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SEMI-ANNUAL REPORT

For Period

August 15, 1985 to February 15, 1986

Contract No. 521-0163-C-00-5023-00

Project No. 521-0163

for

Technical Assistance to the Banque de Credit Immobilier

Haiti

Submitted to USAID/Haiti

by

National Council of Savings Instit

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I. INTRODUCTION

A. Status of BCI

The BCI was officially founded on March 29, 1985 when the bank's incorporating assembly met, approved the constitution and by-laws, and elected the first board of directors. The BCI operates under the general law of financial institutions of November 14, 1980 and the law of savings banks of July 4, 1984. The Group Consultatif which had been managing the organization of the bank formally ended its duties on March 29 and handed over its responsibilities to the board of directors.

A building for the bank's main office was leased at 6, Rue des Fronts Forts in downtown Port-au-Prince, and remodeling of the premises was carried out by a local construction firm. The BCI had completed staffing of the principal management positions, personnel training, and setting up administrative, credit and operational procedures before opening to the public on January 23, 1986.

According to the BCI/USAID Grant Agreement, the bank has completed Conditions Precedent to Disbursement for funds for Phase I, first disbursement, and Phase II Technical Assistance Activities.

B. BCI Operations

Even though authorized by law to have up to 30 percent of assets in commercial bank credit operations and a minimum of 50 percent of assets in mortgage loans devoted to residential housing activities, the BCI Board has decided to adopt more strict limitations and has fixed 10 percent of assets as the maximum for commercial operations, 70 percent of assets as the minimum of mortgage loans for residential housing, and 20 percent of assets as a maximum for non-residential mortgages.

The BCI was authorized to operate by Presidential Decree of October 22, 1985, published in the October 28, 1985, issue of "Le Moniteur". According to the Savings Banks Law of July 4, 1984, Ar. 30, Savings Banks regulated by that law can request the Banque de la Republique d'Haiti (BRH) for up to a 50 percent reduction of the reserve requirements for deposits. The BCI requested this reduction and obtained the following:

DEPOSITS	COMMERCIAL BANK RESERVE REQUIREMENT	APPROVED FOR BCI
Currents Accounts	40%	N.A.
Savings Accounts	32%	20%
Term Deposits (1 year or less)	20%	10%
Term Deposits (more than 1 year)	8%	4%

Among other privileges approved by BRH for the BCI are the following:

INTEREST RATES ON DEPOSITS	COMMERCIAL BANK	BCI
Savings Accounts	7%	7%
Term Deposits (1 year or less)	10%-14%	9%-14%
Term Deposits (more than 1 year)	14%-17%	13%-17%

INTEREST ON LOANS	COMMERCIAL BANKS	BCI
On all loans	14.5%-19%	13.5%-19%
Loan Term	Max.5 yrs	Max.20 years

At the close of the reporting period the bank's financial activities can be summarized as follows:

Savings Accounts	1.6 million Gourdes
Term Deposits	0.4 million Gourdes
Loans approved	5.6 million Gourdes

No loans have been either signed or disbursed yet. The backlog of loan applications not yet approved stands at 259 for a total amount of 45 million Gourdes.

II. ACTIVITIES DURING THIS REPORTING PERIOD

A. Mobilization

According to contract provisions, Edgar J. Pereira, the Long Term Advisor, (LTA) arrived at post on August 14, 1985, within 30 days from the effective date of the contract, July 15, 1985. He was accompanied by Daniel S. Coleman, Project Coordinator, who remained a few days in Haiti to assist the LTA in initiating the work assignment. Temporary office space was provided by BCI in the second floor of its building pending the remodeling of the bank premises. Permanent office space was made available later to the technical assistance team. A bilingual secretary was recruited and hired to assist the contract team. Office supplies are being furnished by BCI. Local transportation for the contract team was secured through the purchase of a project vehicle with AID project funds, per the terms of the contract.

The Project Manager's dependents arrived on post on September 3, 1985 and they all moved into permanent quarter on October 1, 1985.

