N/A
13.	<u>FAA 118(c) and (d).</u> Does the project comply with the environmental procedures set forth in AID Regulation 16? Does	Yes

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the project or program take into consideration the problem of the destruction of tropical forests?

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and

This activity will assist in developing all the criteria listed in this section, except (e).

otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? — Yes

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? — Yes

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activitiy with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? — N/A

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character."	N/A
f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes
g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage	This program directly addresses the first two categories in this Section and indirectly the third.

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institutional development; and supports civil education and training in skills required for effective participation in governmental processes esential to self-government.

2. <u>Development Assistance Project Criteria (Loans Only)</u>

a. <u>FAA Sec. 122(b)</u>. Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. — N/A

b. <u>FAA Sec. 620(d)</u>. If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? — N/A

c. <u>ISDCA of 1981, Sec. 724 (c) and (d)</u>. If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)? — N/A

3. <u>Economic Support Fund Project Criteria</u>

a. <u>FAA Sec. 531(a)</u>. Will this assistance promote economic or political — Yes

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stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No

c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

No

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N/A

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III (3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — Yes

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? — Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States aga[illegible] marine risk with such a company? — Yes

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be — N/A

financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or these areas? — No

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? — No

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other — Yes

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Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used? — N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A

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3. FAA Sec. 620(k). If for construction of productive enterprise, will agggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)? — N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — N/A

2. FAA SEc. 301(d). If fund is established solely by U.S. contributions and administed by an internatioal organization, does Comptroller General have audit rights? — N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family — Yes planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

d. FAA Sec. 662. For CIA activities? Yes

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or Yes adjusted service compensation for military personnel?

g. <u>FY 1982 Appropriation Act, Sec. 505</u>. To pay U.N. assessments, arrearages or dues?	Yes
h. <u>FY 1982 Appropriation Act, Sec. 506</u>. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?	Yes
i. <u>FY 1982 Appropriation Act, Sec. 510</u>. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?	Yes
j. <u>FY 1982 Appropriation Act, Sec. 511</u>. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	No
k. <u>FY 1982 Appropriation Act, Sec. 515</u>. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	Yes

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ANNEX D

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ACTION TAKEN

Date:

By:

FONDATION HAITIENNE DE DEVELOPPEMENT
HAITIAN DEVELOPMENT FOUNDATION
FUNDACION HAITIANA DE DESAROLLO

105, Ave. Christophe
Port-au-Prince, Haiti
Tél.: 5-2206
5-2207
P.O. Box 15325
Tlx 2030433

July 11, 1984

OFFICIAL FILE

Rec: 7/23/84

Mr. Harlan Hobgood
Director
USAID Mission to Haiti
P.O. Box 1634
Port-au-Prince, Haiti

Dear Mr. Hobgood,

It took many years and a lot of efforts to establish the Haitian Development Foundation (HDF) and perhaps the leading Institution in the sphere of microbusiness sector development in Haiti. In this difficult endeavor, HDF has been consistantly supported by USAID the Phase IV project is one of the outcomes of this collaboration.

The purpose of the project is to contribute to HDF's long term goal to increase per capita and employment in Haiti by providing additional loan capital for on lending while strenghtening its institutional capabilities. In this manner HDF will adress major constraints which inhibit microbusiness growth in Haiti.

The Haitian Development Foundation will contribute its loan portfolio (approximated $900.000) to the project.

The purpose of this letter is to request from AID a grant of two million two hundred thousand dollars ($2.200.000) to assist HDF in implementing this program.

We hope that this request will result in a positive response from AID, and will provide us with the technical and financial support to pursue an endeavor which has proven so beneficial to a large segment of the Haitian population.

With our best personal regards.

THE BOARD OF DIRECTORS

Daniello St Valliere — Charles Clermont — Daniel Godefroy

Georges Nicolas — Franklin Policard — Philippe Allien

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CERTIFICATION PURSUANT TO SECTION 611(e) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Harlan H. Hobgood, the principal officer of the Agency for International Development in Haiti, having taken into account, among other factors, the maintenance and utilization of projects in Haiti previously financed or assisted by the United States, do hereby certify that, in my judgement, the Haitian Development Foundation in Haiti has both the human resources and financial capability effectively to maintain and utilize the grant capital assistance project: Haitian Development Foundation, 521-0181.

This judgement is based, among other things, upon the commitment of the private sector in Haiti to the project as evidenced by the substantial loan portfolio contribution, the continuing voluntary support of the Board of Directors and General Assembly; and the substantial technical assistance to be made available within the project to assure sound institutional management.

Harlan H. Hobgood
Director USAID/Haiti

FINANCIAL TABLES AND SUPPORTING DATA

THE BASE CASE- THIS FINANCIAL STATEMENT IS THE ONE USED IN THE PROJECT PAPER

HDF FINANCIAL STATEMENT & EXPLANATORY NOTES

HDF FINANCIAL STATEMENT, ($000)

	1983 (1)	1984	1985	1986	1987	1988	1989	1990
LOAN PORTFOLIO								
BEG. OF YEAR NET PORTFOLIO	484	703	828	1404	2507	2640	2954	3723
AID CONTRIBUTION (2)	145	90	750	750	0	500	500	500
OTHER CONTRIBUTIONS (2)	155	135	0	500	300	0	500	300
RE-LENT PRINCIPAL (3)	25	73	160	280	535	587	668	828
BAD DEBT FUND (4)	-81	-100	-174	-147	-167	-186	-231	-268
END YEAR PORTFOLIO (5)	703	828	1404	2507	2640	2954	3723	4255
AVERAGE PORTFOLIO (6)	594	766	1116	1956	2574	2797	3338	3989
INCOME FROM PORTFOLIO								
INTEREST (7)	79	70	210	405	408	446	592	656
T.A. FEES (8)	6	6	18	31	17	22	33	33
RESTRICTED FUNDS (9)	38	11	0	0	0	0	0	0
TOTAL INCOME	123	87	228	436	425	468	625	689
FIXED EXPENSES								
PAYROLL (10)	221	242	201	226	242	258	277	296
OPERATING EXPENSES (11)	151	100	64	70	77	85	94	103
INTEREST ON HDF LOANS (12)	7	32	32	40	47	47	52	32
DEPRECIATION FUND (13)	13	13	13	13	13	13	13	13
VARIABLE EXPENSES								
BAD DEBT RESERVE FUND (14)	81	100	174	147	167	186	231	268
COLLECTOR'S COMMISSIONS(15)	0	0	6	10	14	15	19	22
TOTAL EXPENSES	473	487	489	506	560	606	685	734
NET INCOME	-350	-400	-261	-70	-136	-138	-60	-45
LOCAL FUNDRAISING (MEMBERSHIP FEES, ANNUAL BALL)	25	63	25	25	25	25	25	25
EXCESS OR DEFICIT	-325	-337	-236	-45	-111	-113	-35	-20
DEFICIT FINANCING (16)	325	220	236	45	111	113	35	20
END BALANCE	0	-117	0	0	0	0	0	0

