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An Evaluation of the Haitian Development Foundation's Management Systems, Performance and Alternative Long-Term Strategies

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Prepared for the United States Agency for International Development's Mission to Haiti.

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PREFACE

The United States Agency for International Development (USAID) contracted this evaluation team to undertake the 1983 yearly evaluation of the Haitian Development Foundation (HDF). The purpose of this evaluation was to take a critical look at the Foundation's current organizational structure, financial and operations management systems and training component (animateur), and recommend ways and means of making them more efficient and effective. The findings and recommendations were to be used in the design of a new multi-year project due to start in 1984; this up-coming project is to provide continued USAID assistance to HDF, already made available since 1979 in the form of two Operational Program Grants (OPG's) and one Cooperative Agreement, the latter due to expire in April 1984.

The evaluation took place from October 17 to November 14, 1983. Work performed consisted of interviews with 7 out of 9 members of HDF's Board, and all HDF and USAID project staff. All relevant data as well as previous evaluations were reviewed. Also, structured questionnaires were submitted to field animateurs, and the results tabulated.

While this evaluation was a team effort, the management specialist (Jean-Jacques Deschamps) concentrated on the analysis of management systems relating to the financial, information flow, fund-raising, operational procedures and credit areas, while the small-business specialist (Criss Juliard) studied specifically the delivery of services to clients, the market for HDF credit facilities, relations between HDF management and its Board, and the responsibilities of HDF senior staff.

The evaluation team wishes to thank all those within HDF and without who have made their work possible.

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EXECUTIVE SUMMARY

The purpose of this 1983 evaluation of the Haitian Development Foundation (HDF) was to take a critical look at the Foundation's current organizational structure, financial and operations management systems and training capabilities(animateurs), and recommend ways and means of making them more efficient.

I. MANAGEMENT SYSTEMS

1.1 Functioning of the Board

(i) Despite the wide-ranging responsibilities attributed to the Board under HDF's by-laws, its role has been gradually reduced; this lesser role has provided greater leeway to the Executive Director in day-to-day management (the Board has still been involved in major policy decisions affecting HDF in the past years).

(ii) Lack of information and/or poor quality of the information coming from the Foundation is certainly partially responsible for the Board's disinvolvement (this lack of information flow has also affected HDF's relationship with USAID;

(iii) In addition, several Board Members have expressed disillusionment resulting from the institution's non-viability; attractiveness to serve on the Board is consequently low and attendance to Board meetings has been dismal (only one session has had a quorum in the past year and only six out of 10 scheduled meetings were actually held);

(iv) The same lack of involvement has affected the functioning of Board Committees, of which only one out of four (the Credit Committee) has been operating normally.

(v) This shift of responsibilities from the Board to the Executive Director is not seen as detrimental for the day-to-day operation of the Foundation, but lack of Board involvement is certainly detrimental to HDF's full acceptance by the local business community as an important development institution.

1.2 Fund-raising

(i) Results to date have been disappointing: specific fund-raising projects would most probably incur a net loss if indirect costs were included; realistic forward planning and careful monitoring and assessment of projects already undertaken would certainly enhance resulting benefits to the Foundation, coupled with specialized technical assistance.

(ii) However, if major donors would reduce their "matching funds" requirements, at least local fund-raising could be profitably disposed of, with the exception of the membership drive (the latter has fizzled over the past two years due, in particular, to lack of Board involvement).

1.3 Financial Management

(i) The Finance Department has been weakened by the resignation of its Manager, who has not been replaced since January 1983.

(ii) Financial Management systems are still not in place, and are now badly needed, particularly as they relate to the Foundation's viability (determination of loan portfolio yields, average cost of lending, break-even Point, overall progress towards viability, etc.)

(iii) The statement of revenues and expenses should be amended to reflect true viability (all external contributions, local and international, are currently included in income, which gives a distorted idea of HDF's effective self-sufficiency).

(iv) The yearly budget only covers operating expenses; a separate loan budget and cash flow should be prepared, allowing HDF to project loan activity and thereby avoid present problems stemming from the non-availability of funds to cover the disbursement of approved loans.

1.4 Credit Management

(i) Loan processing is efficient under HDF's current operating mode

(loans to traditional businesses); however, the Credit Dept. has no technical analysis potential should loan activity be expended to non-traditional small businesses requiring higher levels of technology;

(ii) The Credit Department is fast losing its autonomy, as an increasing number of applications are transmitted from the Executive Director's office with the "urgent" stamp, a classification implying quasi-required approval.

(iii) The monitoring system covering the loan portfolio should be modified to allow for the regular (quarterly) calculation of repayment rates.

(iv) Collection procedures should be written down and seriously tightened, and a definite link should be established between the animateur's work and timely repayment of the client's loan.

1.5 Organizational Structure

(i) The major weaknesses identified relate to the lack of information flow to the Board (due in part to the absence of an Acting Director in the Executive Director's absence), to financial management and to loan administration.

(ii) The first two weaknesses would be erased with the appointment of a Deputy Director in charge of financial management, while the third one would involve the transformation of the existing Credit Department to include collection and, if needed in the future, project analysis.

(iii) Board committees should have direct links to the corresponding internal department of HDF.

II. DELIVERY OF SERVICES

(i) The latest animateur training program has produced a more sophisticated animateurs better prepared to deal with larger clients.

(ii) The animateurs, if well prepared to provide basic technical assistance, lack the "business spirit" required to make them non-salaried agents paid on a commission basis only.

(iii) Attempts should be made to provide technical assistance to clients through seminars, at least on a pilot basis.

(iv) The ratio of clients to animateur has increased dramatically over the past years; however, total income generated still barely covers direct animateur salary costs.

(v) Possible ways to further improve animateur efficiency include a "small business sponsorship program" which would link clients to

large local firms.

(vi) expansion to the rural areas should be frozen until activities in the capital are strengthened and made more profitable.

III. FINANCIAL PERFORMANCE

(i) HDF's financial condition is characterized by a high level of indebtedness compared to a very limited networth.

(ii) True viability (defined as income from interest and fees minus expenses and reserves for bad debts) is very poor, as expenses are 5.3 times higher than income; operating expenses even exceed total loans extended (average cost of lending: $1.07 per dollar lent)

(iii) Nominal yield on the loan portfolio is good, reflecting satisfactory loan conditions; however, the effective yield is negative, due to high bad debt level.

(iv) Contrary to claims made to date, repayment rates are low (47.7% on loans extended in FY'83 and 53.2% overall), and are bound to further deteriorate in view of the fact that most loans are still in the early repayment phase.

IV. LONG-TERM STRATEGY

(i) As of recently, HDF's market has shifted from exclusive reliance

on existing business to a mix of the latter with new businesses; however, if current low repayment rates are indeed a result of the marginality of HDF's existing clientele(which remains to be seen), then new options need to be explored, such as the establishment of "linkages" with large businesses such as described above or a project identification program to identify profitable ventures and match them with client skills.

(ii) HDF will remain a non-viable institution in the foreseeable future, which makes it very vulnerable to "donor withdrawal" if it is indeed to ever become self-sufficient, which appears to be the only "viable" solution in the long-term, it will require large infusions of fresh loan capital coupled with drastic reductions in bad debts.

(iii) However, based on realistic assumptions (bad debt level falling from 10% to 5% over 5 years), five-year projections show that viability can be marginally improved in relative terms, but not achieved effectively; other alternatives thus need to be explored, including shifting loan activity to more profitable businesses (if indeed poor collection performance is linked to the marginality of present customers), making

HDF a purely financial institution (through the "disposal" of technical assistance) and developing non-lending, money-making activities on which other foundations in the area heavily depend upon.

INTRODUCTION

The Haitian Development Foundation (HDF) was created in 1979 as a private, non-profit organization to provide loans and management assistance to micro-businesses and small enterprises in Haiti which do not have access to regular commercial credit.

Initial funding came from USAID in the form of a $495,000 Grant (OPG #521-0118 covering the May 1979 - December 1981 period) to the Pan American Development Foundation (PADF), designed to establish HDF operations and its supervised credit and assistance program to small businesses. A second $495,000 grant covering the January 1982 - April 1983 was made to PADF for the extension of HDF's small business skills and loans and to cover HDF's operating costs. Finally, a $475,000 one-year "bridging" grant was extended to HDF to "enable it to become sufficiently self-sustaining operationally to be eligible for a major capital loan"; this grant was in the form of a Cooperative Agreement between HDF and USAID covering the May 1983 to April 1984 period.

During the 1979 to 1983 period, additional major support was provided by the Inter-American Development Bank (IDB), which extended a $500,000 loan for the revolving loan fund and contributed $46,000 for technical assistance, by PADF in the form of two loans totalling $80,500, and by the Fonds de Developpement Industriel (FDI) in the form of a $65,000 loan plus limited loan rediscounting facilities. Six previous evaluations were completed by the various donors, three by USAID, two by SOLIDARIOS and one by IDB.

The first three chapters of this report attempt to address the objectives of this evaluation. Chapter One analyzes the Foundation's existing management systems relating respectively to the functioning of the Board, to fund-raising, to financial management and to credit and portfolio management. These areas are analyzed functionally and not as the exclusive responsibility of one Department. Information management is not analyzed separately but as an essential component of each "management system" listed above. The last part of Chapter One relates to the constraints identified in HDF's existing management systems with its organizational chart.

Chapter Two takes a critical look at how technical assistance and loan services are delivered to HDF's clientele, and analyzes therewith the functioning of the Promotion Department, which is specifically responsible for delivering these services.

Chapter Three provides an in-depth analysis of the Foundation's financial performance, as it was found that such an analysis had not been performed to date, either internally or externally.

These first three Chapters include specific operational recommendations, designed to improve HDF's internal efficiency and ensure that the Foundation is in a position to successfully manage a major capital contribution from USAID. However, the evaluation team felt that this analysis was insufficient to guarantee that major support would indeed result in improved and expanded benefits at enterprise level. It therefore proceeded in Chapter Four to succinctly analyze HDF's long-term status, particularly as it relates to financial viability. This led to the establishment of strategic recommendations in addition to the operational recommendations of the first three chapters.

Chapter Four also serves as a wrap-up of previous recommendations as they relate to USAID's project planning exercise. This, as well as specific recommendations made during the course of the report, will serve as this team's summary findings.

CHAPTER ONE - MANAGEMENT SYSTEMS

1.1 Functioning of the Board

. Role attributed to the Board: from its inception, the Board was attributed wide-ranging responsibilities, which are defined in the By-Laws and which are granted by the General Assembly - the "membership" core of the Foundation. The Board was charged with the formulation of HDF's general policy and with overall orientation of its activities. It was to review proposed projects and approve or disapprove them. In addition, the Board was to seek and obtain the resources necessary to fund the Foundation. To effectively play this role, the Board needed to meet frequently, which it did for the first two years.

. Evolved Role: an evolution in HDF's operations has led to modifications of the Board's responsibilities. At its outset, the Foundation was a novel concept within the context of the Haitian private sector and it went through a normal shake-down period. Board membership began with 6, expanded to 17, reduced to 7 and is now up to a workable 9. As HDF's operations consolidated, two different tendencies emerged among Board members: one wanted to follow more closely the affairs of the organization, respecting the "letter" of the constituting document and expecting that, as HDF's activities expanded, so would the Board's. The other tendency sought to extend to the Executive Director greater leeway in day-to-day decision-making, thereby reducing the Board's responsibilities and the frequency of its monthly meetings.

The Board did in fact initiate, or provide the support for several major policy decisions in the early years (i.e.: expansion into the Provinces, reduction in the number of animateurs, increase in size of loans). But, as the Foundation began to depend more heavily on fund raising activities, and as the Board defaulted on this task, the Executive Director assumed greater responsibility and consequently expanded his authority to the detriment of the Board.

. Information flow to the Board: as the Board assumed a less active role this past year than previously, it would appear the second tendency, described above, predominated. Some Board members, however, expressed that their reduced

involvement resulted from not been kept well informed about HDF's activities. An assessment of all documents sent to the Board for debate and review does indeed reveal sporadic reporting and absence of the type of information required for effective decision-making and proper follow-through. There is no format used to systematically summarize the activities of each Department, and there is no uniform time-table to regulate the frequency of such reports (the appointment of a Deputy Director to improve the information flow to the Board will be discussed in sub-Chapter 1.5). A clear, structured format should therefore be adopted for the reporting of HDF's activities to the Board, with inputs provided by each Department head and compiled by the Executive Director.

It should be noted that these very same weaknesses in the information flow from HDF to its Board have also affected USAID, which has not been kept adequately informed of HDF's activities on a regular basis; a copy of all above reports should thus be sent to USAID, with serious consideration given to inviting a USAID representative to attend Board meetings.

In all fairness, it should be stated that decision-making and transmittal from the Board to the Foundation has also been weak, as evidenced by the fact that the 1983-84 budget presented to the Board back in April 1983 has still not been approved by the latter.

. Attractiveness to serve on Board: A weakened financial position of HDF has made serving on the Board less attractive. After initial years of enthusiasm, there is disillusionment among key members of the Board regarding the type of input they can provide to the Foundation. Added to the sparse successes in fund-raising and membership recruitment, there is as well a realization that HDF, under its present operational mode, is not a viable affair. Since nearly all who serve on the Board are entrepreneurs, they generally feel frustrated at being associated with a "losing proposition," and at not having the resources to reverse that trend; this in turn reduces their interest in serving HDF. More specifically, several Board members perceive that as a preponderance of loans and assistance are extended to marginal non-viable businesses, assistance from HDF serves nothing more than perpetuating the economic system within which these businesses operate (these same members feel that businesses are often marginal because of this economic system, not just because of a lack of capital or technical assistance).

Board members also feel that if the Foundation is to be truly developmental, it must also be engaged in identifying new viable economic activities, and linking these with entrepreneurs to which stronger technical assistance is to be provided. As long as the Foundation devotes the majority of its resources to responding to requests for assistance, rather than generating new opportunities, it will remain insolvable, and few private sector leaders will want to serve on its Board of Directors; specific recommendations dealing with this issue will be made in Chapter 4.

Also, as pointed out to the evaluation team, Board motivation could also be improved through appointment to the Board of selected small entrepreneurs or possibly of HDF clients. This alternative would seem to offer substantial potential for improved Board participation and responsiveness and should be further explored.

. Frequency and content of Board meetings: recently, Board members have had less time available and/or less desire to attend meetings. Reflecting the fact that only six of the ten meetings scheduled in the past year were actually held, the frequency of future Board meetings will have to accommodate Board members availability. The present tendency is to hold such meetings once every quarter under the present lack of involvement and motivation.

Several Board members complained about excessive details of non-substantive matters brought up at Board meetings; if meetings are to be less frequent, it becomes all the more essential that the agenda deal with essential issues only, at the expense of more trivial matters which may be dealt with by phone.

> * Recommendation #1.1: Implicate more closely Board members in HDF's activities, and in planning sessions. Invite Board members to staff meetings, have them accompany animateurs or supervisors on rounds with clients.

. Attendance to Board meetings: this broad disillusionment among members has reduced attendance and in turn further weakened the Board. Attendance at the regularly scheduled meetings has been sparse this past year. Since the selection of the new Board, only one session has had a quorum, and only one was presided by the President. A wide array of topics were discussed, the majority of which dealt with financing problems and resource development.

While there appears to be no structural or organizational problems with the Board's functioning, the major constraint this year was the above-mentioned quorum question. Of the nine-member Board, one has resigned, two withdrew their attendance because Board's activities took too much time, one went into politics and withdrew from reconsideration, and two were away most of the year. Three members were thus left to carry the work of a nine-member Board. This disinvolvement weakened the position of the Board and indicates new attitudes are required.