B. Initial Contacts

Initial contacts were made with USAID/Haiti, the BCI Board of Directors and the bank's key management team. A preliminary round of meetings was utilized to review with USAID the contract terms, inform BCI management about the characteristics of the technical assistance program, including the availability of short term consultants for specific assignments within the contract scope, and the role of the LTA in the program and his proposed activities during the pre-operational period. Also a tentative schedule for the visit of the Mortgage Lending Advisor and Operations Advisor, the other two team members assigned to the project during the pre-operational period, was prepared at this early date.

During this initial phase, the Project Manager/LTA met with RHUDO/CAR Director and the USAID/Haiti Investment Officer assigned to the project to decide on the strategy to be utilized in order to ensure a good working relationship with the bank's key management team and to coordinate the T.A. in such a way as to minimize conflict with the schedule for opening the bank. To do so, the pre-operational short term technical assistance was scheduled so as not to require considerable back-up time from members of the bank administration that were in charge of opening, namely the Operations Manager and his staff.

C. LTA/BCI Management, Working Relationship Arrangement

It was evident from the beginning that due to the fact that there was no contractual relationship between the BCI and the NCSI technical assistance team, and that the technical assistance is being provided to the bank according to the terms of a Grant Agreement between BCI and USAID, some sort of "modus operandi" agreement acceptable to the 3 parties involved, had to be worked out between the LTA and the BCI management.

At this early stage the BCI was mainly concerned with opening the bank by October 15, a date that seemed somewhat optimistic since the remodeling of the building would not be ready for the target date. They perceived any technical assistance activity as taking time from them and possibly delaying the opening. For this reason, it was agreed that the arrival of the savings and loan and operations advisor would be delayed so as to not interfere with the opening. It was also agreed to schedule the Mortgage Lending Advisor to undertake several short tours of duty instead of the one-time continuous assignment called for in the contract.

It was agreed that the LTA would be involved in all matters as requested by the bank's general manager and/or bank's board of directors, and that he would be free to make suggestions and/or recommendations directly to the general manager. However, he would not take any direct initiatives either internally with the bank staff or externally in the name of the bank without first clearing such matters with the general manager. As a final item, it was agreed that the other bank managers could consult freely with the LTA without going through the general manager, on matters pertaining to daily activities.

The short term consultants proposed in the NSCI/USAID contract were accepted in principle. However, the LTA would have to submit a scope of work for each STA assignment, a biographical summary of each consultant and the proposed dates of availability before arrival, and accordingly the BCI would make a formal request for each advisor at its convenience.

D. Mortgage Lending Advisor

In early September, per the agreement with bank management, the BCI requested the services of the Mortgage Lending Advisor for a two-week tour of duty along the lines of the Scope of Work prepared by the long term advisor. The NSCI assigned Mr. Pedro Lasa to carry out this work between September 30 and October 13, 1985.

His principal accomplishments can be summarized as follows:

- Reviewed the flow chart of credit applications, loan approvals and disbursements developed by the bank officers with the assistance of the long term advisor.
- Reviewed and made recommendations concerning the credit policy manual developed by the BCI credit department with the assistance of the long term advisor.
- Created sub-routines to describe mortgage credit activities. These routines are described in procedural manuals which contain sample forms and documents necessary for carrying out each sub-routine.
- Began the training of the mortgage credit officer on mortgage credit operations.
- Made initial recommendations on interest rates and portfolio policy.

E. Credit Manual

The BCI Board of Directors named a review committee to approve the credit manual. The review committee took into consideration the recommendations submitted by both the Long Term Advisor and the Mortgage Lending Advisor, and the continued assistance and inputs of the LTA. The credit manual is a direct result of the technical assistance contract and a key document for bank operations. The manual size precludes a wide distribution; a copy is in the project's files.

F. Mortgage Lending Operations Flow Chart

With the assistance of the LTA and the Mortgage Lending Advisor, the loan officer completed the work flow chart for loan operations and included it in the credit manual.