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Notes in Explanation of the Base Case Financial Statement

N.B. When determining both t.a. fees as well as collectors commissions, it has been assumed that all contributions + re-lent principles will be lent out in the given year in question. Moreover it is assumed that the average loan is for four (4) years which coincides with the present HDF portfolio.

(1) 1983 figures are taken from the 1982/83 HDF Annual Report.

(2) Estimated Contributions

(3) Collection factor is 50% for 1983 & 1984, 60% in 1985, 70% in 1986, and 80% in 1987 onward. 1983 figure is actual; 1984 figure is actual; 1985 (1984 end-year portfolio x 15%) + (1983 end-year portfolio x 3%) + (1982 end-year portfolio x 3%); 1986 = (1985 end-year portfolio x 17.5%) + (1984 end-year portfolio x 2.25%) + (1983 end-year portfolio x 2.25%); 1987 = (1986 end-year portfolio x 20%) + (1985 end-year portfolio x 1.5%) (1984 end-year portfolio x 1.5%).

(4) Bad debts for 1983, 1984, and 1985 10% of (Beginning of Year Portfolio + Total Contributions + Re-lent Principal), and from 1986 onward = 5% of (Beginning of Year Portfolio + Total Contributions + Re-lent Principal).

(5) End-Year Portfolio = (Beg. Year Portfolio + Total Contributions - Bad Debt Fund).

(6) Average portfolio equals beginning of year portfolio + end of year portfolio divided by 2.

(7) For the years prior to 1985, interest rates were 13% on average. As of 1985, interest = 14% + 4% Guarantee Fund Fee or 18% in total. Collection factor 50% for 1983 & 1984; 60% in 1985; 70% in 1986; and 80% in 1987 and thereafter.

1983 interest = actual; 1984 interest = actual

1985 = (Total Contributions + Re-lent Principal in 1985) x 18% + (Total Contributions + Re-lent Principal in 1984) x 13%) x 75% x 60% + (Total Contributions + Re-lent Principal in 1983) x 13%) x 50% x 60%) + (Total Contributions + Re-lent Principal in 1982) x 13%) x 25%) x 60%) + (Total Contributions + Re-lent Principal in 1981) x 13%) x 150%) x 30%);

1986 = (Total Contributions + Re-lent Principal in 1986) x 18%) + (Total Contributions + Re-lent Principal in 1985) x 18%) x 75%) x 70%) + (Total Contributions + Re-lent Principal in 1984) x 13%) x 50%) x 70%) + (Total Contributions + Re-lent Principal in 1983) x 13%) x 25) x 70%) + (Total Contributions + Re-lent Principal in 1982) x 13%) x 150%) x 30%);

1987 = (Total Contributions + Re-lent Principal in 1987) x 18%) + (Total Contributions + Re-lent Principal in 1986) x 18%) x 75% x 80%) + (Total Contributions + Re-lent Principal in 1985) x 18%) x 50%) x 80%) + (Total Contributions + Re-lent Principal in 1984) x 13%) x 25) x 80%) + (Total Contributions + Re-lent Principal in 1983) x 13%) x 150%) x 30%);

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This formula is repeated for future years with the collection factor reflected accordingly.

(8) T.A. Fees = 2% x (Total Contributions + Re-lent Principal) for any given year.

(9) These are funds lent to the HDF by international organizations in 1983 & 1984 -- the funds were for programs not to be refunded.

(10) Payroll figures for 1983 and 1984 are actual. The 1985 payroll figures (which include all social benefits 17% of salary) are taken from the new organizational chart proposed for 1985. From 1986 onward, the payroll will increase by 7% per annum. Moreover, in 1986 an additional Loan Officer and an additional Collection Officer will be added, increasing the annual payroll by $10,000 before the 7% annual payroll increase. From 1986 onward Operating Expenses are to increase by an inflationary factor of 10% per annum.

(11) HDF loans total $819,500: BID - $500,000 due by March, 2021; FDI - $239,000 due by May; 1988; PADF - $37,500 due by February, 1990; and PADF (T.A.) - $43,000 due by 1985.

(12) The Depreciation Fund covers mainly furniture for the HDF office.

(13) See (4) above.

(14) The Collector's Commissions are set at 1.5% x (interest plus principal collected (which equals re-lent principal) in the given year).

(15) This has been funded from numerous sources in the past, including AID.

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SENSITIVITY ANALYSIS

The following projections contain the various sensitivity analyses conducted for the project.