. Committees of the Board: The Board divides its members among four committees and each is assigned a specific task. Aside from the active Credit Committee, which meets to approve loans over $10,000 and reviews all loans, the other three committees have not functioned this year as hoped. The Public Relations and Resource Development Committee was created so the Board could assist the Foundation in recruitment of new members and fund-raising. The Community Development Committee was to assist in the rural development phase of HDF, promote appropriate technology methods and assist in the integration of groups and cooperatives in the rural/urban environment. The Budget and Finance Committee was to analyze monthly the expenses of the Foundation and review the annual budget report. The major constraint has been the absence of a mechanism to link the Committees with the corresponding department within the Foundation. There is no direct reporting or consultation between the Committees and department heads, as information to and from the Board passes through the Executive Director.

> * Recommendation #1.2: Establish link between Department heads and the appropriate committees through HDF's management. Allow for selection of General Assembly members to Board committees in order to broaden range of skills and ease pressure on Board members.

. Adequacy of By-Laws: Actual and proposed HDF By-Laws are adequate for the present mode of operation. At present six articles have been recommended for modification in an attempt to address Board-related problems as perceived by HDF. The amendments have been discussed by the Board (awaiting formal adoption at the November, 1983 meeting), and are scheduled to then be ratified at the forthcoming annual General Assembly. The modifications deal specifically with:

Article 16: Increase Board size from 7 to 9 members.

Article 17: Increase the term of Board members from one to two years, and eventually three years starting the third year, through a rotation system.

Article 19: Establish procedures to replace a Board member who resigns.

Article 20: Stipulates that being absent for three consecutive Board meetings is considered a resignation.

Article 39: Officializes the fiscal year, requiring that HDF's annual report be submitted to the General Assembly within six months of the end of FY.

A constraint related to the By-Laws is that they ignore legal entities other than the Board, the General Assembly and the Executive Director. If some recommendations proposed in this report are adopted, particularly as they relate to Board Committees, the appointment of a Deputy Director and internal Departments, amendments to the existing By-Laws will need to be formulated.

. Resumé: As of late, the Board has gradually disengaged itself from the day-to-day operations of the Foundation. This shift of responsibilities to the Executive Director is not seen as detrimental by the evaluation team. It indicates a measure of maturity in HDF's organizational development, since many of the day-to-day decisions are being taken by the senior staff.

1.2 Fund-raising Management

. Internal organization: the primary responsibility for fund-raising (referred to as Resource Development at HDF) currently lies with the Executive Director. He is assisted in his efforts by the two staff members of the "Department of Resources and Public Relations", the head of which is specifically in charge of local fund-raising and also backs up the Director with some practical aspects of overseas fund-raising.

This division of labor has been working out smoothly, except for the lack of involvement of the Board, and in particular of its President, in the local membership drive of the past two years. In 1980 and 1981, membership grew steadily, in particular through the organization of weekly fund-raising dinners. Since then, the Board President has no longer been available, and the membership drive lost its momentum (216 members currently), not through lack of effort on HDF's part but because fund-raising is greatly facilitated by the personal backing of a prestigious individual well-known locally. A concerted effort should thus be made to identify and present for nomination to the Board a well-known personality with strong fund-raising potential .

. Conception and planning: the same line of responsibilities applies here, with the Executive Director retaining the initiative for international fund-raising and his assistant for local programs.

If valiant efforts have been made on both fronts, these drives have appeared to suffer from a lack of professionalism in two areas:

(1) based on available program descriptions, it seems that envisioned programs are not thoroughly investigated, in particular financially (this in turn hampers program approval from the start, as the Board is reluctant to grant its approval in the absence of strongly substantiated evidence of success).

> * Recommendation #1.3: all new proposed fund-raising activities should undergo a thorough evaluation, including test responses from the market, and be well planned before being presented to the Board. "Quality control" criteria, including an assessment of financial risk and detailed financial projections, should be established and systematically applied for all programs. Two months of specialized technical assistance to resource development staff may be provided either by USAID under new Project or possibly through the U.S.-based organization of retired executives for acquisition of these and other required skills.

(2) Financial information provided to potential donors is sketchy, chiefly because such information is not compiled. As stated in the 1982 report on fund-raising by Funderburke & Associates, "all of the planning activities undertaken by HDF, including monitoring and evaluating processes to assess its progress and measure its results, are pre-requisites to obtaining external funding from institutions and individuals with the propensity and capability to contribute to HDF". Moreover, international donors will not be ready to commit themselves to HDF in the absence of strongly substantiated evidence that HDF will indeed survive as an institution in the foreseeable future. Consequently, HDF should make available to potential donors, if possible at time of first contact, a convincing set of financial documents, including five-year projections and strategic plans.

. Monitoring and evaluation: short financial impact reports have been produced after local fund-raising events have taken place. However, such reports do not critically analyze what went right and what went wrong, and what lessons could be drawn for the future; when costly mistakes are made, as has happened in the past, a critical assessment in report form is of particular importance, instead of just dismissing raffles, or other programs, as "of no benefit to the institution". Only such critical analysis will set HDF on a positive "leaning curve" in the fund-raising area.

Monitoring procedures during project implementation should also be developed.

. Future activities: again, what is at stake here is not the validity of HDF's current efforts, but the process by which programs are planned for, carried out and evaluated.

Laudable efforts are presently underway, including:

- an intensified local membership drive
- the local "Who is Who", produced in February 1983
- the yearly "HDF Ball"
- a mail drive directed to the headquarters of U.S. companies with local subsidiaries.

Still in the planning phase are a number of other activities, including the preparation of a catalogue of Haitian handicraft items which would be available through HDF (with possible PACT financing for the preparation of the catalogue), a visit of a circus from Jamaica and a television membership-drive program. Generally, fund-raising efforts have been only marginally profitable to

date, as indicated by the table below which relates to local fund-raising efforts:

	FY' 1982	FY' 1983
Income from fund-raising	$61,960	$42,404
Fund-raising expenses	$68,093	$27,478
Net profit (deficit)	($6,133)	$14,926

Moreover, the above fund-raising expenses include only direct salaries for the two fund-raising staff plus expenses directly related to specific programs; were costs related to that portion of the Executive Director's time going to such activities included in fund- raising expenses, local resource development efforts would most probably become a money-losing proposition.

Despite the low negative cost-effectiveness of fund-raising activities and their heavy demands on the Executive Director's time, current efforts will have to be pursued, insofar as HDF will have to contribute "matching funds" to projects funded by USAID and other donors. However, should USAID be willing to waive such matching fund requirements, local fund-raising efforts could be profitably disposed of, with the sole exception of the membership drive.

Of course, as the Foundation becomes increasingly self-sufficient in the future, i.e. can cover its operating expenses with income from interest and fees, fund-raising will no longer be a pre-requisite, a stage which has already been reached by other more mature foundations in Latin America. In the meantime, fund-raising will go on playing its "bridging" role between today and tomorrow's Foundation.

True viability would also make fund-raising "expendable", and this should provide the Foundation with the incentive to become financially self-sufficient in the future; the viability issue will be further discussed in Chapter 4.

Lastly, HDF's recent involvement in rural development efforts in the Southern Provinces (see Chapter 2) offers new opportunities for fund-raising, such as has already been the case with the Inter-American Foundation. The fund-raising potential of HDF's current expansion should be carefully assessed and if at all possible cashed upon.

1.3 Financial Management

. Internal organization: financial management is the primary responsibility of the Finance Department, which currently comprises the head accountant as officer-in charge, a collection agent and an assistant.

The operation of the Finance Department has been seriously hampered by the resignation of the Financial Manager in January 1983; as he has not been replaced since then, he has been kept on as a consultant, available for guidance and help in the afternoons and evenings.

Such an arrangement is hardly satisfactory in the long-term. Although a specific recommendation will be made to fill the gap, it will be dealt with in sub-Chapter 1.5 below as part of HDF's overall future organizational structure.

. Accounting and preparation of statements: the accounting system adopted by HDF is basically sound and well adapted to the operation of a Foundation. Cash transactions are recorded immediately, and proper receipts numbered sequentially are established when a cash payment is received by the Finance Assistant.

The following accounting books are used:

- a cash journal in which all cash transactions are recorded as they occur.
- a cash entry journal and a cash disbursement journal in which are recorded all transactions which affect the income statement.
- a petty cash journal
- a general book for all entries which concern only the balance sheet.
- a general ledger for the preparation of financial statements.

Financial statements are prepared monthly in prompt manner, as they are available before the 15th of the following month(1). These include a balance sheet and a statement of revenues and expenses, as well as an analysis of actual vs. budgeted expenses.

Three areas of improvement have been identified with respect to the preparation of financial statements:

(1) no statements were prepared between January and June 1983 following the resignation of the Financial Manager.

- The reserve for bad debts proposed for FY' 1983 was largely insufficient to cover foreseeable losses, and had to be increased more than two-fold ($74,004 vs. $33,713) by the external auditors.

- When funds originally allocated as loan capital are temporarily used to cover operating expenses, an entry is made on both sides of the balance sheet as "inter-account adjustments"; this artificially inflates the balance sheet, and is not really necessary as long as inter-account transfers are described in the accompanying notes.

- The statement of revenues and expenses includes all contributions to operational expenses as revenue; although a Foundation does not have a profit and loss statement as such, the statement of revenues and expenses would give a better image of the Foundation's viability if only income from interest and fees were considered as revenue, and contributions to expenses were re-included at the bottom line; this change would involve the following:

Current Presentation		Proposed Presentation	
Revenues		Income	
Contributions	A	Interest	B
Interest	B	Fees	C
Fees	C	Total Income	B+C
Total Revenues	A+B+C		
Expenses	D	Expenses	D
Excess Revenues	A+B+C-D	Excess Income (deficit)	B+C-D
		Other Revenues (Contributions)	A
		Excess Revenues (deficit)	A+B+C-D

* Recommendation #1.4: the presentation of financial statements should be amended to: (1) include reserves for bad debts which are sufficient to cover probable loan defaults and calculated according to a consistent formula which HDF should establish; (2) eliminate inter-account adjustments on both sides of the balance sheet; and (3) separately show excess

income from interest and fees over expenses in the statement of revenues of expenses, so as to give a clearer picture of HDF's overall viability.

. Inspection and control: HDF does not currently have an internal inspection unit for the control of internal procedures, staff productivity and handling of cash.

This control function is performed once a year by the external auditors for what pertains to accurate bookkeeping and cash control. It is debatable whether the institution needs to establish at this stage internal control procedures, with the extra expense entailed.

The advantage of an in-house control system is that controls can be done systematically; the scope of external audits is limited to random tests, which moreover are carried out only once a year, often too late to catch a problem such as erroneous bookkeeping or embezzlement of funds. Let us say that as HDF grows in future years, or as specific problems may arise, the need of an internal inspection unit should be closely assessed.

. Financial analysis: to date, the work of HDF's Finance Department has been limited to accounting, bookkeeping, cash management and the preparation of financial statements; financial analysis as such has been neglected, aside from analysis related to projects submitted to the Credit Department by potential sub-borrowers.

It can be argued that during its first few years of operation an institution such as HDF could hardly afford the luxury of on-going financial monitoring: survivability was more of an issue than viability, and resource mobilization held infinitely more potential in the short-term than for instance the improvement of portfolio yields.

At HDF's present stage of development, financial analysis is becoming more critical, as major donors are likely to put increasing pressure on the institution to become financially self-sufficient in the not-too-distant future.

Also, as already pointed out (see sub-Chapter 1.2 on fund-raising), resource development efforts will be greatly enhanced if HDF can present major potential donors with comprehensive financial data and projections on the Foundation.

* Recommendation #1.5: an internal financial analysis methodology should be developed to monitor critical elements such as nominal and effective loan portfolio yields, return on assets, average cost of lending, determination of break-even points as well as overall viability of the institution, at least on a quarterly basis (refer to Chapter Three for the description of typical methodologies to be developed).

Of course, the resignation of HDF's Financial Manager has left HDF critically weak in this respect; the implementation of the above recommendation will therefore be dependent upon the reinforcement of HDF's capabilities in this respect, which will be dealt with in sub-Chapter 1.5 below.

In view of the increasing importance of financial analysis for monitoring as well as fund-raising purposes, it is recommended that external technical assistance in this field be made available to HDF under the up-coming project, at least on a TDY (temporary duty) basis.

. Financial planning: insofar as short-term financial planning is concerned, HDF has been preparing a yearly budget, with variances between actual and budgeted expenses being monitored on a monthly basis.

However, three major problems have been identified with respect to financial planning:

(1) the budget period does not necessarily follow HDF's fiscal year, as is currently the case with HDF operating on a May 1983-April 1984 operating budget corresponding to the life of the Cooperative Agreement with USAID.

(2) approval of the budget by the Board has often been slow, a constraint which is also apparent today with the current budget not yet approved in November 1983, over six months after the beginning of the above budget year.

(3) more importantly, HDF has been working with an operating budget only, covering income and subsidies for operating expenses on the revenue side and expenses on the other side; it has not been

preparing similar budgets or related monthly projected cash flows covering anticipated loan activity.

The first constraint is inherent to HDF's status as a heavily subsidized institution. There is not much to be recommended to allow HDF to prepare its own independent budget before the beginning of each fiscal year, except that it should strive to become self-sufficient and reduce with time its reliance on overseas funding.

As for the second constraint, there is no excuse for lengthy delays in approval of yearly budgets by the Board. Whether the problem lies with the Board or with the lack of information made available to enable it to reach a consensus on such matters, a sufficient level of self-imposed discipline should ensure the timely approval of yearly budgets.

The third constraint is more troublesome, as it prevents the Foundation from determining at the beginning of each fiscal year what the level of loan activity will be, and during which month funds will be available for loans. This in turn will have detrimental effects on the animateurs' work and on the entire loan approval process, as neither the animateurs nor the Credit Department know in advance whether sufficient loan money will be available at the time loan applications are processed(1).

* Recommendations #1.6: projected loan budgets and cash flows should be prepared yearly in addition to existing operating budgets; they should include fresh loan capital as well as anticipated repayments of principal (based on realistic repayment rates) as resources, and of course loans extended as uses of funds.

. Cash management: cash balances are presently held in six separate bank accounts, as follows:

(1) operational expense account with Banque de l'Union Haitienne (B.U.H.)
(2) Inter-American Development Bank (IDB) loan account with B.U.H.

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(1) As a case in point, as many as 23 loans totalling $157,000 had been approved but not disbursed as of September 30, 1983; lack of available funds was solely to blame for this discrepancy.

(3) USAID loan account with Banque Nationale de Credit (B.N.C.)
(4) Fonds de Développement Industriel (F.D.I.) loan account with B.N.C.
(5) Exchange account for all external contributions to expenses (before they are transfered to account No. 1) with Bank of Boston.
(6) a U.S.-based account with American Security Bank in Washington D.C.

While the existence of six separate accounts may seem excessive for an institution of the size of HDF, this is a direct consequence of the request made by each of the three main contributors (IDB, USAID and FDI) that their loan program be handled through a separate account. Furthermore, if the handling and balancing of six bank accounts may appear to be cumbersome and time-consuming, it does facilitate bookkeeping entries, as possible confusion of vouchers and receipts between different loan programs is automatically avoided. It is therefore not recommended that the current account system be changed.

Together with the yearly budget is also prepared a projected monthly cash flow. The cash flow has not had to be revised monthly, as actual cash has to date always been found to be in excess of projected cash; however, should the variance be negative, the Finance Department has stated it would then immediately adjust the projected cash flow accordingly for the remainder of the year.

. Long-term financial planning: to date, such long-term planning has been weak to non-existent. Five-year projections were recently established with respect to an application for loan capital with the FDI, but the projections were incomplete and had to be returned to HDF.