G. Training Program for BCI Personnel

The LTA was asked by the bank's Director General to prepare a plan acceptable to USAID for training of the BCI staff. This is according to Section 2, Conditions Precedent, Sub-Section C, Paragraph 4 of the USAID/BCI Accord.

For this purpose the LTA reviewed the bio-data of the bank's staff to determine their expertise and training needs. Later the LTA carried out several interviews with them to get first hand information on their experience and expectations. The LTA made recommendations which placed emphasis on the utilization of at least one-third of the time allocated in the contract for short-term technical assistance for on-the-job training to the bank staff directly related to the STA's area of specialization. A copy of the report was sent to the USAID/Haiti project officer.

H. Mortgage Lending Insurance

The LTA prepared a report for the bank's management on the insurance requirements of the mortgage lending activity. This report includes information on the characteristics of typical life and hazard insurance to protect the mortgage creditor in cases of debtor's death and/or damage to the mortgage property. This report served as the basis for discussions with several insurance brokers interested in providing this type of coverage.

The BCI, with the assistance from the LTA, prepared a Request for Proposal outlining the desired characteristics of both insurance types. This Request for Proposal was made available to all interested insurance firms. Four proposals were received from U.S. and Haitian insurance companies. To aid in the decision process, proposals were reviewed by the LTA and recommendations were made to BCI concerning the strengths and weaknesses of each proposal.

I. Status Reports to USAID/Haiti

USAID/Haiti requested an interim status report of pre-operational work flow plan for the project. The LTA prepared the report and submitted it to the USAID Project Officer. The LTA also assisted the bank to prepare the documentation required by USAID as Conditions Precedent to Disbursement of Funds for Phase II.

J. Savings and Loan Operations Advisor

As agreed previously, and as the bank's opening date approached, the BCI requested the services of the short term advisor to review the operations procedures prior to opening to the public. The LTA prepared a scope of work and scheduled Ms. Carol Oman for a two-week assignment in early December.

Her tour of duty covered the period from December 3 to the 17th, 1986. Her principal accomplishments can be summarized as follows:

- Developed, and helped the Operations Manager and his staff develop, all necessary operating procedures in writing.
- Made recommendations on the expansion of personnel policies and procedures to include job evaluation and salary structure.
- Helped the Operations Manager to develop a training plan with fixed dates for completing training in all procedures before opening date.
- Supervised the training of an inexperienced teller and the new accounts person.
- Reviewed and made recommendations on all key forms for savings, accounting and administration.

- Prepared, with the Savings Operations Manager, listings of all required equipment and supplies with a purchase schedule for specific dates before opening.
- Made specific recommendations on optional equipment that will greatly simplify and insure the correctness of savings operations; i.e., posting machines and black light signature verification equipment.
- With the LTA, prepared recommendations and job descriptions for the internal auditing functions, and made recommendations on investment policy, budget and financial planning, loan procedures related to banking operations, and general administration.

As a follow-up to her assignment, the LTA reviewed all pre-operational procedures and made an inventory of required forms and supplies before the bank's opening day.

K. Operations Manual

As a direct result of the Savings and Loan Operations Advisor's recommendations, the Operations Manager and his staff are preparing a complete manual of operating procedures that will include flow charts of all operations and detailed routines containing all required steps and forms to complete each operation.

L. Pilot Program

Since the inception of the contract and the LTA's arrival, a number of discussions have been held concerning the feasibility of a low cost housing program for families having incomes not exceeding \$300 per month, to be financed by the \$750,000 grant made available to BCI by USAID. However, the BCI knew little about land availability, developers' interest, employers' interest, and general cost and design parameters,

although some of this information was contained in the Project Paper. In view of the above, USAID/BCI/NCSI agreed to bring a short term consultant to do a preliminary feasibility study of the program. The scope of work was prepared and Eric N. Peterson, architect/planner, was selected for the two week assignment.