SENSITIVITY ANALYSIS: INTEREST RATES REMAIN AT 13%

HDF FINANCIAL STATEMENT, ($000)

	1983 (1)	1984	1985	1986	1987	1988	1989	1990
LOAN PORTFOLIO								
BEG. OF YEAR NET PORTFOLIO	484	703	828	1404	2507	2640	2954	3723
AID CONTRIBUTION (2)	145	90	750	750	0	500	500	500
OTHER CONTRIBUTIONS (2)	155	135	0	500	300	0	500	300
RE-LENT PRINCIPAL (3)	25	73	160	280	535	587	668	828
BAD DEBT FUND (4)	-81	-100	-174	-147	-167	-186	-231	-268
END YEAR PORTFOLIO (5)	703	828	1404	2507	2640	2954	3723	4255
AVERAGE PORTFOLIO (6)	594	766	1116	1956	2574	2797	3338	3989
INCOME FROM PORTFOLIO								
INTEREST (7)	79	70	165	305	302	327	427	474
T.A. FEES (8)	6	6	18	31	17	22	33	33
RESTRICTED FUNDS (9)	38	11	0	0	0	0	0	0
TOTAL INCOME	123	87	183	335	319	349	461	506
FIXED EXPENSES								
PAYROLL (10)	221	242	201	225	242	258	277	296
OPERATING EXPENSES (11)	151	100	64	70	77	85	94	103
INTEREST ON HDF LOANS (12)	7	32	32	40	47	47	52	32
DEPRECIATION FUND (13)	13	13	13	13	13	13	13	13
VARIABLE EXPENSES								
BAD DEBT RESERVE FUND (14)	81	100	174	147	167	186	231	268
COLLECTOR'S COMMISSIONS (15)	0	0	3	9	13	14	16	20
TOTAL EXPENSES	473	487	489	505	557	604	693	731
NET INCOME	-350	-400	-306	-169	-240	-255	-222	-225
LOCAL FUNDRAISING (MEMBERSHIP FEES, ANNUAL BALL)	25	63	25	25	25	25	25	25
EXCESS OR DEFICIT	-325	-337	-281	-144	-215	-230	-197	-200
DEFICIT FINANCING (16)	325	226	281	144	215	230	197	200
END BALANCE	0	11	0	0	0	0	0	0

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SENSITIVITY ANALYSIS: COLLECTION RATES REMAIN AT 60% FOR INTEREST, 50% FOR PRINCIPAL

HDF FINANCIAL STATEMENT, ($000)

	1983 (1)	1984	1985	1986	1987	1988	1989	1990
LOAN PORTFOLIO								
BEG. OF YEAR NET PORTFOLIO	484	703	828	1406	2512	2653	2973	3748
AID CONTRIBUTION (2)	145	90	750	750	0	500	500	500
OTHER CONTRIBUTIONS (2)	155	135	0	500	300	0	500	300
RE-LENT PRINCIPAL (3)	25	73	139	222	381	449	527	637
BAD DEBT FUND (4)	-81	-100	-172	-144	-160	-180	-225	-259
END YEAR PORTFOLIO (5)	703	828	1406	2512	2653	2973	3748	4288
AVERAGE PORTFOLIO (6)	594	766	1117	1959	2583	2813	3360	4018
INCOME FROM PORTFOLIO								
INTEREST (7)	79	70	207	378	315	347	486	547
T.A. FEES (8)	6	6	18	29	14	19	31	29
RESTRICTED FUNDS (9)	38	11	0	0	0	0	0	0
TOTAL INCOME	123	87	224	407	328	366	516	576
FIXED EXPENSES								
PAYROLL (10)	221	242	201	226	242	258	277	296
OPERATING EXPENSES (11)	151	100	64	70	77	85	94	103
INTEREST ON HDF LOANS (12)	7	32	32	40	47	47	52	32
DEPRECIATION FUND (13)	13	13	13	13	13	13	13	13
VARIABLE EXPENSES								
BAD DEBT RESERVE FUND (14)	81	100	172	144	160	180	225	259
COLLECTOR'S COMMISSIONS(15)	0	0	5	9	10	12	15	18
TOTAL EXPENSES	473	487	487	502	549	596	675	721
NET INCOME	-350	-400	-263	-95	-221	-230	-159	-145
LOCAL FUNDRAISING (MEMBERSHIP FEES, ANNUAL BALL)	25	63	25	25	25	25	25	25
EXCESS OR DEFICIT	-325	-337	-238	-70	-196	-205	-134	-120
DEFICIT FINANCING (16)	325	220	238	70	196	205	134	120
END BALANCE	0	-117	0	0	0	0	0	0

SENSITIVITY ANALYSIS: BAD DABT REMAINS AT 10%

HDF FINANCIAL STATEMENT, ($000)

	1983 (1)	1984	1985	1986	1987	1988	1989	1990
LOAN PORTFOLIO								
BEG. OF YEAR NET PORTFOLIO	484	703	828	1404	2361	2344	2507	3099
AID CONTRIBUTION (2)	145	90	750	750	0	500	500	500
OTHER CONTRIBUTIONS (2)	155	135	0	500	300	0	500	300
RE-LENT PRINCIPAL (3)	25	73	160	280	506	525	572	693
BAD DEBT FUND (4)	-81	-100	-174	-293	-317	-337	-408	-459
END YEAR PORTFOLIO (5)	703	828	1404	2361	2344	2507	3099	3440
AVERAGE PORTFOLIO (6)	594	766	1116	1882	2352	2426	2803	3270
INCOME FROM PORTFOLIO								
INTEREST (7)	79	70	210	405	403	432	566	616
T.A. FEES (8)	6	6	18	31	16	21	31	30
RESTRICTED FUNDS (9)	38	11	0	0	0	0	0	0
TOTAL INCOME	123	87	228	436	419	452	597	645
FIXED EXPENSES								
PAYROLL (10)	221	242	201	226	242	258	277	296
OPERATING EXPENSES (11)	151	100	64	70	77	85	94	103
INTEREST ON HDF LOANS (12)	7	32	32	40	47	47	52	32
DEPRECIATION FUND (13)	13	13	13	13	13	13	13	13
VARIABLE EXPENSES								
BAD DEBT RESERVE FUND (14)	81	100	174	293	317	337	408	459
COLLECTOR'S COMMISSIONS (15)	0	0	6	10	14	14	17	20
TOTAL EXPENSES	473	487	459	653	709	755	860	923
NET INCOME	-350	-400	-261	-217	-271	-303	-263	-277
LOCAL FUNDRAISING (MEMBERSHIP FEES, ANNUAL BALL)	25	63	25	25	25	25	25	25
EXCESS OR DEFICIT	-325	-337	-236	-192	-266	-278	-238	-252
DEFICIT FINANCING (16)	325	220	236	192	266	278	238	252
END BALANCE	0	-117	0	0	0	0	0	0