Again, the absence since January 1983 of a full-time Financial Manager has not facilitated such work. Secondly, such planning has not proven essential heretofore, as large international donors accepted the fact that HDF needed, above all, loan capital to expand beyond a certain critical mass, even in the absence of comprehensive projections.

However, at its present stage of development and with the anticipated signing of a large, multi-year agreement with USAID, the preparation of such projections becomes essential; a format for preparation of long-term projections will be found in Chapter Four.

It should be furthermore noted that professional, long-term projections cannot be prepared in isolation by the Finance Department alone. Such work requires close, joint collaboration among all Departments of the institution:

- the Board and the Executive Director should help define long-term goals and strategy

- Finance should provide analysis on the adequacy of interest rate policies, long-term viability, break-even points, etc.

- Credit should provide input on anticipated changes in loan portfolio quality and foreseeable levels of bad debt

- Promotion should ensure that the animateur force will be large and effective enough to allow for the expanded level of activity and advise on matters such as timely training of additional animateurs (if required), existence of a potential market, etc.

As HDF gears up for such a coordinated effort, it will need to establish and improve its capabilities in this respect.

1.4 Credit and Portfolio Management

. Loan application procedures: these have not been significantly altered since the 1982 evaluation. The loan application process starts when the client has usually received several months of technical assistance from the animateur, and after determination by the latter that he is "ready" to receive the loan.

A new seven-page loan application form has been introduced recently to facilitate processing; the front page lists the 18 steps the application must follow before approval, with a "tracking" column to control the specific date at which each step has been taken. No minimum time frame is suggested between each step.

. Loan processing efficiency: the 1980 and 1981 evaluations of HDF had found the processing of loan applications by the Credit Department to be notoriously inefficient. Since then, substantial improvement has been achieved, to the extent that the 1982 evaluation no longer identified this as an area of concern; spot checks made on

21 of the 39 loans disbursed in FY' 1983 confirm these improvements.

The following table summarizes loan processing time over past years:

(# of days)	FY' 1980	FY' 1981	FY' 1982	FY' 1983
Application submission to completion of credit review	53	19	17	11
Credit review to loan approval	26	31	19	18

. Credit analysis: the financial analysis of projects by the Credit Department has been found to be satisfactory. However, it should be noted that this Department neither includes nor has access to technical engineers for the technical analysis of projects should HDF get involved in loans to high-tech, export-oriented markets where quality control and close market monitoring may be required.

Clearly, the present expertise of the Credit Department is sufficient to deal with HDF's present market of traditional manufacturing and service industries, but would be inadequate in the event of a shift towards more sophisticated markets. Specific recommendations dealing with this issue will be forthcoming in sub-Chapter 1.5 below.

. Loan aporoval procedures: if loan approval efficiency has been generally satisfactory, as evidenced by the above table, a problem has arisen with the selection of applications to be processed on a priority basis.

As of recently, as availability of loan funds became the limiting factor for HDF, applicants were divided into three categories:

-urgent
-normal
-to be delayed

A potential problem is that the Executive Director has been the one assigning files to the "urgent" category. To the extent that clients have gone directly to his office (which has apparently happened with increasing frequence

over the recent past) and have received a favorable response, they may have an unfair advantage over other applicants. Furthermore, the Credit Department is fast losing its autonomy as an increasing number of files arrive with the "urgent" stamp, and thus tend to be "required" approvals.

This problem, which was identified both by Board members and by HDF staff, should be dealt with immediately because of the potential consequences involved.

> * Recommendation #1.7: in order to preserve the internal autonomy of the Credit Department, no loan application should receive a priority classification for funding, either formally or informally, without concurrence by the Board's Credit Committee.

. Loan approval limits: under existing regulations, HDF's internal credit committee can approve loans of up to $10,000 per individual loan (or $25,000 per group loan) without referring it to the Board. However, because of HDF's newly applied method of having borrowers pay two years' interest in advance at the time of loan disbursement, there is a large discrepancy between the loan amount and the amount disbursed.

The Credit Department has consequently requested the Board to consider shifting to a $10,000 authorization limit for disbursements instead of loan amounts (this would in effect allow the internal committee to approve four-year loans of $13,500-$14,000, corresponding to a $10,000 cash outlay). Should such a limit prove necessary in the near future in view of the higher average loans approved by HDF, it is not seen as detrimental to the loan approval process.

. Establishment of repayment schedules: although loan conditions have not changed as of recently, the time at which interest charges are payable has changed twice over the past months:

- Until June 1983, all interest on medium term-loans (which represent the overwhelming majority of HDF loans) was payable monthly in arrears

- HDF then shifted to a system whereby all interest charges for the entire loan period were payable in advance at the time of loan disbursement

- as of October 1st, 1983, the system was changed again at the Board's request, and interest became payable in advance only for the first two years.

The new system is more complicated than it appears, as interest for the first two years is deemed to represent total interest which would be paid by the customer under the equal-monthly-payment (principal plus interest) method. For instance, a four-year loan of $10,000 at 14% interest calls for equal monthly payments of $273.27 and total interest payments over the four-year period of approximately $3,120, but during the first two years interest payments will have been $2,250 as more interest and less principal is paid under this method during the early years of the loan.

This means that HDF will charge its client $2,250 of interest at the time the loan is made, and therefore during the next 24 months the customer will only be making monthly payments of principal (supposedly in equal monthly amounts, although the Credit Officer was not quite sure if this would actually be the case; normally, principal payments would increase monthly under the straight equal-monthly-payment method). It is therefore only after the 25th month that equal monthly payments of $273.27 will resume.

To add to the complexity of the system, the Credit Manager developed a method to work his way up from the amount to be disbursed (considered to be the "project" amount) to the required loan amount, by adding interest for two years, then interest on interest, then interest on the latter amount and so forth until the amount to be added (interest on interest six times) became so small so as to be insignificant. Of course, the same calculations had to be done for the 2% technical assistance fee and for life insurance charges. The whole calculation took by the Credit Officer's own estimate at least 20 minutes for each loan being processed, and could probably not have been performed by anyone else in the organization.

A simple calculation method, based on the discounted payment method and requiring approximately 2 minutes of the Credit Officer's time, was developed by the evaluation team and demonstrated to the responsible officer (end results were of course identical). It is exposed in Annex A.

. Monitoring of loan repayments: a "tickler" file covering loan repayments is kept by the Finance Department, in which customer cards are classified by day according to the date at which the monthly payments fall due. This

system is adequate to keep track of loan maturities, but does not permit the calculation and monitoring of loan repayment rates(1).

It should be clearly understood by HDF that repayment rates constitute the only true method to monitor the quality of the loan portfolio on a regular basis. To date, such analysis has been limited to calculating the percentage of the portfolio which is constituted by overdue loans; this method is inadequate because the latter ratio is distorted by "historical" factors, i.e. the accummulation of overdue loans since the initiation of the loan program. Secondly, the ratio is also distorted by the present level of loan activity, i.e. if loan volume increases substantially during a particular period, which should be the case in coming years for HDF, the "overdue" ratio will be artificially lowered and give an unduly favorable picture of loan-portfolio quality.

Loan repayment rates can be established through a book in which all loan maturities will be listed by month, with a separate page for each month, and with a separate column to enter loan repayments (partial repayments are entered by pencil, so as to allow later entries if necessary). At the end of each quarter, the total of all loan repayments can then be directly divided into total maturities.

The loan monitoring system would look as follows:

Loan maturities of: November 1983

Loan No.	Name of Client	Amount Due	Amount Collected	Balance

(1) in the remainder of this report, repayment rates will be referred to as the ratio of loan principal collected during a particular period to total loan principal maturities during the same period.

More generally, guidelines should be established to monitor the quality of the loan portfolio. HDF's Board itself has recently requested the Credit Department to write up a short analysis on the portfolio to accompany the monthly list of loan balances. This is a good opportunity to adopt the "repayment rate" concept and recognize portfolio management as an essential management function at HDF.

> * Recommendation #1.8: internal monitoring procedures should be adopted to allow for the calculation of loan repayment rates on a quarterly basis; guidelines should be established to monitor the quality of the loan portfolio; portfolio management should be recognized as a major "output" of the new Project; and training in portfolio management should be provided and/or intensified at all levels in the Credit, Finance and Promotion Departments.

. Collection procedures: as of recently, HDF has perceived loan collection as a new "problem" area; as a result, a collection agent was appointed in June 1983 and assigned to the Finance Department.

Initial work has consisted of visiting overdue customers several times a month; the collection task has proven difficult, with often five to six on-site visits required before even partial repayment is obtained. Also, investigations and written evaluations of customers' financial situation are being carried out, leading to their classification into one of three categories: good, in difficulty and "of bad faith".

It should first be pointed out that there are no written procedures for the collection of overdue loans. Several approaches have been tried out with customers deemed to be of bad faith, including legal action through a hired lawyer, which has been unsuccessful to date. The collection agent believes that the most effective recourse at HDF's disposal is to reposess the equipment, which is made possible by the fact that all equipment financed by HDF is transferred to the customer under a "conditional sale" contract. With other customers in financial difficulty, HDF would have the choice to either re-evaluate the firm and consider a second loan to alleviate any temporary cash flow problems or possibly participate directly or indirectly in the firm's management.

Another major weakness is that of the absence of linkage between the animateurs' work and loan repayment. A significant portion of all loan recipients have come to HDF directly on their own initiative the first time around, and consequently may not feel the necessary strong commitment to the animateur who was then assigned to them.

Secondly, monthly payments by the customer are made directly at HDF, in the animateur's absence; and thirdly, the animateur is most often not present when the collection agent visits a particular customer (the agent makes up to 20 surprise customer visits a day, which makes scheduling of a visit with the animateur nearly impossible).

Each of the three problems listed above is inherent to HDF's operating mode and is hardly avoidable. However, it is strongly felt that some kind of link should be established between the animateur's work and repayment of the loan. After all, the animateur is the HDF staff most constantly in touch with the customer and is therefore the best "motivator" available to encourage repayment by his client.

A system is presently being considered at HDF whereby the animateur would be compensated entirely on a commission basis, i.e. would receive a 5% commission on loans approved and a 1% commission on loans collected, instead of the existing salary system. If such a system was to be adopted, it would seem more desirable to give repayment of loans at least as much weight as loan approvals, i.e., to pay out to the animateurs commissions of 3% on each account.

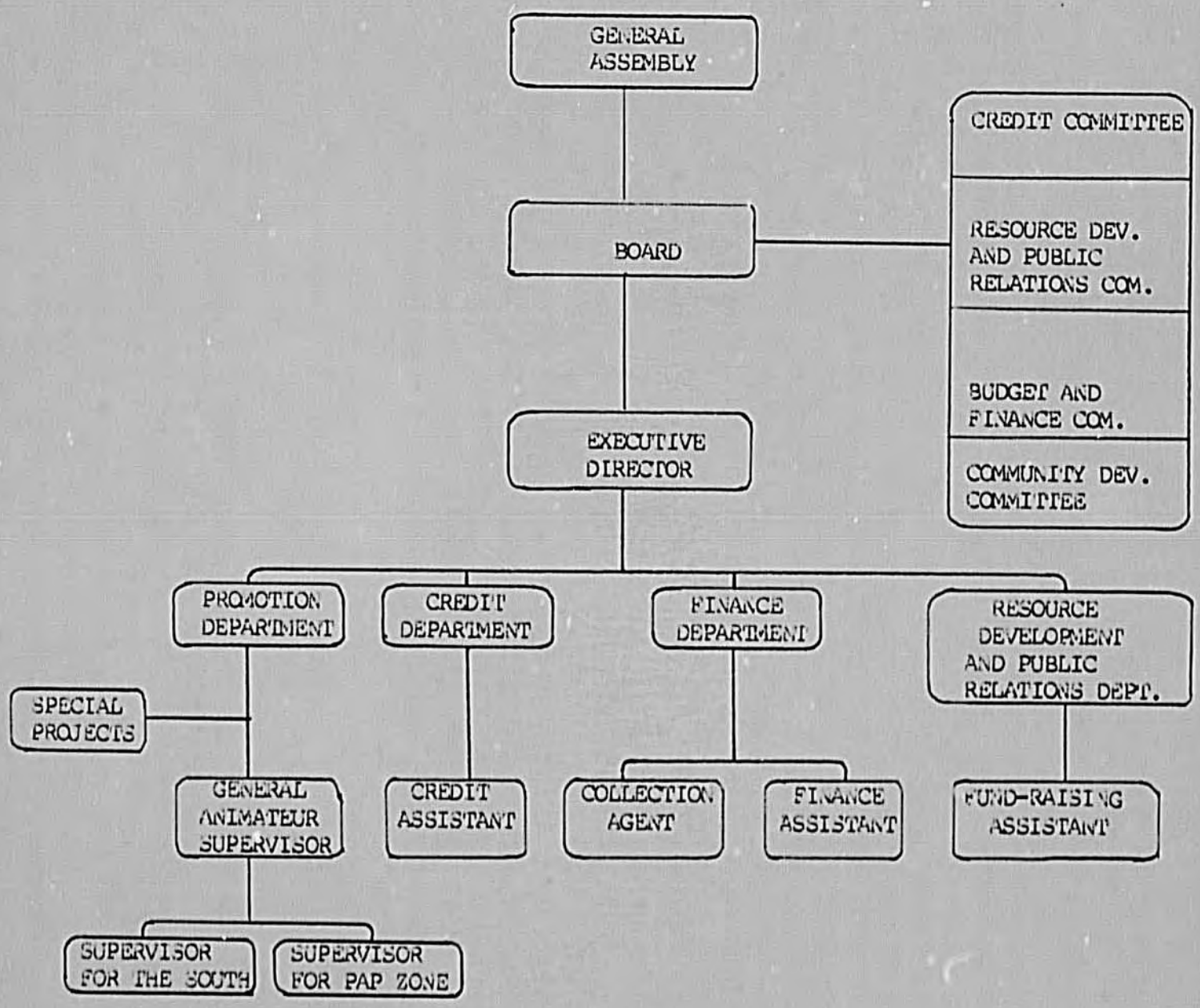
However, it is also fair to say that the HDF animateur is not a credit agent and that his work, in particular that of technical assistance, goes beyond the mere extension and repayment of loans; a yearly bonus system based on repayment rates in the animateur's particular area would therefore seem more adapted to the establishment of the desired linkage between the animateur's work and loan repayment.

> * Recommendation #1.9: collection policies should be written down, and seriously tightened; the collection agent should receive specialized training in collection policies; a link should be established between the animateur's work and repayment of loans, with consideration given to a bonus system based on animateur's loan repayment rate; and HDF should attempt to disburse all loans in the presence of the responsible animateur.

1.5 Organizational Structure

Table 1.1 summarizes HDF's organizational chart.

TABLE 1.1: HDF'S PRESENT ORGANIZATIONAL STRUCTURE



. Weaknesses: as already stated in sub-Chapter 1.1 to 1.4, HDF's current operating mode is hampered by a number of weaknesses; the following ones can and should be addressed through changes in its current organizational structure and staffing pattern:

(1) heretofore, no senior staff member has taken up the role of acting Director when the Executive Director was away; in view of the frequency of such outside obligations, the absence of the acting Director has reduced information flow to the Board and therefore negatively impacted relations between the Board and senior Foundation staff.

(2) the resignation of the Financial Manager back in January 1983 has left the Foundation critically weak in the area of financial management.