Mr. Peterson's tour of duty extended from January 13 to 24, 1986. His principal accomplishments can be summarized as follows:

- Reviewed the project paper parameters and established a methodology for testing their feasibility.
- Established a cost of raw land parameter and identified zones in which land not exceeding this cost can be obtained.
- Interviewed developers to establish the minimum infrastructure requirements and costs for a low income housing project in the pilot program target income range.
- Identified low income housing design solutions and construction costs that should not be exceeded in order to make the pilot program feasible.
- Developed a tentative schedule for testing the parameters and implementing the pilot program.

His principal findings were:

- The pilot program is feasible provided that raw land can be acquired at not more than \$3 per square meter, infrastructure costs do not exceed \$10 per square meter of lot, and house construction costs do not exceed \$125 per square meter.

- If the cost parameters described above are observed, and/or their deviations compensated, units of between 30 and 40 square meters can be built for the target income ranges established by the project paper.
- According to the developers interviewed by Mr. Peterson, it is possible to achieve these cost targets, although the limits are tight.

M. BCI Opening

On the occasion of the BCI opening, Sara Frankel, Director, Regional Housing and Urban Development Office - Caribbean visited Haiti to attend the ceremonies and review the BCI project. The LTA had several meetings with her, during which the status of the BCI project was reviewed and the pilot program discussed at length. Concerning the Pilot Program, she met several times with Eric Peterson, the Low Cost Housing Advisor, to discuss his findings and recommendations.

Her suggestions concerning the pilot program are summarized as follows:

- She suggested that NCSI hire a local architect with some low cost housing experience and a good knowledge of the country to serve as consultant on matters of land selection, construction costs and local zoning and development regulations.
- She also suggested that the bank, with inputs from the LTA and the local architect consultant, develop "terms of reference" for the pilot program including technical and financial requirements to be met to qualify for loans under this program. The terms of reference would define this program and they would be made available to developers, industries, and organizations interested in the program.

N. Miscellaneous Activities

During the reporting period, the LTA has been called upon to participate in meetings both at the bank and for the bank's dealings with other institutions. The LTA has also been consulted on a number of specific problems concerning bank operations, accounting, financial management and credit policies.

Among his most important activities, the following can be mentioned:

- Attendance at credit committee and executive committee meetings.
- Review of loan documentation prior to submission to the credit committee for consideration.
- Participation in meetings with the International Monetary Fund and Banque de la Republique d'Haiti for negotiations on the reserve requirements for deposits.
- Recommendations on a portfolio policy to be discussed by the board of directors.
- Preparation of budget for the utilization of the uncommitted \$133,000 of the grant funds.
- Preparation of training program acceptable to AID for BCI staff.
- Tentative scheduling for short term technical assistance.
- Recommendations on loan interest rate determination, and alternative sources of funds not subject to reserve requirements.

- Recommendations on loan forms and miscellaneous documentation.
- Recommendations on data processing equipment.

III. ACTIVITIES PLANNED FOR NEXT REPORTING PERIOD

A. Pilot Program

According to the directives given by USAID/Haiti, the pilot program funds should be obligated by September 30, 1986 and disbursed by September 30, 1987. This schedule implies that most of the planning activity for the low cost housing program will be carried out during the next six months. During that period the following activities are contemplated:

- Selection of a local architect/planner to serve as a short term consultant on matters of land selection, construction costs, local zoning and development regulations as well as on the preparation of terms of reference for developers, industries and organizations interested on the program.
- Visits to possible project sites and/or areas.
- Interviews with developers, industries and organizations interested in participating in the pilot program.
- Participation with the local architect consultant and bank management in the preparation of terms of reference to be made available to organizations interested in participating in the pilot program.
- Participation in the analysis of proposals received by the bank for projects to be financed under the pilot program.

- Recommendations to interested organizations on the promotion and marketing of low cost housing projects.

B. Real Estate Appraisal

As part of the technical assistance, a short term advisor will help the bank's credit department review its real estate appraising procedures.