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SENSITIVITY ANALYSIS: INTEREST RATES REMAIN AT 13%, & COLLECTION RATES REMAIN AT 60% FOR INTEREST, 50% FOR PRINCIPAL

HDF FINANCIAL STATEMENT, ($000)

	1983 (1)	1984	1985	1986	1987	1988	1989	1990
LOAN PORTFOLIO								
BEG. OF YEAR NET PORTFOLIO	484	703	828	1406	2512	2653	2973	3748
AID CONTRIBUTION (2)	145	90	750	750	0	500	500	500
OTHER CONTRIBUTIONS (2)	155	135	0	500	300	0	500	300
RE-LENT PRINCIPAL (3)	25	73	139	222	381	449	527	637
BAD DEBT FUND (4)	-81	-100	-172	-144	-160	-180	-225	-259
END YEAR PORTFOLIO (5)	703	828	1406	2512	2653	2973	3748	4288
AVERAGE PORTFOLIO (6)	594	766	1117	1959	2583	2813	3360	4018
INCOME FROM PORTFOLIO								
INTEREST (7)	79	70	162	284	234	255	351	395
T.A. FEES (8)	6	6	18	29	14	19	31	29
RESTRICTED FUNDS (9)	38	11	0	0	0	0	0	0
TOTAL INCOME	123	87	180	313	248	274	381	424
FIXED EXPENSES								
PAYROLL (10)	221	242	201	226	242	258	277	296
OPERATING EXPENSES (11)	151	100	64	70	77	85	94	103
INTEREST ON HDF LOANS (12)	7	32	32	40	47	47	52	32
DEPRECIATION FUND (13)	13	13	13	13	13	13	13	13
VARIABLE EXPENSES								
BAD DEBT RESERVE FUND (14)	81	100	172	144	160	180	225	259
COLLECTOR'S COMMISSIONS(15)	0	0	5	8	9	11	13	15
TOTAL EXPENSES	473	487	486	501	548	594	673	719
NET INCOME	-350	-400	-306	-187	-300	-320	-292	-295
LOCAL FUNDRAISING (MEMBERSHIP FEES, ANNUAL BALL)	25	63	25	25	25	25	25	25
EXCESS OR DEFICIT	-325	-337	-281	-162	-275	-295	-267	-270
DEFICIT FINANCING (16)	325	220	281	162	275	295	267	270
END BALANCE	0	-117	0	0	0	0	0	0

SENSITIVITY ANALYSIS: BAD DEBT REMAINS AT 10% & COLLECTION RATES REMAIN AT 60% FOR INTEREST, 50% FOR PRINCIPAL

HDF FINANCIAL STATEMENT, ($000)

	1983 (1)	1984	1985	1986	1987	1988	1989	1990
LOAN PORTFOLIO								
BEG. OF YEAR NET PORTFOLIO	484	703	828	1406	2368	2365	2538	3138
AID CONTRIBUTION (2)	145	90	750	750	0	500	500	500
OTHER CONTRIBUTIONS (2)	155	135	0	500	300	0	500	300
RE-LENT PRINCIPAL (3)	25	73	139	222	363	409	459	539
BAD DEBT FUND (4)	-81	-100	-172	-288	-303	-327	-400	-448
END YEAR PORTFOLIO (5)	703	828	1406	2368	2365	2538	3138	3490
AVERAGE PORTFOLIO (6)	594	766	1117	1887	2367	2452	2838	3314
INCOME FROM PORTFOLIO								
INTEREST (7)	79	70	207	378	311	338	469	522
T.A. FEES (8)	6	6	18	29	13	18	29	27
RESTRICTED FUNDS (9)	38	11	0	0	0	0	0	0
TOTAL INCOME	123	87	224	407	325	356	499	548
FIXED EXPENSES								
PAYROLL (10)	221	242	201	226	242	258	277	296
OPERATING EXPENSES (11)	151	100	64	70	77	85	94	103
INTEREST ON HDF LOANS (12)	7	32	32	40	47	47	52	32
DEPRECIATION FUND (13)	13	13	13	13	13	13	13	13
VARIABLE EXPENSES								
BAD DEBT RESERVE FUND (14)	81	100	172	288	303	327	400	448
COLLECTOR'S COMMISSIONS(15)	0	0	5	9	10	11	14	16
TOTAL EXPENSES	473	487	487	646	692	742	849	908
NET INCOME	-350	-400	-263	-239	-368	-386	-350	-359
LOCAL FUNDRAISING (MEMBERSHIP FEES, ANNUAL BALL)	25	63	25	25	25	25	25	25
EXCESS OR DEFICIT	-325	-337	-238	-214	-343	-361	-325	-334
DEFICIT FINANCING (16)	325	220	238	214	343	361	325	334
END BALANCE	0	-117	0	0	0	0	0	0

SENSITIVITY ANALYSIS: INTEREST RATES REMAIN AT 13% & BAD DEBT REMAINS AT 10%

HDF FINANCIAL STATEMENT, ($000)