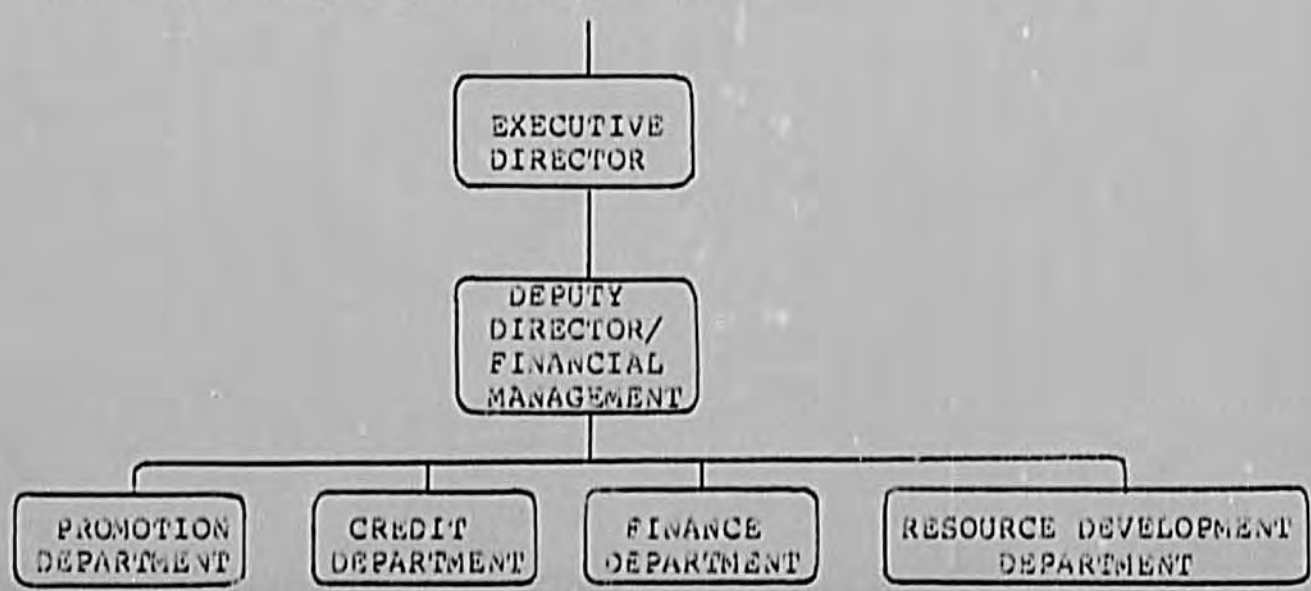
(3) there is no one in charge of administration and personnel management, a function which was also filled previously by the Financial Manager.

(4) HDF has no overall Loan Administrator: the credit and collection functions have been split, with the latter being the responsibility of the Finance Department. Feasibility studies on projects submitted to the Credit Department are limited to financial analysis; HDF has no capacity to analyze the technical aspects of projects, which restricts its loan program to traditional, marginal economic activities.

. Alternative solutions: the following three alternative organizational structures have been reviewed in an attempt to erase these weaknesses:

(i) appointment of a Deputy Director

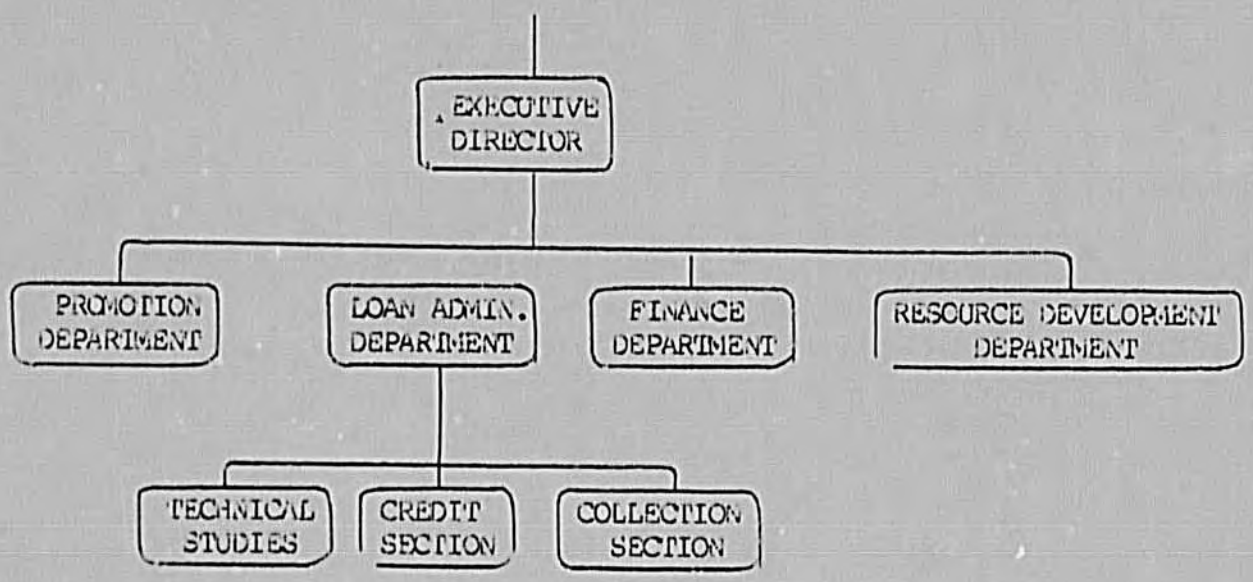
The new simplified chart would look as follows (the Deputy Director would also be directly in charge of financial management and planning):



Advantages: weaknesses #(1) and (2) would hopefully disappear.

Disadvantages: weaknesses in the general administration (#3) and loan administration (#4) areas are not addressed directly.

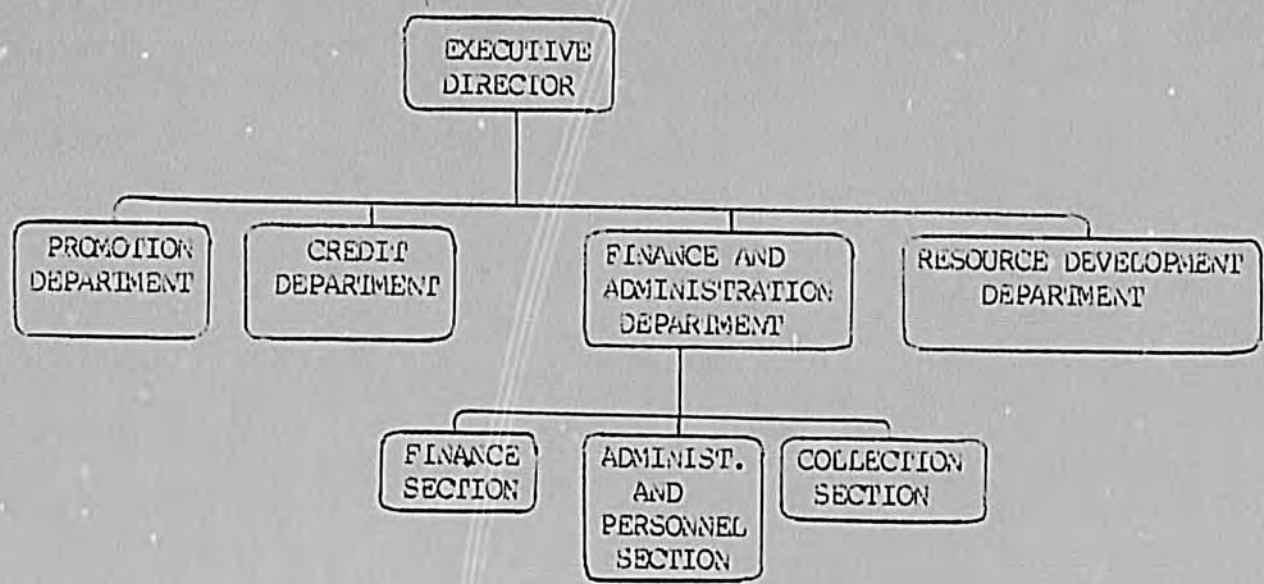
(ii) appointment of a Loan Administrator overseeing new technical analysis and collection sections.



Advantages: weakness #(4) is addressed directly, as well as weakness #(1) if the Loan Administrator becomes the Acting Director when the Executive Director is away.

Disadvantages: weakness in the Financial Management area (#2) is not addressed.

(iii) appointment of a Director of Finance and Administration:



Advantages: weaknesses #(2) and (3) are addressed directly.

Disadvantages: weakness #(1) with respect to administration of the Foundation in the Executive Director's absence and to communication with the Board is not addressed.

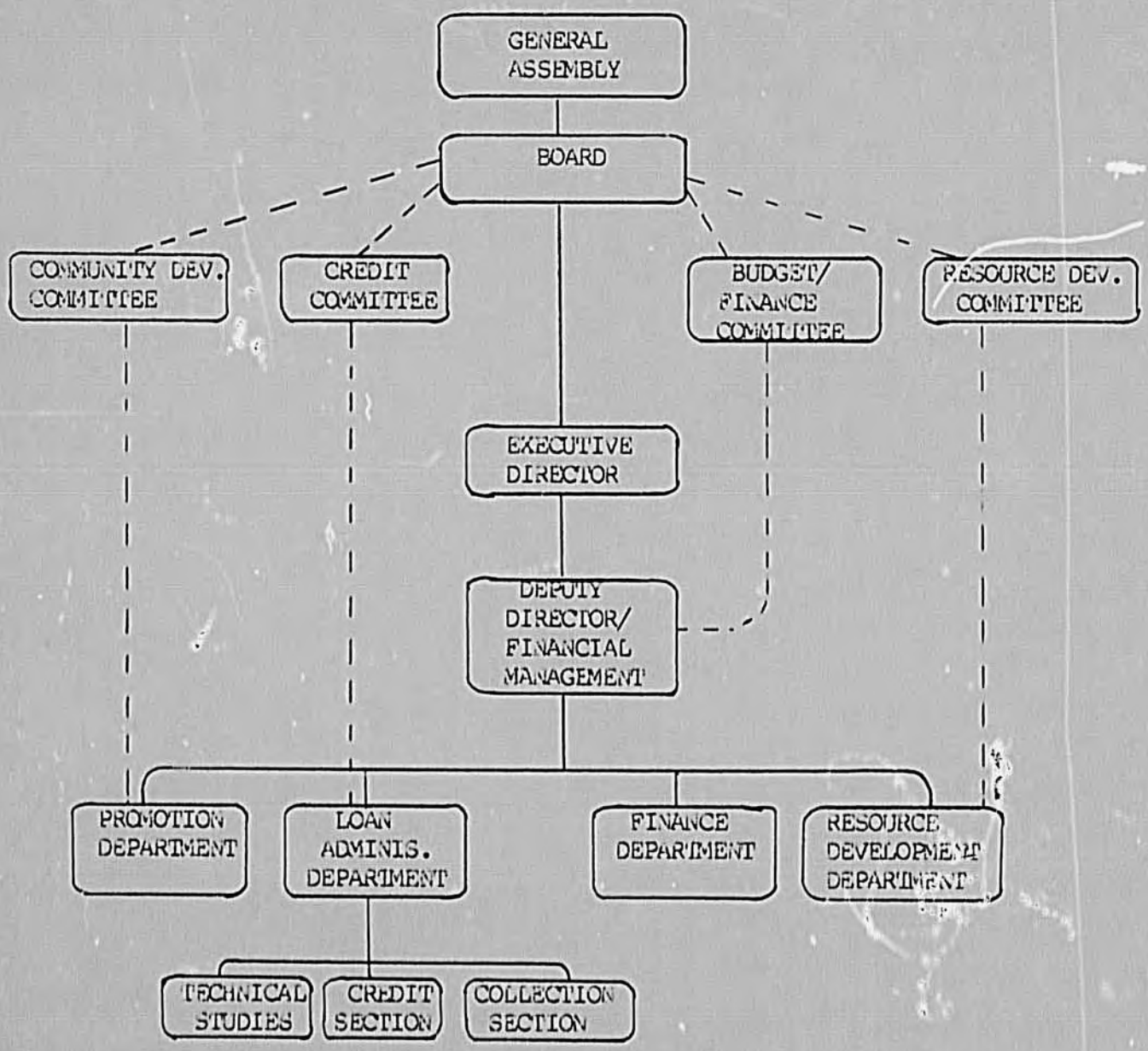
. Recommended organizational structure: it is the evaluation team's opinion that HDF's new organizational chart should address directly the two major weaknesses which were identified in the Foundation's curent operating mode: those related to the Acting Director's functions (#1) and to financial management.

It is therefore believed that the appointment of a Deputy Director also in charge of financial management (solution (i) above) is desirable, as it addresses directly these two issues. Moreover, that solution offers the flexibility of addressing issue #4 through reorganization of the Credit Department into a Loan Administration Department including:

- a Credit section
- a Collection section
- possibly a technical studies section and/or access to external technical expertise available as required.

In addition, direct communication would be established between the various Board Committees and the corresponding Departments.

HDF's future organizational chart would therefore look as follows:



CHAPTER TWO - DELIVERY OF SERVICES

2.1 Client Support Network

The Promotion Section is the largest and the most vertically integrated of HDF's departments. It has recently undergone restructuration to accommodate a new director and a section dealing with rural development assistance.

At the base of the system are two pools of clients who come to the Foundation either through the recruitment efforts of the animateurs or by presenting themselves directly to the HDF office. Animateurs interact directly with the clients, establishing monthly a list of those to whom they are to provide technical assistance. They arrange their time between preparing dossiers for prospective clients and providing technical assistance to prospective or existing sub-borrowers.

Animateurs are supervised and assisted in the field by zone sucervisors, one of which covers Port-au-Prince and the other the South. Each is in charge of seven animateurs, evaluating their work either directly or by visiting the clients. The supervisors conduct about 10 to 15 visits per week and report to the General Supervisor. They also assist the animateurs in gathering technical data on equipment and raw material purchase.

Supervisors are required to visit all of their animateurs' clients during the month. There is value however in the suggestion that these visits could be more effective if they were reduced and limited to clients who are in arrears or in difficulty, the others needing less attention from the supervisor.

An Assistant for Special Projects works both with the Head of Promotion and with clients. His tasks include:

- preparing of dossiers for clients outside of PAP and the Southern provinces,
- helping the Director prepare special projects,
- organizing the newly-created Small Enterprise Association (a business association of past and present clients created to lobby the interests of micro-enterprises)

- providing evaluation services of client enterprises.

He has assumed data-gathering and data-analysis responsibilities within the Department.

The General Supervisor oversees the work of the 14 animateurs and 3 supervisors. He reviews the schedules and reports, and produces a summary report of technical assistance for both the provinces and PAP. He is responsible for the monthly up-date of the technical assistance portfolio, and he administers the program of "walk-in" clients who come to HDF requesting animateur assistance.

The Head of Promotion provides the technical and managerial leadership of the division. He coordinates the training of his animateurs and provides the liaison to the other departments of the Foundation.

The management of the Promotion Department is effective and appears adequate under the present mode of operation, and additional clients could probably be added without overloading the system of control and supervision.

2.2. The Animateur

HDF's essential products are loans and technical assistance, both supplied to its clients through its extension agents: the animateurs. Animateur strength has fluctuated: from an early group of 6, it went up to 18, down to 10 and has presently stabilized at 14. Until February of 1983, HDF's activities revolved exclusively in Port-au-Prince. Since then, half of its animateurs have been stationed in the southern portion of the country, and as a result, the Foundation has assumed a more balanced rural/urban posture.

. Training: at its outset, HDF recruited animateurs whose skills and socio-economic levels were commensurate of the clients they were assisting. Animateurs were of modest conditions, who could best relate to conditions of the client. Early training placed emphasis on bookkeeping, in part because the absence of accurate records was seen as an obstacle to small business development, and in part because one of HDF's objectives was to help prepare its clients to become credit-worthy customers for commercial banks.

While these concepts appeared manageable at first, over time they proved to be inadequate for Haiti. Businesses assisted often were non-viable, and the animateurs were not up to the client's expectations. There was a need to upgrade not only the level of the animateurs, but also the caliber of the clients (Similar tactical revisions occurred among development foundations in other countries of the region).