This short term consultant will devote between 4-6 weeks in 2-3 tours of duty to work with the bank's engineer on the following tasks:

- Review the existing body of law concerning zoning, building, surveying and registry of real property in Haiti.
- Become familiar with land prices, construction methods and costs in Haiti, especially in the Port-au-Prince area.
- Develop a complete routine for the appraisal of real estate. This routine will include detailed work flow charts, alternative criteria for property valuation and a complete manual containing procedures, documentation and tables used in property valuation.
- Training of the bank's engineer-appraiser in the utilization of the routine and on-the-job supervision including the preparation of the appraisal report.

C. Mortgage Lending

A continuation of the work done by the Mortgage Lending Advisor, Mr. Pedro Lasa, is scheduled for the next reporting period. This will consist of four additional weeks during which the following activities are planned:

- Oversee the mortgage credit operations during a two week period to ensure that all procedures are carried out according to the credit manual, including suggesting necessary changes to the system.

- Continue with the training of the mortgage credit officer and other credit personnel on mortgage credit operations. This will include training of the credit committee and a one day credit information seminar for all bank personnel.

D. Mortgage Servicing

Mortgage servicing is a very important mortgage banking activity to be undertaken as soon as mortgage credit operations begin. This activity includes keeping a record of payments received, keeping control of delinquencies, special collection procedures for delinquent mortgages, mortgage foreclosures, administration and selling of foreclosed property. It also includes administration of escrow accounts, adjusting mortgage terms and the safekeeping of documents. Proficiency in these activities will ensure profit-making opportunities for BCI and improved customer service.

The BCI has already hired the mortgage service personnel consisting of a portfolio manager, a person in charge of collections and a person in charge of escrow accounts. The LTA has written a detailed scope of work for this activity, it is expected that about 6 weeks of a short term consultant time will be needed.

E. Other Activities

The LTA will continue his participation in daily bank activities, especially in the credit department, which will include his attendance at credit committee and board of directors meetings and in special situations as they arise. The LTA will devote time to coordinate the activities of the short term consultants and provide for their

logistical support. The LTA is in the process of preparing a total budgeting system for the bank, which will be completed during the next reporting period. This system will consist of a computer worksheet package to make projections for profit and loss, cash flow and balance sheet based on a set of initial assumptions on deposit forecasts and desired level of credit activity. Later, the LTA will begin work on the information package that will compare real versus planned activity and provide information to management on key activity parameters. This activity is being carried out in collaboration with the Credit Manager.

IV. TRAINING DURING THIS REPORTING PERIOD

A. General

As agreed with the BCI and USAID, approximately one third of the time of each short term consultant would be used in training bank staff in their respective areas of expertise. Additionally the LTA would spend part of his time training bank personnel on an "as needed basis".

B. Loan Officer Training

The bank hired a mortgage lending officer to handle all loan processing, except the appraisal function, to include all steps from receipt of the application to the preparation of the check for disbursement of loan proceeds. The LTA recommended this one-person system for the initial period of operations; but later on, as bank operations increase in volume, other loan officers can be added. One of the reasons behind this recommendation is that people in Haiti are accustomed to dealing with the same person throughout the credit process. The loan officer is assisted by a secretary who is qualified to conduct the initial loan interview and completion of the loan application. In case of illness or termination of employment of the credit officer, loan applications at any state of processing can be taken over on a temporary basis by the credit manager.

The Mortgage Lending Advisor has spent considerable time with the loan officer, training him on the handling of mortgage loan application, making the necessary credit investigation and analyses, and becoming familiar with all forms required for the process.

After the MLA left, the LTA carried out a complete review with the loan officer of all forms and procedures to be utilized in mortgage lending according to the credit manual. With the loan officer, the LTA analyzed in detail several loan applications already received by the bank, and made specific recommendations to improve the quality of the information received. The LTA helped the loan officer design a strategy for loan application analysis and to prepare concise recommendations to the credit committee.

C. Portfolio Manager Training

The LTA helped the portfolio manager and the collections officer to set up a simplified procedure for portfolio management and collection activities to be utilized in the period immediately following the opening of the bank. The LTA reviewed all procedures with both officers, checked all forms and recommended the utilization of payment coupon books.