	1983 (1)	1984	1985	1986	1987	1988	1989	1990
LOAN PORTFOLIO								
BEG. OF YEAR NET PORTFOLIO	484	703	828	1404	2361	2344	2507	3099
AID CONTRIBUTION (2)	145	90	750	750	0	500	500	500
OTHER CONTRIBUTIONS (2)	155	135	0	500	300	0	500	300
RE-LENT PRINCIPAL (3)	25	73	160	280	506	525	572	693
BAD DEBT FUND (4)	-81	-100	-174	-293	-317	-337	-408	-459
END YEAR PORTFOLIO (5)	703	828	1404	2361	2344	2507	3099	3440
AVERAGE PORTFOLIO (6)	594	766	1116	1882	2352	2426	2803	3270
INCOME FROM PORTFOLIO								
INTEREST (7)	79	70	165	305	298	317	409	445
T.A. FEES (8)	6	6	18	31	16	21	31	30
RESTRICTED FUNDS (9)	38	11	0	0	0	0	0	0
TOTAL INCOME	123	87	183	335	314	337	440	474
FIXED EXPENSES								
PAYROLL (10)	221	242	201	226	242	258	277	296
OPERATING EXPENSES (11)	151	100	64	70	77	85	94	103
INTEREST ON HDF LOANS (12)	7	32	32	40	47	47	52	32
DEPRECIATION FUND (13)	13	13	13	13	13	13	13	13
VARIABLE EXPENSES								
BAD DEBT RESERVE FUND (14)	81	100	174	293	317	337	408	459
COLLECTOR'S COMMISSIONS(15)	0	0	5	9	12	13	15	17
TOTAL EXPENSES	473	487	489	651	708	753	858	920
NET INCOME	-350	-400	-306	-316	-393	-416	-418	-446
LOCAL FUNDRAISING (MEMBERSHIP FEES, ANNUAL BALL)	25	63	25	25	25	25	25	25
EXCESS OR DEFICIT	-325	-337	-281	-291	-368	-391	-393	-421
DEFICIT FINANCING (16)	325	220	281	291	368	391	393	421
END BALANCE	0	-117	0	0	0	0	0	0

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SENSITIVITY ANALYSIS: INTEREST RATES REMAIN AT 13%, BAD DEBT REMAINS AT 10%, & COLLECTION RATES REMAIN AT 60% FOR INTEREST, 50% FOR PRINCIPAL

HDF FINANCIAL STATEMENT, ($000)

	1983 (1)	1984	1985	1986	1987	1988	1989	1990
LOAN PORTFOLIO								
BEG. OF YEAR NET PORTFOLIO	484	703	828	1406	2368	2365	2538	3138
AID CONTRIBUTION (2)	145	90	750	750	0	500	500	500
OTHER CONTRIBUTIONS (2)	155	135	0	500	300	0	500	300
RE-LENT PRINCIPAL (3)	25	73	139	222	363	409	459	539
BAD DEBT FUND (4)	-81	-100	-172	-288	-303	-327	-400	-448
END YEAR PORTFOLIO (5)	703	828	1406	2368	2365	2538	3138	3490
AVERAGE PORTFOLIO (6)	594	766	1117	1887	2367	2452	2838	3314
INCOME FROM PORTFOLIO								
INTEREST (7)	79	70	162	284	232	249	339	377
T.A. FEES (8)	6	6	18	29	13	18	29	27
RESTRICTED FUNDS (9)	38	11	0	0	0	0	0	0
TOTAL INCOME	123	87	180	313	245	267	368	404
FIXED EXPENSES								
PAYROLL (10)	221	242	201	226	242	258	277	296
OPERATING EXPENSES (11)	151	100	64	70	77	85	94	103
INTEREST ON HDF LOANS (12)	7	32	32	40	47	47	52	32
DEPRECIATION FUND (13)	13	13	13	13	13	13	13	13
VARIABLE EXPENSES								
BAD DEBT RESERVE FUND (14)	81	100	172	288	303	327	400	448
COLLECTOR'S COMMISSIONS(15)	0	0	5	8	9	10	12	14
TOTAL EXPENSES	473	487	486	645	691	741	847	906
NET INCOME	-350	-400	-306	-331	-446	-474	-479	-502
LOCAL FUNDRAISING (MEMBERSHIP FEES, ANNUAL BALL)	25	63	25	25	25	25	25	25
EXCESS OR DEFICIT	-325	-337	-281	-306	-421	-449	-454	-477
DEFICIT FINANCING (16)	325	220	281	306	421	449	454	477
END BALANCE	0	-117	0	0	0	0	0	0

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SUMMARY JOB DESCRIPTIONS FOR KEY HDF PERSONNEL

(1) Executive Director

A managerial position. 60% of his time should be spent efficiently managing his Programs Director, Finance Director, & Administration/Local Fundraising Manager. The remaining 40% of the Executive Director's time should be divided between public relations (this includes fundraising) and issues raised by the HDF Board.

The Executive Director should not be involved in day-to-day operating decisions, particularly those made by the Loan Officers or Collection Officers. This responsibility should always be delegated downward except in the event of a truly problematic case.

(2) Loan/Programs Director

A managerial position. In addition to supervising the Loan Officers and approving the yes/no decision of a Loan Officer concerning a potential client, the Programs Director is responsible for recommending new lending strategies as well as coordinating technical assistance training programs for the Loan Officers and the Collection Officers.

(3) Loan Officer

This individual performs two tasks: (1) making the recommendation to the Loan/Programs Director to approve or to disapprove a client loan, and (2) providing limited technical assistance to both potential and on-going clients.

An important part of the Loan Officer's function is to conduct field visits with applicants and on-going clients. Scheduled visits to the field will help to determine better a loan applicant's qualifications, evaluate external technical assistance to be given to both applicants and on-going clients, and alert the Loan Officer of an existing or potential client problem.

Part of the Loan Officer's responsibility when not in the field is to implement HDF's Loan Policy procedure which includes screening and completing loan applications and making the initial yes/no decision to visit a loan applicant on his business premises.

(4) Finance Director

A managerial position. The Finance Director's main thrust is to keep the HDF on a solid financial footing through financial forecasting and portfolio management. He will also supervise (1) the Controller to make sure the accounts and required reports are both correct and up-to-date and (2) the Collection Manager to be certain both outstanding interest and principal are collected on time. The Financial Director has ultimate authority over the Collection Manager and Collection Officers to take appropriate action should a client decide not to pay or fall behind in his payments.