A practice was thus adopted by HDF to recruit a better-educated animateur, possibly with a university degree, and to offer an upgraded training program geared to helping small businesses operate more profitably. The most recent training cycle reflected this shift in HDF's approach, and its contents were broadened to include rudiments of development theory, group formation, marketing, delivery of technical assistance, elements of planning, feasibility studies, elements of management, balance sheet analysis and methods to determine the health of an enterprise.

The cycle, which began July 1982 and ended early 1983, started with 13 trainees, 7 of which were retained and hired. Since this group was to work predominantly in the provinces, the socio-rural element of technical assistance was emphasized and training was conducted in the field. Additional seminars held in early and late summer provided complementary training in group dynamics and methods of working with cooperatives and groups. The training appeared practical and appropriate, with each cycle improving on the previous one.

Animateur evaluation of training as it related to their present work was good. They felt there was an adequate blend of the theoretical and practical, however, some expressed an interest in obtaining additional management training.

Also, HDF's decision to increase its portfolio of higher-level businesses has created new needs; business experience and appropriate technical competency required by the animateur to adequately service these businesses must then improve. Future training will need to provide a higher degree of technicity among its participants.

. <u>Entrepreneurialship</u>: the team explored the possibility of complementing animateur training and professional experience with hands-on business experience. The intent would be to allow animateurs to develop their own small business and subsequently contract out their services to the Foundation. While such a policy may produce advantages to the client and to the Foundation (better quality advice,

reduced salary costs), it is not apparent that the present animateur staff is capable of being at once entrepreneur and animateur. Less than a third were assessed as having good "entrepreneurial" skills and only a small percentage had thought about a specific business they would like to own. Nevertheless, a large majority indicated they would eventually like to run a business, and felt they had sufficient skills, the main problem being lack of capital to do so (present regulations prohibit staff and their family from receiving HDF financing assistance).

> * Recommendation 2.1: The idea of using entrepreneurs/animateurs should not be abandoned, although this idea should not be pursued with the present stock of animateurs. If, because of attrition or expansion, the Foundation needs additional extension agents, it is recommended that a concerted effort be made to recruit small businessmen and train these to become part-time animateurs/promoters, rather than vice versa.

2.3 Delivery of Technical Assistance

. Recruitment: the animateurs' preliminary step is to canvas their zone of operation and "recruit" prospective enterprises for loans and/or technical assistance. To assure a high level of productivity, animateurs are required to present a minimum of two loan applications per month. In the past, this has meant canvassing about 3 businesses for every dossier submitted.

With an increase in the number of prospective clients who come directly to HDF office, there is gradually less time consumed (at least in PAP) in recruitment than in delivering technical assistance. As this trend continues, HDF should explore the possibility of charging an up-front fee for technical assistance, a fee which would help defray the animateur salaries.

. Client Types: The animateur's portfolio consists of two types of clients: the PROSPECTIVE CLIENTS, whose dossiers are being prepared for submission to the Credit Department for credit approval and ACTIVE CLIENTS, whose dossiers have been accepted and who have been disbursed loans.

The technical assistance for each group is of a different caliber. In the first case, the animateur provides motivational training, explanations about loans, their value to the enterprise and the responsibilities involved, discusses the usefulness of keeping sales records and inventory control and assists the client in evaluating the needs of the enterprise. In the process, he/she helps put the necessary data together to submit the client's case for a loan request.

Depending on the degree of business activity, this phase lasts between one and six months. It is the most time consuming, since only about 3 potential clients can be seen by an animateur in one day compared to around 5-7 if the client is in the active category.

Once the dossier has been submitted and accepted, technical assistance provided to the active client consists of help in the preparation of more complete records (sales, purchase, inventory), marketing advice, improving the quality and finish of merchandise, and equipment selection.

To utilize the animateur's time effectively, a system has been devised to subdivide his active clients into four categories. These correspond to the intensity of technical assistance required by the client and help determine the frequency of the animateur's visits. Clients are thus in one of the following categories:

- intensive - visited at least one/week
- less intensive - visited twice monthly
- reduced - visited every 3 weeks
- very reduced - visited once/month

It becomes apparent that the level of time utilization depends not just on the number of clients an animateur is preparing for loan assistance, but also on the relative number of "intensive" to "very reduced" active clients in his portfolio. An increment in the latter enables the animateur to increase his "case load" and thereby increase the return on his time.

. T/A content: animateur training has been described as being predominantly record keeping in nature. While this may have been true when the level of businesses assisted was fairly low (in early years, nearly 50% of HDF's clients received loans under $750), as loan size and complexity of client enterprise increased, so did the requirements for more detailed technical assistance. Animateurs still spend time providing essential motivational training to new

clients and businesses in trouble, but increasingly, specific technical questions are being asked of them which relate to production, equipment purchase and market absorption which the animateur feels ill-prepared to provide.

In this regard, it has been proposed that HDF should consider shifting away from a one-on-one technical assistance approach, to training which could be provided on a group basis. This would entail bringing clients to a central location and providing them with additional technical training.

When querried about the adequacy of such an approach, most animateurs felt their clients were "not yet ready" for such training, although they recognized its potential value. It is not foreseeable that group training could replace animateur-style technical assistance, but it might soon serve to complement their work in the field.

> * Recommendation 2.2: 3 sector-specific, business development seminars, should be held for clients at the early stages of the project. These should be intensive one-day seminars geared to delivering technical data specific to the participant's business type; they should be professionally run (possibly contracted out) and should collect a small fee from participants. An evaluation process should be a part of the seminars to determine their impact and duplication value.

2.4 Animateur Performance

Animateur performance can be measured in terms of time (how he uses it), "case load" (how many clients he works with), quality of his portfolio and cost of his service vs. income derived.

. Time: the animateur distributes his or her time among 8 principal activities. The Chart below, established from animateur interviews, lists these activities, followed by a percentage figure representing approximate time devoted to each activity during the course of an average work-month.

	PAP	Provinces
Prospection (seeking new clients)	12%	18%
Preparation of dossiers (prospective clients)	15%	10%
Technical Assistance: prospective clients	18%	20%
Technical Assistance: active clients	24%	8%
Staff Meetings/consultation with supervisors, Credit Department	6%	4%
Travel	10%	20%
Meetings with groups/coops	5%	15%
Technical information gathering	10%	5%

Prospection and travel take up almost one-half of the animateur's time in the provinces, considerably more than time spent in delivering technical assistance. While these figures reflect the early stages of the program in the provinces, they also confirm recommendations made in previous reports that better access to transport facilities would increase animateur's efficiency. As such, a subsidized transport purchase program should be a part of the project proposal.

. Case load: animateur productivity can be measured by the number of clients (potential and active) with which they work. This method has been the traditional measuring stick of the animateur's work in previous evaluations and in project projections. The case load-to-animateur ratio can be summarized as follows:

Ratio of Clients to Animateur, 1980-1983 (PAP only)

		1980	1981	1982	Oct. 1983
1.	Number of Clients (a)	89	302	274	246
2.	Animateur	6	15	10	6
3.	Ratio (1:2)	15	20	27	41

(a) figures represent total of active and potential clients regularly visited by the animateur at the close of the fiscal year (except for the 1983 column); the figures for 1983 represent clients for only 6 of the 7 animateurs working in the Port-au-Prince zone. The 7th animateur and those working in the Provinces had mostly prospective clients and thus could not be used in comparative figures.

The target client/animateur ratio for HDF had been set at 35. While it has been indicated in the past that animateurs have been underutilized, figures for 1983 show a significant improvement in the number of clients they work with; nonetheless, half of the animateurs said they could handle still more clients if additional funds were available.

As the trend to disburse larger loans continues, it is felt that animateurs will need to spend more time with the individual client; thus emphasis should not be placed on increasing his case-load, but rather on improving the profitability of his clients.

. Client profitability: animateurs in PAP were asked how they perceived the profitability of their clients' enterprises. They were asked to classify their clients into three categories: businesses which were viable ventures, those which were marginal (barely making a return on equity), and those which were non-profitable regardless of the amount of injected technical assistance and capital. The responses are summarized in the chart below:

Animateur's evaluation of his clients' performance

Performance	# Of active clients	% of total
Profitable	102	54%
Marginal	54	28%
Non-Viable	34	18%
	190	100%

The perceived distribution of 54% profitable to 46 % marginal (or non-viable) would indicate that the animateurs' assessment of the profitability of their clients conforms closely to the actual loan repayment ratio developed during this evaluation (see Chapter Three).

. Cost of service: another way to evaluate animateurs' performance is to look at their cost compared to the income they generate. While there are hazards involved when a development institution attaches a cost factor to a development process, nevertheless such ratios are effective tools when comparing the process over time. Project guidelines suggest that interest payments and technical assistance fees should cover at least the cost of operating the technical assistance component.

To develop yearly comparable figures (see Table 2.1), only the salary of the animateur, overhead charges, and a fixed rate for transport were used. These figures are compared to the income derived from interest payments and fees, as well as HDF total expenses (it should be cautioned that actual animateur costs may be slightly higher than the figures developed to include administrative costs; however, these figures could not be disaggregated from the overall operational budget).

Table 2.1 - Comparative Animateur Costs: 1981-1983

	1983	1982	1981
14 Animateurs @ $351/mo. x 12	$58,968		
10 Animateurs @ $330/mo. x 12		$39,600	
18 Animateurs @ $300/mo. x 12			$64,800
Social Charges (17% of salary)	10,024	6,732	11,016
Travel Costs			
$40/mo./Animateur (1983)	6,720	3,600	6,480
$30/mo./Animateur (1981-82)			
Total Cost:	$75,712	$49,932	$82,296
Income: Interest/T.A. Fees	$85,455	$42,471	$6,161
% Of Income to cost	113%	85%	7%
Annual Operating Expenses	$378,521	$282,470	273,546
% Of Animateur Cost to Expenses	20%	18%	30%

It can be seen that only by 1983 were interest and fee payments sufficient to cover the animateurs cost (supervisors and Promotion Director costs not included). In previous years, as one would expect, cumulative maturity rates for loans were much lower, thus reducing cost- recovery capabilities.

The effort to reduce animateur's cost to overall operating expenses led to a significant improvement between 1981 and the present. While these figures indicate a relative stabilization of animateur cost at about 1/5 of operating expenses, they could also be seen as the result of

a reallocation of HDF resources to activities other than those directly benefiting its clients. Between FY 1981 and FY 1983, administrative salaries, fringe benefits and related taxes jumped from 36% of operating expenses to 58% (see Annex C), while the animateurs' share declined from 30% to 20%.

. Increasing animateur's efficiency: in order to better utilize the animateur, ways should be explored to deal directly with the constraints encountered by his clients: insufficiency of capital and softness of the market for their goods and services. A possible solution should be to explore ways in which the Foundation would tap more aggressively the larger business sector, predominately firms with overseas markets, and encourage these to "sponsor" a small business. The scenario would be the following:

a) large firms would be contacted by HDF to participate in the "small enterprise sponsorship program"

b) these firms would be surveyed to determine the types of small service or manufacturing businesses they could use. They would be matched with small entrepreneurs identified as prospective and active HDF clients who could benefit from the program

c) HDF would set parameters of financial and marketing needs of the small enterprise and present them to the larger firms

d) the participating firm would then extend a loan to HDF at 10% yearly interest for on-lending to the sponsored enterprise, with loan terms (in years) corresponding to sub-loan terms

e) the capital would then be loaned to the selected HDF client

f) the participating business would be asked to provide some technical assistance in return for services or merchandise of the "sponsored small enterprise"

The animateur would then become the intermediary between the appropriate HDF client (selected on the basis of acquired skills and interest) and the "sponsoring" firm. He would remain a salaried employee of HDF, although a fee mechanism should be explored to reflect the number and quality of client-firm links he establishes.

This "small business sponsor" effort would consequently increase animateur efficiency as well as the viability of the animateur's clients.

2.5 Rural Expansion

HDF's decision to expand its operation into the Southern provinces has led to a different focus on delivery of services:

- recruitment of all clients is more time-consuming than in PAP; a more formal procedure is required, which involves passing through local officials to obtain sanction for HDF's work.

- request for specialized technical assistance is greater, particularly as it concerns agriculture; in this context, HDF has retained an agricultural specialist to whom technical problems are referred.

- clients in the provinces are most likely to be groups and cooperatives; meeting with them and preparing their dossiers requires significantly more time than to prepare an individual's dossier. However, loans to a group are generally larger and repayment rates are expected to be higher.

- transport as a constraint to animateur efficiency is more critical than in PAP.

- demands put on HDF for services are beyond what it can presently provide. With an economic situation more desperate in the provinces, the Foundation is asked to provide market outlets for loan recipients, to provide raw material as inputs, and even to help pay salaries of nascent enterprises.

In light of these difficulties and of more serious economic constraints, it has been suggested that HDF expanded prematurely into rural areas, and should "cut its losses" by consolidating its activities in and around Port-au-Prince. It is at least suggested that HDF freeze further plans to expand in the Provinces until present activities in the rural areas can be fully evaluated.

CHAPTER THREE - FINANCIAL PERFORMANCE

3.1 Overall Financial Condition

HDF's financial condition has been characterized by rapid growth over the past two years. As shown in Annex B, total assets increased by 52% between FY' 1982 and 1983 year-ends (1), with an additional 26% increase during the first quarter of FY' 1984.

Growth in loan portfolio followed a similar pattern, although its net value (after deduction of reserves for bad debts) fell from 79.4% of total assets on 6-30-1982 to 74.0% on 9-30-1983(2). This indicates a somewhat less efficient use of assets, also reflected by the increase in liquid assets from 7.6% to 13.1% of the total balance sheet over the same period; slight improvements may therefore be achieved through tighter cash management in order to reduce outstanding cash balances, especially that these are entirely held in non-interest-bearing accounts (the current ratio of cash to short-term debt was an easily sufficient 1.81 on 9-30-1983).

On the liability side, HDF is still characterized by a high level of indebtedness, with a debt-to-networth ratio of 9.0 on 9-30-1983. However, it should be pointed out that HDF is at least showing a positive, albeit small, level of networth, against a negative networth at FY' 1982 year-end .

As shown below, this change in networth from negative to positive was achieved through the continued high level of grants from foreign (and to a lesser degree local) donors, which more than compensated the also high level of operating losses:

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(1) in the remainder of this report, any fiscal year is assumed to terminate on June 30 of that year (i.e. FY' 1983 is the fiscal year ending on June 30, 1983).

(2) the quality of the loan portfolio will be analyzed separately in sub-Chapter 3.4 below.

	FY' 1983	FY' 1984 (1st Quarter)
AID Grants to operating costs	$ 206,166	$ 61,614
AID Grants to loan capital	145,000	45,000
Other international grants	38,271	-
Local grants	52,775	20,210
Total Grants	$442,212	126,823
Operating losses	(367,070)	(73,710)
Increase in networth	$ 75,142	$ 53,113

HDF's rapid growth in indebtness level was chiefly due to loans payable, which grew very substantially from $502,529 to $716,418 between FY' 1982 and 1983 year-ends, with a further jump to $827,775 on 9-30-1983, representing a 65% increase over the 15-month perid.

The breakdown of loans payable on June 30, 1983 was as follows:

IDB Loan repayable in 60 semi-annual payments from 1991 to 2021	$489,330
FDI Loan repayable in 1988	65,248
Loans rediscounted with FDI (repayable according to sub-loan maturities)	52,340
PADF Loan repayable in 1985	43,000
PADF Loan repayable in 1990	37,500
Loan to contractor due since 1980	29,000
Total	$716,418

It can thus be stated that despite its high level of indebtedness, HDF is under no immediate pressure to repay outstanding loans, as 73.5% of the latter is due after 1990, and only $124,340 is due before 1988. However, in view of the high level of operating losses, caution should be exercised by any institution (including USAID) intending to lend to HDF; it is therefore quite understandable that FDI recently postponed a second loan to HDF which would have been due in 1985, in the absence of any evidence that the loan could be paid back under the Foundation's current operating mode.