(5) Controller

The Controller is responsible for keeping all books pertaining to HDF activities (this includes payroll and all other expenses, loan disbursement and repayment, capital contribution and fundraising activities). In addition, the Controller is responsible for preparing the payroll, for preparing AID and other reports, and for preparing data for the HDF Annual Report. The Controller will have open access to financial information from all parts of the Foundation and is responsible for alerting the Finance Director of unethical or financially unsound practices.

(6) Collection Manager

A managerial position. The Collection Manager will supervise the Collection Officers and will be responsible for screening and presenting problem cases to the Finance Director. It is envisaged that the Collection Manager will visit the clients when necessary.

(7) Collection Officer

The Collection Officer is responsible for collecting both principal and interest payments from the client. Though the base salary is low ($150 per month) total salary is computed on an incentive/commission basis equal to 1.5% x (interest + principal collected in the given year). The Collection Officer is responsible for following and enforcing the HDF's Collection Policy procedure.

(8) Administration/Local Fundraising Manager

A managerial position. The Administration/Local Fundraising Manager will divide his/her time between (1) administration (personnel problems as well as hiring/firing of employees); (2) local fundraising (collection of the annual $120 membership fee and organization of the Annual Ball); and (3) supervising the 2 Driver/Messengers, the Cleaner, the Guard, and the Receptionist/Secretary.

It should be noted that the positions and their responsibilities described above differ in many instances from existing practice at the HDF. Careful attention needs to be given to find the best people for each slot -- this may mean training existing personnel or going outside the organization at the expense of dismissing some of HDF's present employees.

ANNEX H

PROBLEMS FACED BY NATIONAL DEVELOPMENT FOUNDATIONS

Review of the Project Implementation Document in AID/W resulted in a request in the issues cable that the detailed analysis of the HDF's management and financial difficulties during project development take into consideration the potential contribution that could be made to a broader understanding of the problems faced by National Development Foundations.

In working closely with the TDI consultants during project preparation, a definite set of key issues emerged that relate to the process of designing a program with a development foundation type of institution. It is felt that addressing each key issue within the context of HDF's specific objectives and strategy brought significant insight into analyzing the problems facing the Foundation. All established institutions should ask themselves these same questions as the program expands in order to avoid management and financial difficulties; they also can help a new program form objectives and an organization mix which will support successful project implementation. Those key issues are as follows:

1. How closely does the program serve the critical needs of a substantial number of potential beneficiaries having the potential for substantial income and employment generation?

This issue requires program management to determine the market's critical needs for microenterprise assistance and the potential demand (at different prices) for these services. This question is expensive to answer definitively; it may be more practical to ask whether or not the demand for a particular service at a particular price is several times greater than the program's most optimistic ability to satisfy the demand.

The potential which these beneficiaries have for creating substantial income and employment generation must be studied. While this is difficult to ascertain, there are, nevertheless, groups of potential beneficiaries who have more income and employment-generating potential than others. At its outset the program must concentrate on the former.

2. Are the objectives and plan of the program based on a goal of market penetration or on building a demonstration model?

These objectives are quite different. An objective of market penetration requires that the program have access to a substantial, untapped market and that it have the organizational and management capability to itself realize such penetration. A demonstration model, on the other hand, hopes to induce success by providing services which are appropriate for other, perhaps larger markets. Program strategies for one of these two approaches must fit into the project concept.

3. <u>Do plans exist for securing and controlling internally and externally generated operating and credit funds?</u>

It is assumed that most programs have to go outside of the institution's internally generated funds for additional project financing. It must, therefore, compare the match between its objectives and those of various fund sources. There must be compatibility between potential projects from these sources and the needs of the program. The program must also prepare an effective control program to avoid the loss of assets from such problems as excessive defaults and administration costs. This will necessitate the internal capability to plan and forecast projections for future growth and development.

4. <u>Can the present operating mechanism expand without major bottlenecks, and do key operating ratios show a potential for self-sufficiency?</u>

The subsidy issues should be controlled early on so that they remain negligible in absolute terms to the sponsoring organization or donor. Deficits cast a bad light over the whole program, and they raise the continuing danger that outside events will suddenly cause the subsidity to stop, thus crippling the program.

5. <u>Is the present leadership appropriate for expanded operations, and is there a plan for its growth?</u>

The institution must visualize the management requirements of an expanded program and to compare its present management characteristics with what will be needed. This may well produce a gap, particularly if present management is the typical first-generation, highly-dedicated, but not delegating type found in many young organizations. A fact of life in most developing countries is that managers or skilled staff of a particular type and quantity are not often available in the job market. The program should install a system early on for developing management to fill its own future needs and make provisions to regularly assess management based on its ability to adapt to institutional growth.

6. <u>Can the program demonstrate an ability to channel resources to potentially viable clients?</u>

Perhaps the single strongest justification for a development foundation program is that they channel resources to groups previously ignored in development efforts; however, the program should substantiate the appropriateness of present and potential beneficiaries. There is a need to demonstrate that the program has a selection and administration system to assure that resources are concentrated on these beneficiaries and not others and a means to convincingly measure the performance of this system.

7. Does the program have a system to reliably measure results evidencing achievement of key objectives and strategies?

Few programs efficiently measure achievement of their objectives. This is a general business problem, which calls for more systematic record keeping. If there is inadequate record keeping, donors or sponsoring organizations will lose interest in the program because they will not be convinced that it is fulfilling the objectives for which it was founded. Also, program activities which have a particularly strong impact on achievement of objectives will not be recognized.

8. Is there firm justification for all program elements which are not paying their way, especially credit at less than prime and low-cost training programs?

Research conducted by TDI produced evidence that does not support the need for long-term subsidized program elements. However, there may be reasons for subsidy if the political consequences of less-than-cost pricing to beneficiaries far outweigh the subsidy involved, or the target beneficiary group has no appropriate vocational or business skills and therefore requires long and costly training programs.

Nevertheless, in such cases the program should isolate and cost out the elements which must be subsidized, make a convincing case for subsidization, and show that resources to be used for the subsidy could not more effectively be committed to serving more viable beneficiaries.