3.2 Financial Viability

. Introductory note: as already stated in sub-Chapter 1.3, HDF presents its "statement of revenues and expenses"

by including all AID and other contributions (including those to loan capital) in its revenues. In line with Recommendation #1.4, the comparative statement of revenues and expenses presented in Annex C shows only interest and fees under the "income" category, leading to an excess income (or expenses) line to reflect the Foundation's true viability; contributions are then reintegrated below the excess income line.

. Overall viability: as evidenced in Annex C under the excess income line, HDF's overall viability has deteriorated over the past year. Expenses have exceeded income from interest and fees by $367,070 in FY' 1983 as against $251,582 in FY' 1982. All in all, expenses were 5.3 times higher than income, which sets the Foundation years away from true viability. The $73,709 "loss" during the first quarter of FY' 1984 does not either represent an improvemnt over FY' 1983, as it does not include reserves for bad debts, which are only constituted at the end of each year (excluding such reserves, the FY' 1983 loss represented only $73,266 on a quarterly basis).

. Income: interest income increased dramatically over FY' 1983, more than doubling from the previous year; this reflected a substantially higher average loan portfolio for the year (+92% over FY' 1982), as well as higher yield on average portfolio (a satisfactory 13.3% in FY' 1983 against 10.9% in FY' 1982). Technical assistance fees fell slightly in FY' 1983 (despite a 8.7% increase in loans extended that year), the overall increase in income being 101% for the year.

During the first quarter of FY' 1984, interest income increased sharply on a yearly basis over FY' 1983, as well as technical assistance fees. The increase in interest income reflected more efficient interest collection, as interest is now discounted (paid) for up to 2 years in advance at the time the loan is extended.

. Operating expenses: if one excludes reserves for bad debts, which will be analyzed separately (see sub-Chapter 3.4), operating expenses have increased from $282,470 in FY' 1982 to $378,521 in FY' 1983, a sharp 34% increase. Most of this increase comes from salaries and other personnel expenses, which jumped by 39% to $220,708; this jump reflects both increases in staff (including recruitment of 4 animateurs) and in nominal salaries.

During the first quarter of FY' 1984, operating expenses (still excluding bad debt reserves) increased 11% over FY' 1983 on a yearly basis.

. Excess revenues: despite the sharp increase in"losses" (expenses minus income) over FY' 1983, excess of revenues over expenses increased from $19,695 in FY' 1982 to $75,142 in FY' 1983, thanks to hefty boosts in contributions from international donors, mainly USAID (USAID contributed $206,166 to expenses and $145,000 to the loan fund in FY' 1983, the total representing as much as 79% of all contributions received that year by HDF).

An additional $53,115 amount of excess revenues was registered during the first quarter of FY' 1984, again reflecting a large $106,614 contribution from USAID.

. Average cost of lending: this cost varied as follows over the last three years:

	FY' 1981	FY' 1982	FY' 1983
1. Total operating expenses	$277,849	$249,053	$452,525
2. Total loans extended	150,843	389,100	422,811
3. Number of loans extended	70	125	73
4. Operating expenses per dollar lent (1:2)	1.84	0.76	1.07
5. Operating expenses per loan extended (1:3)	3,969	2,352	6,199

The cost of lending thus increased sharply on all accounts:

- from $0.76 per dollar lent in FY' 1982 to $1.07 in FY' 1983

- from $2,352 per loan extended in FY' 1982 to $6,199 FY' 1983.

This should be considered as a negative development, as one would have expected HDF to realize economics of scale during these early growth years, i.e. that expenses would grow more slowly than loan activity. This has unfortunately not been the case.

* Recommendation #3.1: a sharp curtailment of average cost per loan should be achieved, either through economies of scale if

substantial loan capital is available or by reducing significantly head office costs.

. Break-even point: in FY' 1983, an average loan portfolio of $598,492 generated total income (interest plus fees) of $85,455. The break-even point would have been reached at a level of income equal to operating expenses ($452,525); at that level, the average loan portfolio would have had to be:

$$\frac{\$598,492 \times \$452,525}{\$85,455} = \$3,169,301$$

The break-even point would therefore correspond to a level of portfolio 5.3 times higher than the existing one, assuming operating expenses could be kept constant. The average portfolio managed by each animateur would then have to jump from $59,849 (based on the ten animateurs truly operational in FY' 1983) to $226,379 (based on the current 14 animateurs) or 39 loans at the average loan size of $5,792; as this appears to be a highly unrealistic goal, the only other available solution is to sharply reduce the growth in operating expenses.

3.3 Return on Portfolio

To date, neither nominal nor effective yields on the loan portfolio have ever been calculated, whether internally or during an external evaluation (1) (the only estimate available was that of the February 1983 Grant Proposal, which claimed that HDF was collecting approximately 10% net in interest on capital loaned out).

However, the determination of the rate of return on loans is of particular importance for a financial institution such as HDF, where the loan portfolio represents 74% of total assets; moreover, HDF's extremely complicated system of charging interest (see sub-Chapter 1.4) makes rough estimates and monitoring of portfolio yields quite impossible without careful assessment.

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(1) the nominal yield on the loan portfolio is hereby defined as the theoretical yearly rate of return on the portfolio based on existing interest rates and other loan conditions, while the effective yield takes into account loan defaults.

. Nominal yield on portfolio: as already described in sub-Chapter 1.4, loans are extended by HDF under the following conditions:

- interest rate of 14% per year, with interest for the first two years discounted at the time of loan disbursement (interest for the first two years is deemed to be the amount of interest which would be payable during that period under the equal-principal plus interest-monthly payment method)

- technical assistance fee of 2%, also discounted

- life insurance fee, based on loan terms (number of years) and borrower's age, and also discounted.

With average terms for HDF loans being around four years, one will consider that HDF's average nominal yield on portfolio will be that of a four-year loan (without grace period) bearing the above conditions.

According to figures available in Annex A, a $1,000, four-year loan involves the following:

- actual disbursement by HDF of $743.82 on year 0

- equal monthly payments to HDF of $17.95 during year 1 and 2(1).

- equal monthly payments of $27.33 during years 3 and 4.

The present value of up-coming monthly payments to HDF during years 0 to 4 can now be calculated considering that:

- monthly payments of $17.95 during months 1 to 24 have roughly the same present value as a single payment of $17.95 x 24 = $430.80 after year 1 (i.e. month #12).

- monthly payments of $27.33 during months 25 to 48 have roughly the same present value as a single payment of $27.33 x 24 = $655.92 after year 3 (i.e. month #36).

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(1) monthly payments under the equal-monthly-payment method would be $27.33 (per page 20: $273.27 for a $10,000 loan), total payments during the first 24 months would thus be: $27.33 x 24 = $655.92; this amount minus the $225 of interest discounted equals $430.92, which divided by 24 months gives monthly payments of $17.95.

The present value of all future payments on this $1,000 loan considering a 10% discounted rate for inflation is thus:

$$\frac{\$430.80}{(1+.10)} + \frac{\$655.92}{(1+.10)^3} = \$761.89$$

As the amount actually disbursed by HDF on year 0 was $743.82, the actual real rate of return (after inflation) is:

$$\frac{\$761.89 - \$743.82}{\$743.82} = 2.4\%$$

One can therefore assume that HDF's nominal rate of return on loan portfolio is 2.4% a year after discounting the effects of inflation (at 10% a year). This calls for the following observations:

1. this rate of return is not up-to-standard with portfolio yields achieved by commercial banks in Haiti, which appear to be around 8% (18% nominal yield minus 10% estimated inflation rate); this is not surprising, despite the fact that previous project documents set commercial lending rates as a goal that HDF should achieve.

2. the fact that HDF's rate of return is positive after discounting for inflation is itself quite encouraging in view of the Foundation's development nature (the rate of return can in effect be assumed to be 12.4% per year, i.e. 2.4% plus 10% inflation).

In view of point No.2 above, it can be stated that HDF's rate of return on its portfolio is satisfactory and that the 14% interest rate level on loans need not be changed, even if the 2.4% margin over inflation is largely insufficient to cover operating expenses on one side and bad debts on the other (the issue of long-term viability through economies of scale and reductions of bad-debt levels will be discussed in Chapter Four); it should also be noted that the above calculations are very sensitive to the assumed level of inflation for the coming four years:

- a 9.2% yearly real rate of return is obtained taking an 8% inflation rate.

- a 21.0% rate is obtained at 5% inflation.

This further reinforces the view that at current inflation-rate levels, the present interest rate structure is quite adequate.

. Effective yield on portfolio: this yield also takes into account the bad debt rate; however, the determination of the applicable bad debt rate is always arbitrary, as the bad debt rate on loans extended today will only be known with any degree of certainty in 5 to 10 years and can therefore only be very roughly estimated today.

Conservatively, one will consider the bad debt rate to be the ratio of bad debt reserves to total portfolio in the FY' 1983 audited statements, i.e. a bad debt rate of 11.0%.

Consequently, HDF would then collect on the above four-year loan:

- 100% of all charges paid in anticipation, that is two years' interest, and technical assistance and life insurance fees.

- 89% of the interest payable in years 3 and 4.

Referring to the previous calculation on a $1,000 four-year loan (see page), this corresponds to:

- a disbursement of $743.82 on year 0.

- monthly payments of $430.80 x 89% = $383.41 after year 1.

- monthly payments of $655.92 x 89% = $583.77 after year 3.

i.e. at a 10% rate of inflation, a present value of:

$$\frac{\$383.41}{(1+.10)} + \frac{\$583.77}{(1+.10)^3} = \$678.08$$

The effective rate of return on portfolio is therefore:

$$\frac{\$678.08 - \$743.82}{\$743.82} = -8.8\%$$

The effective rate of return is thus a negative 8.8% after inflation, reflecting an unbearably high level of bad debts.

3.4 Loan Portfolio Quality

The quality of the loan portfolio is best measured by the percentage of the portfolio which is constituted by overdue

loans. Table 3.1 summarizes relevant data in this respect, relating both to HDF's overall portfolio and to its USAID portfolio taken separately.

The various ratios shown in Table 3.1 evidence a rapid deterioration in the quality of HDF's loan portfolio. Between FY' 1982 and 1983 year-ends, overdue loans jumped from 5.2% to 13.8% of the portfolio, with a further increase to 15.1% on 9-30-1983 (see line 5). There were similar alarming jumps in loans overdue for over 90 days as a percentage of the portfolio (2.1% to 4.5%) and in doubtful loans as a percentage of the portfolio (2.9% to 11.0%); the total of the latter two categories represents over 15% of the portfolio at FY' 1983 year-end.

The quality of the USAID portfolio was slightly worse than that of the overall portfolio, with overdue loans representing 18.9% of the USAID portfolio on 9-30-1983 against 15.1% overall.

Table 3.1: Analysis of Loan Portfolio Quality

	June 30, 1982	June 30, 1983	Sept 30, 1983
Overall Portfolio			
1. Total portfolio	$498,634	$801,055	953,097
2. Overdue loans	25,935	111,258	143,821
3. o/w overdue over 90 days	10,599	36,534	44,438
4. o/w doubtful (1)	14,350	88,354	(2)
5. Overdue loans as % of portfolio	5.2%	13.8%	15.1%
6. Overdue over 90 days as % of portfolio	2.1%	4.5%	4.7%
7. Doubtful loans as %	2.9%	11.0%	(2)
U.S. AID Portfolio			
8. Total portfolio	112,499	208,867	211,960
9. Overdue loans	14,037	29,020	39,970
10. Overdue loans as % of portfolio	12.5%	13.9%	18.9%

(1) doubtful loans have been assumed to correspond to the amount of reserves for bad debts constituted at that date.

(2) not applicable, as classification of doubtful loans is made only at the end of each fiscal year.

3.5 Loan Repayment Performance

As already stated in sub-Chapter 1.4, the fact that HDF does not establish repayment rates on maturing loans constitutes a major weakness.

The only oblique reference to repayment performance was made in HDF's February 1983 Grant Proposal, which claimed on page 22 that "the rate of collection to date is running at about 93%". The evaluation team had serious reasons to question this figure, and consequently proceeded to calculate actual repayment rates on maturing loans (as it turned out, the 93% figure was not a collection rate, but the percentage of the portfolio which was recoverable, a confusion which could lead to erroneous assumptions; in all fairness, HDF proceeded to state in the next sentence that "one disturbing factor is that just under half of the clients are in arrears, and many have been in arrears for more than four months").

Due to the fact that HDF has no "tickler" file listing loan maturities by month and that most loans are medium term and therefore have numerous maturities, it was not possible for the evaluation team to calculate repayment rates on loans maturing during a particular fiscal year, but on loans extended during a particular year (a very lengthy process in itself).

Repayment rates, based on data available in HDF's monthly "Loan Portfolio Reports", are shown in Table 3.2.

Table 3.2: Loan Repayment Rates
(by year loans were extended)

	FY' 1980 and 1981	FY' 1982	FY' 1983	Total
1. Number of loans disbursed	70	125	73	268
2. Loan amount disbursed	$150,843	$389,100	$422,811	$962,754
3. Current balance	80,468	319,097	399,621	799,186
4. o/w Overdue balance	34,867	83,395	25,434	143,696
5. Loans repaid (2.-3.)	70,375	70,003	23,190	163,568
6. Loans matured (2.-3.+4.)	105,242	153,398	48,624	307,264
7. Repayment rate (5:6)	66.9%	45.6%	47.7%	53.2%

Thus, the analysis produced average repayment rates of only 53.2% on all loans extended since the inception of HDF's lending program, and as low as 45.6% and 47.7% respectively for loans extended during FY' 1982 and 1983.

As these figures sharply contradict HDF's 93% collection figure, as well as other assumptions about HDF's collection performance (including those by USAID), a second analysis was made to double-check them, based this time on the number of loan rather than amounts. This data is made available in Table 3.3.

Table 3.3: Loan Repayment Status
(Since inception of HDF's loan program to June 30, 1983)

	Number of loans	% of corresponding sub-total	% of grand total
1. Loans fully matured			
1.1 Fully paid back	24	32%	8%
1.2 Partially overdue	42	56%	14%
1.3 Fully overdue	9	12%	3%
Sub-Total	75	100%	25%
2. Loans partially matured			
1.1 Not overdue	33	20%	11%
1.2 Partially overdue	106	66%	35%
1.3 Fully overdue	22	14%	7%
Sub-Total	161	100%	53%
3. Loans not yet matured(1)	66	100%	22%
4. Grand Total	302	100%	100%

Unfortunately, data from the second analysis confirms the low repayment rates found in the first analysis:

. of all the loans fully matured as of June 30, 1983, as much as 88% were either partially or fully overdue.

. of all the loans partially matured, only 20% were completely up-to-date in their payments.

(1) new loans for which the very first maturity is still not due.

. if one excludes the loans for which the first maturity is yet to come, only 24% of all loans extended to date were fully up-to-date, while 63% were partially overdue and 13% fully overdue.

. Conclusion: one can thus conclude that HDF's collection performance on loans is far from satisfactory, with repayment rates running currently around 50%. Moreover, it can be predicted that, unless effective measures are taken immediately, collection performance will further deteriorate, as most loans are still in the early repayment phase: when the early maturities are skipped, all future payments will most likely also be skipped, to which will be added those loans which will have been up-to-date early on but will become overdue later.

CHAPTER FOUR - LONG TERM VIABILITY AND STRATEGY

4.1 HDF and its Market

. Evolution of Market: HDF has concentrated on providing service to the target group identified by the 1979 Michigan State University/Pragma Corporation Survey. The latter identified some 1,400 small transformation firms in Port-au-Prince which were to represent the potential market pool for HDF-type assistance. Since then, an estimated 900 dossiers have been reviewed by HDF, the majority of which correspond to the small enterprise criteria established in the survey, but which also include service and retail businesses not covered by this survey.

Initially, recruitment efforts by the animateurs produced a large number of interested clients, of which approximately a third obtained loan or technical assistance support. In the past year, the number of prospective clients recruited in the field by animateurs has dropped dramatically, indicating a possible reduction in the pool of potential clients within HDF's traditional market.

However, while recruitment in the field reduced, there has also been a significant increase in the number of entrepreneurs who are coming directly to the Foundation to request assistance. Many of the projects submitted relate to assisting new businesses rather than established ones, as such new ventures now represent about one quarter of all new applicants.

While the current size of the small enterprise market in PAP has undoubtedly increased taking into account population growth and the multiplier effect resulting from the creation of new businesses, HDF's market is therefore shifting from early reliance on established small businesses to a blend with higher-risk new ventures.

. Distribution of Market: HDF's record of assistance to traditional businesses is revealed in the existing portfolio of 302 loans. Sectorial distributions has been good, with 17% of loans going to commercial enterprises, 63% to transformation and 20% to service-type businesses.

The breakdown by business activity, on the other hand, shows an undue preponderance of several types of enterprises, notably shoemaking, tailoring and woodworking. In response to this trend, HDF made an effort to discourage

the disbursing of a high proportion of its loans to such business activities.

However, based on the survey it undertook in June and July 1983 on the distribution of business types by zones (in the capital), it was apparent that some zones were de ficient in the above types of businesses while there was a heavy concentration in others. Future loan programs should thus allow additional loans to be extended to such businesses when they are located in "def icient" areas.

As for expansion outside of the capital, it has already taken place in the South. While considerable debate and study preceded the move into rural areas, there appears nonetheless to have been inadequate planning prior to project implementation. In particular, insufficient loan capital was available to fund the projects submitted by the seven rural animateurs. For this reason, only 8 loans have been disbursed since April 1983 of a total of 109 dossiers submitted for loan consideration; the lack of loan capital has basically condemned HDF to providing just technical assistance in the provinces, a posture which, according to the 1982 Greenstreet survey, was to be avoided (in this report, it was suggested that only a small percentage of the rural enterprises surveyed indicated interest in receiving the type of technical assistance provided by HDF).

Geographical expansion in the provinces, if it addresses the issue of improving HDF's overall development impact, does not address the viability issue, as there is no reason to believe that rural groups and businesses will prove less marginal than urban clients.

> * Recommendation # 4.1: In view of current constraints related to HDF's viability, extension of services to the rural areas should be frozen at the current level.

. <u>Viability of current market:</u> the nature of HDF's present portfolio is a reflection of Haiti's economy, with a preponderance of loans going to traditional businesses. By its recruitment process, it has had to extend loans to marginal and traditional-type businesses, which in spite of infusion of capital and technical assistance may often remain non- profitable.

In view of this marginality of HDF's existing clientele and of the poor distribution of its development impact as outlined above, it appears that the Foundation should try and identify possible new markets for expansion.

. Long-term strategies: one alternative already explored in sub-Chapter 2.4 and recommended by this team would be for HDF to establish "linkages" between new projects and large firms presently operating in Haiti; if successful, such linkages could improve the viability of the small business receiving assistance as well as provide leverage to HDF's loan program through utilization of capital from large businesses.

Another strategy available to HDF would be to invert the present trend of passively receiving an increasing number of requests for assistance to actively identifying new viable non-traditional activities and matching these with small entrepreneurs with proven skills. This project identification option could be carried out in conjunction with respected business leaders and technical engineers. This approach would necessarily entail larger loans, since new businesses often require important seed capital. The approach also would imply more rigorous project analysis (rather than just financial evaluation) and a greater financial contribution by loan recipients. By moving into a higher loan bracket, HDF would be accessing into a larger potential market than it has today. In light of its present financial status, and its desire to remain a flexible development institution, a thrust in this direction would appear to offer new opportunities for growth.

In its effort to eventually become self-sufficient, HDF is presently exploring the possibility of generating income from developmental activities not directly related to its traditional loan-funding role (other Development Foundations in the region derive a large portion of their operating budget - 50% in the case of the Dominican Development Foundation - from such projects).

Among the new programs looked at by HDF with long-range, income-generating potential is the creation of credit unions ("caisses populaires"), which would be administered by the Foundation. The "caisses" would encourage urban workers, rural and urban co-ops and PVO's to pool their savings, which in turn would be used as loan funds for HDF's clients. This project, conceived by a U.N. consultant, should however be considered with cautiousness in view of HDF's low repayment rates: only rates higher than 80% would make such a program "viable" and allow HDF to repay depositors out of loan repayments.

Another direction envisaged by HDF would be to associate itself with IDB as a project identification center. HDF would be responsible to develop a viable project roster for IDB loans, against payment of a commission at time of

funding. This type of brokeraging would help HDF develop a desirable competency in project identification and would thus reinforce its ability to move into new markets.

While these projects require a certain redeployment of resources, some of them will show strong potential to diversify HDF's development impact as well as improve its long-term viability. They should thus be carefully assessed, in conjunction with the Board.

4.2 The viability issue

Chart 4.1 reflects an attempt to categorize and analyze the possible long-term strategies available to HDF as they relate to viability.

As will be seen in this Chart, five possible alternatives have been considered, the first four aiming at long-term financial self-sufficiency and the last preserving HDF's current status as a subsidized institution.

These five alternatives, which may not be the only ones available, are reviewed one by one below.

STRATEGIES AIMING AT LONG-TERM FINANCIAL VIABILITY

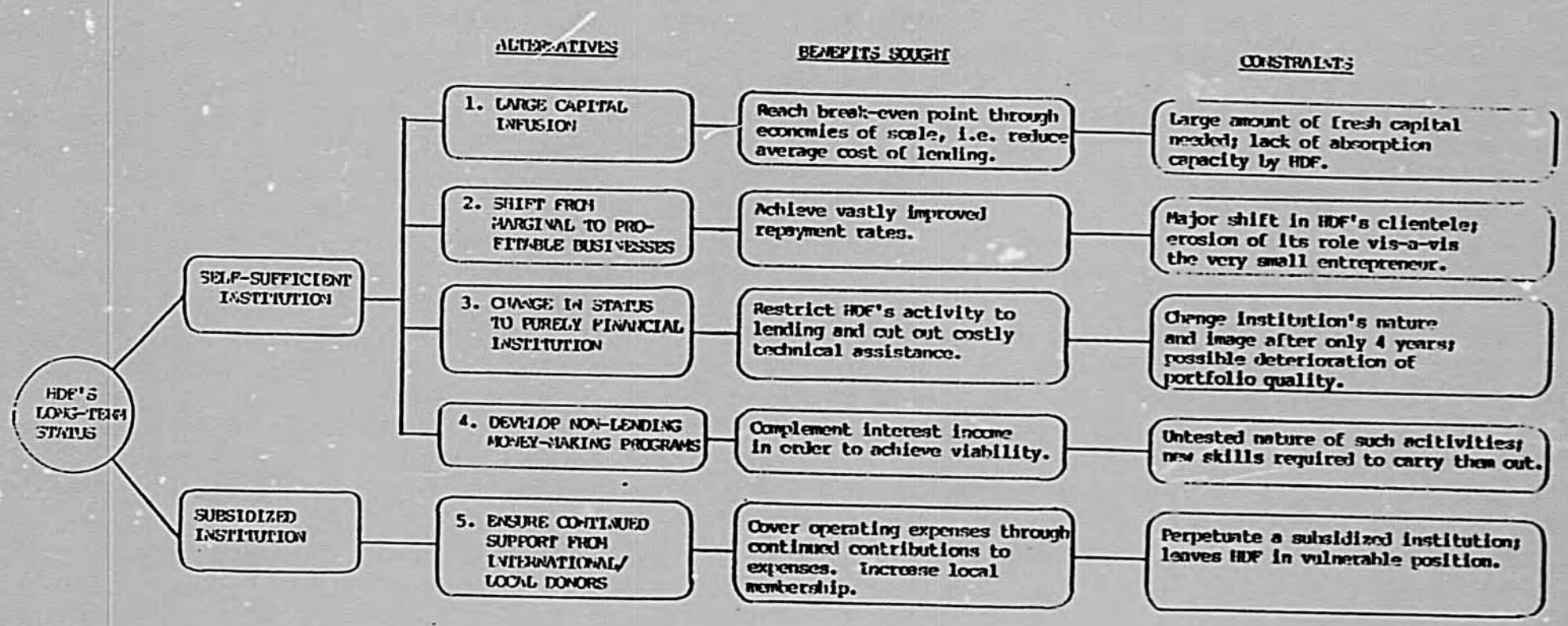
(1) Large infusion of loan capital

The long-term anticipated effect of a large infusion of loan capital would be to reach the break-even point through economies of scale consisting of a gradual reduction over time of operating expenses as compared to the loan portfolio.

It was pointed out in sub-Chapter 3.2 that under the present operating mode, the loan portfolio would have to be 5.3 times higher than currently in order to cover costs, all other things being equal. A major constraint involved is therefore the large amount of fresh loan capital needed. Another constraint relates to the Foundation's absorption capacity, i.e. the speed at which it can reasonably be expected to expand without over-extending its management structure or terminally jeopardizing its collection performance.

Five-year projections based on such large infusions of loan capital will be found further in this sub-Chapter.

CHART 4.1 - DESCRIPTION OF FIVE POSSIBLE LONG-TERM STRATEGIES FOR HDF



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(2) Shift from marginal to profitable businesses

This alternative is based on the assumption that HDF's concentration on marginal businesses is directly responsible for its poor current collection performance. Higher repayment rates would not only reduce operating expenses by cutting down reserves for bad debts, but would also make available additional loan capital for the future, which in turn would produce higher income.

The main constraint involved is that this would require a major shift in HDF's lending policies, from small and micro-businesses implicated in traditional economic activities to larger businesses geared towards high-growth or export-oriented markets. Such a shift would also require the acquisition by HDF of truly technical analysis skills to assess these more sophisticated markets and evaluate the technical - in addition to financial - viability of new projects; technical engineers would thus have to be hired or contracted for specific tasks.

Another consideration to be pondered is that this may in the long-term erode HDF's present development role vis-a-vis the small, uneducated businessman.

(3) Change in status to a purely to financial institution

This alternative would derive from the conclusion that technical assistance is of an unbearably high cost for the Foundation. The idea would be to cut out technical assistance altogether, and to limit HDF's activity to lending.

This of course would entail a major change in the nature of the Foundation's work, in its role, and eventually of its image. Additionally, such a change could have a negative, although hard to assess, impact on the bad debt rate (it is after all not coincidental if commercial banks do not lend to HDF's marginal clients; they just cannot afford the technical assistance and the close monitoring of loans which may be essential to keeping bad debt levels to a minimum).

(4) Develop non-lending, money-making programs

Such programs, which have allowed other development Foundations in the area to improve their self-sufficiency potential, would aim at complementing existing income from interest and loans (see description of two currently-envisioned programs in sub-Chapter 4.1).

At this stage, such activities are however basically untested in the Haitian context, and could divert HDF's attention if not carefully assessed. Also, new skills will need to be developed to carry them out in a professional manner.

STRATEGIES PRESERVING HDF'S STATUS AS SUBSIDIZED INSTITUTION

(5) Ensure continued support from international and local donors

Heretofore, major international donors as well as local sponsors have recognized HDF's developmental nature and accepted, at least in these early years, its subsidized status. Preservation of this "status quo" in future years would ensure that operating expenses will continue to be met through large external contributions and/or local membership.

The major limitation here is that the emphasis remains on perpetuating HDF as a subsidized institution, not on increasing benefits to the client (a high proportion of external funding would still go to operating costs, at the expense of loan capital). Secondly, at least part of major international contributions may be in the form of loans instead of grants; HDF would eventually be hard-pressed to repay these loans if it continues incurring operating deficits at the current rate. Thirdly, large contributions come in bursts and are short-term in nature, making long-term planning by HDF all but impossible.

Lastly, major donors such as IDB and USAID will at some point in the future reduce, or eventually cut off their contributions, especially when these are in the form of loans (at least until the Foundation can show its ability to repay earlier loans); finding new donors willing to make contributions of similar magnitude may prove very difficult indeed.

In the local context the potential appears to be very limited, as it has not proven very conducive to active participation by the business community in the Foundation's activities; this in turn makes such fund-raising efforts not very cost-effective.

Among the five alternatives reviewed above, the last one appears to be highly unsatisfactory, particularly because the "end product" is to assure the institution's survival at the expense of all other objectives or benefits.

It is therefore this team's opinion that HDF has little

choice but to concentrate on achieving financial self-sufficiency in the not-too-distant future; the team consequently proceeded to prepare tentative five-year projections in order to determine when and how financial viability could actually be achieved.

. Is viability feasible?

Table 4.1 presents five-year projections (FY 1984-88) which are based on the following assumptions:

- USAID would provide $500,000 of fresh loan capital per year from FY' 1985 to FY' 1988 inclusive.

- other loan capital contributions would be received as anticipated by HDF from IDB ($500,000) and Solidarios ($300,000), both in FY' 1985.

- reserves for bad debts of 10% of the outstanding portfolio would be constituted each year, as was the case in FY' 1983 (such reserves have of course a cumulative effect, with the total cumulated reserve amounting to $1,144,638 at FY' 1988 year-end, including the $88,354 constituted by FY' 1983, or 31% of the total gross portfolio; this 31% cumulated reserve in 1988 is not unrealistic taking into account current repayment rates of around 50%).

- no additional animateurs will have to be hired to manage the increased portfolio, as the animateurs just hired plus existing unused capacity of the original animateurs should prove sufficient in the coming years.

- the bottom-line "deficit" on the table will somehow be filled by USAID and/or other contributions to expenses.

As can be seen under the "Excess Income" line in Table 4.1, HDF's viability continues to deteriorate in dollar terms from year to year under these assumptions, the net "loss" increasing from $435,434 in FY' 1984 to $650,979 in FY' 1988, a 10.6% compounded yearly increase; on the other hand, viability improves in relative terms, as "losses" fall from 60.7%of the average portfolio in FY' 1984 to 26.7% in FY' 1988.

. The bad debt issue: the above projections, which show accumulated losses of $2,758,000 over the five-year period despite a $2,090,000 infusion of loan capital by USAID, are

TABLE 4.1 PROJECTED FIVE-YEAR INCOME STATEMENTS

(Assuming constant bad debt level)

	FY' 1984	FY' 1985	FY' 1986	FY 1987	FY' 1988
Loan portfolio					
1. Beginning of year (net)	712,701	722,431	1,820,188	2,088,169	2,329,352
2. AID loan capital	(1)90,000	500,000	500,000	500,000	500,00
3. Other contributions	-	(2)800,000	-	-	-
4. Bad debt reserve for FY(3)	80,270	202,243	232,019	258,817	282,935
5. End of year (1+2+3-4)	722,431	1,820,188	2,088,169	2,329,352	2,546,417
6. Average portfolio (1+4):2	717,566	1,271,309	1,954,178	2,208,760	2,437,884
INCOME					
Interest(4)	80,367	142,387	218,868	247,381	273,043
Technical assistance fees(5)	3,938	28,167	15,461	16,265	16,988
Total income	84,305	170,554	234,329	263,646	290,031
EXPENSES					
Salaries(6)	255,779	294,357	323,793	356,172	391,789
Other operating expenses(6)	165,365	181,902	200,092	220,101	242,111
Bad debt reserve (line 4)	80,270	202,243	232,019	258,817	282,935
Interest due(7)	18,325	22,325	24,175	24,175	24,175
Total expenses	519,739	700,827	780,079	859,265	941,010
EXCESS INCOME (EXPENSES)	(435,434)	(530,273)	(545,750)	(595,619)	(650,979)
Anticipated contributions (8)	100,000	100,000	100,000	100,000	100,000
Deficit	(335,434)	(430,273)	(445,750)	(495,619)	(550,979)

NOTES

1. Represents the remainder of the March 1983 Cooperative Agreement Fund.

2. $500,000 from IDB and $300,000 from Solidarios.