9. To what extent does the organization and program execute AID's objectives and strategies?

For even a well-conceived, self-sustaining program, AID is generally making a long-term commitment when supporting a development foundation. Therefore, it is really a service to the program for the Agency to make sure at the beginning that the institution's objectives and strategies are clearly stated and are in harmony with the Agency's. If not, then the program's objectives and strategies should to be more suitable or the Foundation should seek another donor.

In designing the HDF's program strategy for implementing this project, it became quickly evident that the Foundation has severe financial and administrative problems that pertain to each of the above nine strategic issues. Thus, it was understood that difficult short-term steps would have to be taken within the framework of each issue in order to reach the Foundation's long-term objectives of strengthening its management structure and starting a trend toward declining deficits. Reaching a final concensus among all parties takes time and continuing negotiations; however, a problem format such as this provides a model with which the parties can reconcile their differences and the project can move ahead with a good chance of success.

ANNEX I

HDF Loan Recipient Survey

The level of loanable funds available to the HDF is heavily dependent upon the actual availability of approximately $3 million in repaid loans over the 1985-1990 period. But to obtain these funds, the HDF must increase its collection rate from the current 50 percent rate to 60 percent in 1985, 70 percent in 1986, and 80 percent in 1987 and thereafter. If these improvements in repayments rates are not achieved, the overall level of loans and hence benefits would be reduced, the internal rate of return would decline and the probability of other concessionary financing for the HDF would diminish.

With these concerns in mind, a survey of 70 current loan recipients was conducted in early 1984 to determine the factors affecting loan repayment rates.[1] The survey data was arranged into three groupings: (1) The High Repayment Group who had paid 72 to 100 percent of principal and interest due; (2) The Medium Repayment Group who had paid 39-71 percent due; and (3) The Low Repayment Group, with a 0-38 percent payment rate (see the following table).

The results suggest that HDF loan payback rates are positively associated with a limited number of variables: total family income, amount capital invested in the business, assets and net worth before the loan, the level and rate of profits before the loan, loan duration, and whether the recipient kept correct accounting books and had a savings account. Basically, the more financially sound individuals were relative to the size of the loan, the more likely the loan would be paid back. In other words, the size of the loan itself was not significant, but the relationship between loan size and net worth and earnings potential was.

While these variables are correlated with payback, they are fairly weak predictors of payback. The HDF could significantly increase its payback by cutting off future loans to those with, eg. total family income below $350 month, assets less than $4,500, net worth less than $4,000, poor bookkeepers and those without savings accounts, etc. This would have the side effect of excluding viable small micro-enterprises. But if the HDF is to become financially sound, it will have to move toward more serious analysis of its potential customers and away from smaller financially unsound business ventures.

To asess the impact of focusing more on financially sound business ventures, the survey impact data are grouped by repayment rates (see following table). The average HDF loan recipient employed three persons before the loan and five after the loan. Given the depressed economy during the early 1980's, much if not all of the employment gain could be attributed to the HDF loans. The high repayment loan recipients had the same employment impact as the

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[1] Given the difficulties inherent in collecting reliable data from micro-enterprises, the results of the above survey can only be considered as suggestive. However, the results do conform in general to that which was expected to influence the payback rate.

I 2

average of the other groups. While the data suggest the low repayment group had a greater impact, the difference is not significant given the small sample size. It is clear that the loan impacts on net worth, sales volume, and profits are greater for the high repayment group than for the lower repayment groups. This implies that if future loans were focused on clientel with characteristics similar to the high repayment group, the HDF would have a larger overall impact on the micro-enterprise sector. Encouraging mainly financially sound micro-enterprises would also reduce the probability of business failures. Thus, the results support the conclusion that a shift towards financially sounder clientel would both increase the loan repayment rate and enhance the impacts on the micro-enterprise sector.

The project will provide for market surveys to further analyze the HDF's target group, and the sample size should be increased to at least 100 observations. The survey instrument should be redesigned so that more accurate data could be collected. The survey workers should be professionally qualified accountants/business management specialists who are not employees of the HDF. After the initial quantitative analysis is completed, an indepth analysis of individual firms should probe deeper into factors determining payback.

While the refined loan payback study may be necessary, it will not provide sufficient information to fully screen loan applicants. It is suggested that the screening process should incorporate a business management course of at least a month duration. Applicants for loans would fill out an initial loan request form. If accepted, they would then be required to enroll in the course, which among other things, could focus on factors which affect payback. A business plan and revised loan application could also be developed. The instructors would have an opportunity to more completely understand the caliber of the potential loan applicants and as such could make sounder loan application recommendations. To further enhance the probability of payback, the HDF should also provide new and larger loans to those who pay off their original loans.

ANNEX I
HDF LOAN RECIPIENT SURVEY

	High Repayment Group (72-100%)	Medium Repayment Group (39-71%)	Low Repayment Group (0-39%)	Total
Sample Size	(23)	(23)	(24)	(70)
Sex % Male	78%	86%	91%	81%
Age	43	41	42	42
Marital Status				
Married	16	16	17	52
Single	6	3	5	14
Divorced	1	1	1	3
Total Family Income (month)	$371	$292	$309	$324
Schooling				
None	3 13%	2 9%	2 8%	7 10%
Primary	9 39%	8 35%	7 29%	24 35%
Secondary	8 35%	10 43%	11 46%	29 41%
University	3 15%	3 13%	4 17%	10 14%
Dependents	5	5	6	5
Maintain Correct Books	70%	17%	33%	40%
Types of Business				
Artisans	0	0	3	3
Auto Parts and Repair	4	0	1	5
Beauty Shops	1	1	2	4
Block and Tile Mfg.	1	0	1	2
Cabinetmakers	4	3	4	11
Commerce, food	1	3	1	5
Commerce, other	2	2	1	5
Dental Clinic	0	0	1	1
Equip. repair	0	1	0	1
Ironworkers	1	1	4	5
Jewelrymakers	1	1	0	2
Mattress Mfg.	0	1	0	1
Printshop	1	0	0	1
Sewing Bus.	4	4	2	10
Shoemaker/repair	3	6	2	11
Age of Business (years)	8	13	8	9
Number of Family Worker	1	1	1	1
Family Support				
Labor	10	9	10	29
In kind	1	1	0	2
Capital	0	0	1	1
Capital Invested	$8837	$7483	$8017	$8111

	High Repayment Group (72-100%)	Medium Repayment Group (39-71%)	Low Repayment Group (0-39%)	Total
Employment Before Loan	3	4	4	3
Employment After Loan	5	4	7	5
Unpaid Family	1	1	0	1
Unpaid Appren.	1	0	1	1
Unpaid Domestics	0	0	0	0
Female Empl.	1	2	4	2
Assets Before Loan	$5021	$4222	$3741	$4469
Liabilities Before Loan	$ 424	$ 290	$ 837	$ 499
Net Worth Before Loan	$4597	$3932	$2904	$3980
Assets After Loan	$11375	$9179	$8207	$9568
Liabilities After Loan	$3461	$3224	$3632	$3437
Net Worth After Loan	$7914	$5955	$4575	$6131
Sales Before Loan	$1375	$1296	$1413	$1354
Profits Before Loan	$ 571	$ 419	$ 416	$ 463
Sales After Loan	$2251	$1102	$1582	$1649
Profits After Loan	$ 787	$ 402	$ 321	$ 459
Profit Rate Before Loan (Per Month)	6.4%	5.6%	5.2%	5.7%
Profit Rate After Loan (Per Month)	9.0%	5.4%	3.9%	5.7%
Equipment cost	$2232	$1536	$2139	$1974
Life Expect.	10 yrs	13 yrs	7 yrs	10 yrs
Salvage Val.	$ 892	$ 412	$ 577	$ 600
Exp. Repair	$ 74	$ 38	$ 157	$ 86
Age of Equipment	26 mo	29 mo	23 mo	26 mo
Rate of Depreciation = (Cost - Salvage/Life)/Cost	6.0%	5.6%	10.4%	6.9%
HDF Loan Amount	$4011	$3208	$4218	$3812
Loan Duration	36 mo	26 mo	29 mo	30 mo
Principal Due 12/83	$1759	$1852	$1719	$1766
Interest Due 12/83	$ 717	$ 541	$ 616	$ 624
Principal paid 12/83	$1431	$ 738	$ 212	$ 793
Interest paid 12/83	$ 769	$ 576	$ 496	$ 613
Act. Bal. Due	$2728	$2441	$2884	$2684
Principal in Arrears	$ 498	$ 912	$1182	$ 864
Interest in Arrears	$ 42	$ 85	$ 257	$ 130
Months Principal in Arrears	3 mo	9 mo	13 mo	9 mo
Months Interest in Arrears	1 mo	3 mo	8 mo	4 mo
% have Savings Accounts	87%	69%	50%	69%
% have Problems with:				
Insufficient Revolving Funds	65%	48%	66%	60%
Insufficient Capital	57%	52%	38%	49%
Lack Market	26%	26%	38%	30%
Lack Quality Workers	26%	13%	13%	17%
Inadequate Product or service	9%	13%	16%	13%
Personnel Problems	43%	35%	42%	40%
Lack Equipment or tools	26%	26%	21%	24%

IMPACTS OF HDF LOANS

	High Repayment Group (72-100%)	Medium Repayment Group (39-71%)	Low Repayment Group (0-38%)	Total
Sample Size	23	23	24	70
Employment Before Loan	3	4	4	3
Employment After Loan	5	4	7	5
Change	2	0	3	2
Net Worth Before Loan	$4597	$3932	$2904	$3980
Net Worth After Loan	$7914	$5955	$4575	$6131
Change	$3317	$2023	$1671	$2151
Sales Volume Before Loan	$1375	$1296	$1413	$1354
Sales Volume After Loan	$2251	$1102	$1582	$1649
Change	$ 876	$-100	$+169	$+295
Profits Before Loan	$ 571	$ 419	$ 416	$ 463
Profits After Loan	$ 787	$ 402	$ 321	$ 459
Change	$ 216	$ -17	$ -95	$ -4

FACTORS RELATED TO LOAN REPAYMENT RATE

	High Repayment Group (72-100%)	Medium Repayment Group (39-71%)	Low Repayment Group (0-38%)	Total
Sample Size	23	23	24	70
Total Family Income per Month	$ 371	$ 292	$ 309	$ 320
Capital Invested in Business	$8837	$7483	$8017	$8111
Assets Before Loan	$5021	$4222	$3741	$4469
Liabilities Before Loan	$ 424	$ 290	$ 837	$ 489
Net Worth Before Loan	$4597	$3932	$2904	$3980
Profits Before Loan (Per Month)	$ 571	$ 419	$ 416	$ 468
Profit Rate Before Loan (Per Month)	6.4%	5.6%	5.2%	5.7%
Loan Amount	$4011	$3208	$4218	$3812
Loan Duration	36 mo	26 mo	29 mo	30 mo
Keep Correct Books	70%	17%	33%	40%
Have Savings Account	87%	69%	50%	69%

Assessment of Methods of Implementation and Financing

(a) Methods of Implementation and Financing

Method of Implementation	Method of Financing	Approx. Amount
Commodities - Cooperation Loan Fund Agreement	Reimbursement including Periodic Advances	$1,915,000
T.A. - Coop. Institution	Direct L/COM	285,000
Total Project		$2,200,000

(b) There is no departure from normal methods of financing procedures. Direct L/COM has been selected for the T.A. because the cooperating institution does not have the financial resources to make payment and seek reimbursement.

(c) This is the fourth project to be financed by USAID/Haiti with this institution. Thus far, its procedures for contracting, commodity procurement, etc., have been satisfactory. This project calls for an annual evaluation and audit of the project.