3. 10% of year-end portfolio: (1. + 2.) x 10%

(Continuation of notes to Table 4.1)

4. Interest payments are assumed to be 14% of the average portfolio during the year (see line 6) multiplied by a collection factor of 80%. This collection factor is obtained by assuming that interest for the first 24 months of an average loan is collected at 100%, as it is discounted at the time the loan is made, while for the last 16 months (assuming present average loan terms of 40 months) will only be collected up to 50%, which is the current repayment rate.

   The collection factor is therefore:

$$\frac{24 \times 100\% + 16 \times 50\%}{40} = 80\%$$

5. Represents 2% of loans extended during the year; loans extended are assumed to be the sum of all fresh loan capital (lines 2. & 3.) plus loans maturing during the year multiplied by a repayment factor of 50%. In view of the fact that average loan terms are 40 months, loans maturing during the year are equal to:

$$\frac{\text{Beginning Portfolio (line 1.)} \times 12}{40}$$

and total fees for the year are therefore:

$$2\% \times \text{lines } 2 \ \& \ 3 + \frac{2\% \times \text{line } 1. \times 12 \times 50\%}{40}$$

6. Assumes 10% yearly compounded increases in salaries and other operating expenses plus a $26,000 increase starting mid-FY' 1985 to cover cost of Deputy Director recommended for recruitment.

7. Assumes AID contributions will be grant money and not loan money. Other interest expenses are the following:

   - 1% on $489,330 IDB debt
   - 8% on $65,248 FDI loan
   - 8% on $52,340 of loans rediscounted by FDI (assuming roll-over)
   - 5% on $43,000 PADF loan (until 1985 only)
   - 5% on $37,500 PADF loan (due 1990)
   - 1% on the $800,000 IDB and Solidarios loans starting mid-FY' 1985

8. Yearly contributions estimated at $25,000 from local sources, $25,000 from international sources, and $50,000 from special projects.

highly unsatisfactory. Closer analysis leads to the conclusion that the factor that impacts viability most negatively but that also leaves room for substantial improvement, is the bad-debt rate.

Additional five-year projections have consequently been prepared based on a decreasing bad-debt-reserve figure, assumed to fall 1% yearly from 10% of the year-end portfolio in FY' 1983 to 5% in FY' 1988.

As shown in Table 4.2, operating losses then remain remarkably constant over the entire period, varying from $424,723 in FY' 1984 to $446,671 in FY' 1988. Of course, viability improves greatly in relative terms, with losses falling from 58.9% of the average portfolio in FY' 1984 to 16.5% in FY' 1988.

. Conclusion:

Based on the above, it is the opinion of this evaluation team that the only long-term viable solution for HDF is to aim at financial self-sufficiency. Substantial progress could be achieved in the coming years through a of large infusions of loan capital (if such infusions are forthcoming from major donors) and of drastic improvements in repayment rates.

It should be noted that additional, albeit modest, progress towards self-sufficiency may be achieved through higher levels of injected loan capital. For instance, if USAID chose to inject $750,000 of loan capital a year from FY' 1985 to FY' 1988, the operating loss in FY' 1988 would be slightly reduced, to $388,575. However, the question then is that of HDF's absorption capacity, as $750,000 represents more than the Foundation's net loan portfolio as of FY' 1983 year-end; also, there is substantially higher risk that collection performance would be negatively impacted. In view of the only modest gains that could be achieved, the injection of higher levels of capital during the early years should be looked at with caution.

Graph 4.1 gives a visual representation of the various alternatives reviewed above.

> * Recommendation # 4.2: financial viability should be set as a major objective of any future project, even though true viability cannot be realistically achieved within five years; major emphasis should be put on improvement in repayment rates, which represents a necessary pre-condition to self-sufficiency.

TABLE 4.2 - PROJECTED FIVE-YEAR INCOME STATEMENTS

(ASSUMING FALLING BAD DEBT LEVEL)

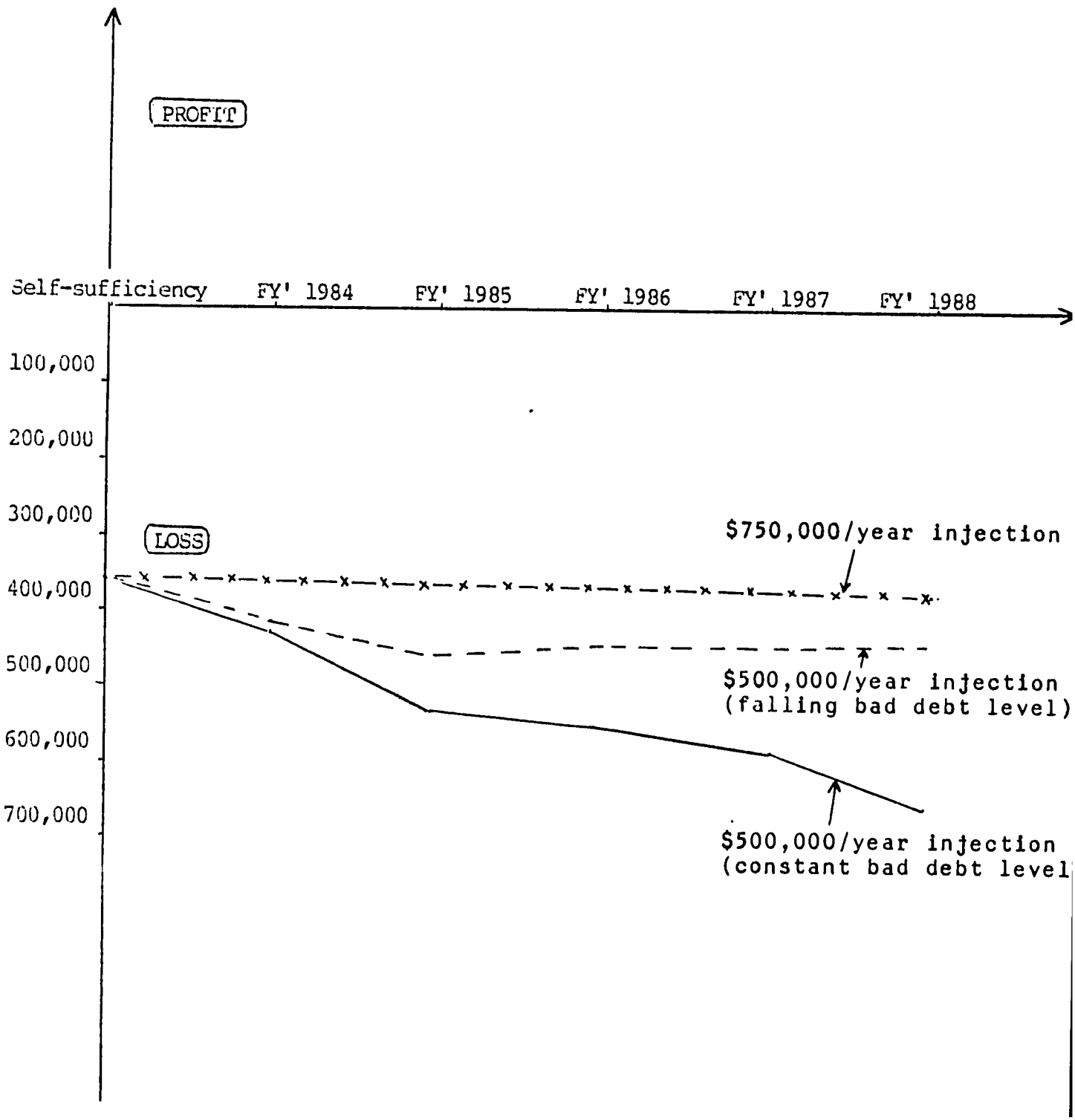
	FY' 1984	FY' 1985	FY' 1986	FY' 1987	FY' 1988
Loan Portfolio					
1. Beginning of year (net)	712,701	730,458	1,868,021	2,202,260	2,540,124
2. AID Loan capital	90,000	500,000	500,000	500,000	500,000
3. Other contributions	-	800,000	-	-	-
4. Bad debt reserve for FY(1)	72,243	162,437	165,761	162,136	152,006
5. End of year (1+2+3-4)	730,458	1,868,021	2,202,260	2,540,124	2,888,118
6. Average portfolio (1+4):2	721,579	1,299,240	2,035,140	2,371,192	2,714,121
INCOME					
Interest(2)	82,837	152,791	245,031	292,131	341,979
Technical assistance fees(3)	4,152	28,630	17,285	19,249	21,431
Total income	86,989	181,421	262,316	311,380	363,410
EXPENSES					
Salaries	255,779	294,357	323,793	356,172	391,789
General/administrative	165,365	181,902	200,092	220,101	242,111
Bad debt reserve (line 4)	72,243	162,437	165,761	162,136	152,006
Interest due	18,325	22,325	24,175	24,175	24,175
Total expenses	511,712	661,021	713,821	762,584	810,081
EXCESS INCOME (EXPENSES)	(424,723)	(479,600)	(451,505)	(451,204)	(446,671)

(1) reserves of 9% of year-end portfolio in 1984, 8% in 1985, 7% in 1986, 6% in 1987 and 5% in 1988

(2) the collection factor as calculated in note #4 to Table 4.1 increases to 82%, 84%, 86%, 88 and 90% based on assumed repayment rates of respectively 55%, 60%, 65%, 70% and 75%

(3) according to note #5 to Table 4.1, equals 2% x lines 2 and 3 + 2% x line 1 x 12 x repayment of 55% to 75% (see note #2 above)

GRAPH 4.1. Effect of various strategic Alternatives on HDF's viability.



4.3 Donor Strategy

In view of the fact that true viability, as defined in this report, cannot be fully achieved in the foreseeable future within the above assumptions, two courses of action appear to be available to USAID:

(1) eventually phase out its assistance to HDF

(2) accept this state of fact and provide continuing financial support both in terms of operating costs and loan capital. In order to avoid symptoms of HDF's early-on under-capitalization (which is at least partially responsible for HDF's present financial condition), infusions of loan capital should be of at least $500,000 a year to improve relative viability.

However, there remains four critical areas that USAID should further investigate if this second course of action is to be adopted:

(a) is HDF's poor repayment performance a result of the marginal nature of its clients or of HDF's lax policies with respect to loan extension and collection?

(b) is technical assistance essential to the client's economic success, or can it be disposed of to further improve viability?

(c) does HDF have the development impact (economic value added, jobs, creation of viable enterprises) which was originally sought?

(d) is the existing and/or contemplated market sufficient to absorb the resulting availability of new loan funds?

These four issues require the completion of an impact evaluation at beneficiary enterprise level, eventually followed by a market survey if the former showed a strong correlation between client's marginality and low repayment performance. In addition, HDF's possible involvement in non-lending, money-making ventures (see Alternative #4 in sub-Chapter 4.2), which could make the Foundation more attractive, should also be looked at.

ANNEX A: PROPOSED DISCOUNTED METHOD TO ESTABLISH LOAN REPAYMENT SCHEDULES

Loan terms: 4 years
Interest rate: 14% per year
Interest payment: 2 years in advance, interest amount being the amount of interest which would be payable during the first two years under the equal-monthly-payment (principal plus interest) method.
Technical assistance fee: 2%, payable in advance
Life insurance fee: 1.118%, payable in advance (varies with borrower's age)

1. Loan amount used for calculation purposes	=	$1,000
2. Discounted interest for first two years: $1,000 x 22.5%(1)	=	(225)
3. Technical assistance fee:	=	(20)
4. Life insurance: $1,000 x 1.118%	=	(11.18)
5. Net amount disbursed (1.-2.-3.-4.)	=	743.82

$$\text{Cash to loan ratio} = \frac{743.82}{1,000} = 74.382\%$$

If the net amount to be disbursed (the "project" amount) is $10,000, one will then obtain the loan amount to be approved by dividing this amount by the cash to loan ratio, as follows:

$$\text{Loan amount} = \frac{\$10,000}{0.74382} = \$13,444.11$$

(1) total interest paid during the first two years of a four-year loan under the equal-monthly-payment method is 22.5%

ANNEX B

HDF'S COMPARATIVE BALANCE SHEETS

(U.S. dollars)	6/30/ 1982	6/30/ 1983	9/30/1983 (interim, adjusted after audit)	% Of Total (9/30 1983)
ASSETS				
Cash and deposits	46,135	73,869	152,454	13.1%
Loans to employees	4,255	16,660	15,529	1.3%
Inter-account adjustments	45,543	62,567	58,213	5.0%
Prepaid expenses	222	237	4,668	0.4%
Loan portfolio	498,634	801,055	953,097	81.6%
(-) Reserve for bad debts	(14,350)	(88,354)	(88,354)	(7.6%)
Net loan portfolio	484,284	712,701	864,743	74.0%
Overdue interest payments	6,394	23,741	36,247	3.1%
Fixed assets	25,647	57,868	57,867	5.0%
(-) Accumulated depreciation	(9,815)	(18,990)	(22,008)	(1.9%)
Net fixed assets	15,832	38,878	35,859	3.1%
Other	7,050	799	227	-
Total assets	609,715	929,452	1,167,940	100.0%
LIABILITIES AND FUND BALANCES				
Accounts payable	35,606	46,669	84,140	7.2%
Accrued expenses	7,601	-	-	-
Inter-account adjustments	45,543	62,567	58,213	5.0%
Loans payable	502,529	716,418	827,775	70.9%
Trust account	3,700	3,700	3,700	0.3%
Deferred contributions	26,000	18,334	36,801	3.1%
Prepaid interest	-	17,886	40,320	3.5%
Total debt	620,979	865,574	1,050,949	90.0%
Net worth	(11,264)	63,878	116,991	10.0%
Total debt and networth	609,715	929,452	1,167,940	100.0%

ANNEX C

HDF'S COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES

(U.S. DOLLARS)	FY' 1982	FY' 1983	(1st Quarter) FY' 1984
INCOME			
Interest income on loans	34,039	79,361	26,545
Technical assistance fees	7,944	6,094	5,093
Other	488	-	7
Total revenues	42,471	85,455	31,645
EXPENSES			
Salaries and personnel	158,735	220,708	59,338
Vehicle expenses	13,586	21,829	6,543
Travel expenses	19,595	23,779	6,837
Rent	12,000	12,000	3,000
Office supplies	7,567	9,708	2,989
Utilities	6,438	10,428	3,022
Training	-	19,196	6,914
Promotion expenses	12,281	18,128	2,842
Professional expenses	11,790	9,800	2,700
Depreciation	5,101	9,174	3,020
Reserve for bad debts	11,583	74,004	-
Interest	11,284	7,481	6,447
Other	24,093	16,290	1,702
Total expenses	294,053	452,525	105,354
EXCESS INCOME (EXPENSES)	(251,582)	(367,070)	(73,709)
AID contributions to expenses	102,971	206,166	
AID loan fund	50,000	145,000	106,614
Other international contributions	51,000	38,271	
Local contributions	67,306	52,775	20,210
EXCESS REVENUES (EXPENSES)	16,695	75,142	53,115