For the purpose of designing a payment coupon book, the LTA contacted the representative of National Computer Print, Inc., who supplied samples of different styles of payment coupon books. The LTA suggested the design of a coupon to be used by the bank which will be carrier mounted and produced by the bank's IBM-PC computer.

D. Operations Personnel Training

Prior to the Bank's opening, the Savings and Loan Operations Advisor helped the Operations Manager to develop a training plan with fixed dates for training in all procedures.

E. Other Training Issues

The LTA identified and prepared a report on specific training needs for the bank staff. This report was submitted to USAID as part of the Conditions Precedent to Disbursement of Funds for Phase II, Technical Assistance.

The additional training activities recommended can be summarized as follows:

- On-the-job training. Training by the short term advisors and the LTA of bank personnel on an "as needed basis" within the area of expertise of the respective advisor.
- Seminar training for the Credit Committee on credit policy and mortgage lending procedures.
- Seminar training for five key bank officers on topics of asset/liability management, financial planning and strategy.
- Attendance at seminars of the NCSI's Center for Financial Studies by various bank officers during academic year 1986-1987, or later, in order to build up some experience on the part of the officers and thereby make the training more relevant to actual work situations.
- Membership in trade associations, and attendance of regional meetings, of the Interamerican Housing Union and the Caribbean Building Societies Association.

The LTA prepared a budget for training activities to be financed with USAID grant funds under the existing NCSI contract and/or amendments if needed.

V. SHORT TERM TECHNICAL ASSISTANCE

A. Short Term Technical Assistance During Reporting Period

During the reporting period 1.5 person-months of short term technical assistance were utilized out of a total of 14 P/M in the three year contract and out of 8 P/M originally planned for the initial six months.

The short term technical assistance utilized can be further divided as follows:

AREA	P/M UTILIZED	P/M PLANNED
Mortgage Lending	0.5	4.0
Savings and Loan Operations	0.5	4.0
Pilot program	0.5	-
Total	1.5	8.0

There are several reasons for this reduced utilization of short term technical assistance when compared to the original plan in the project paper and technical proposal: (1) The bank was able to recruit higher caliber people with financial experience for the key management positions. These key people required less technical assistance than it was originally planned in developing the basic mortgage lending and operations subroutines. (2) The long term advisor was able to take part, in the pre-operational phase, in the development of the subroutines to a far greater extent than originally anticipated. (3) The delay of the bank opening due to problems in the remodeling of the bank's physical facilities allowed more time for the bank staff and the LTA to design the systems and write the procedures. (4) The events of late January 1986 postponed some of the scheduled STA activities.

The addition of the short term advisor for the Pilot Program was required to assist with low cost housing financing activities, per AID's request.

B. Short Term Technical Assistance Planned for Next Reporting Period

For the next reporting period (February-August 1986) a total of 6 P/M of short term technical assistance are scheduled as follows:

AREAS	P/M SCHEDULED	P/M ORIGINALLY PLANNED
Real Estate Appraiser	1	1
Mortgage Lending	0.5	-
Savings and Loan Operations	0.5	-
Mortgage Servicing	1	1
Information, Accounting	1	1
Pilot Program	2	1
Total	6	4

The Mortgage Lending Advisor and the Savings and Loan Operations Advisor will return to conduct a check of the system already in place and to review the credit manual and the banking operations manual respectively.

With respect to the Pilot Program, a local architect/planner will be hired to provide technical assistance to the bank in the planning, design and implementation of low cost housing projects to be financed by the pilot program grant funds.

The other three STAs -- Real Estate Appraiser, Mortgage Servicing and Information, Accounting -- fall in the category of short term advisors in banking operations.

VI. AREAS OF CONCERN

The following are some areas of concern to which the BCI must pay particular attention in order to ensure that the institution functions properly and is able to carry out its mandate. The subsequent section on Recommendations offers suggestions as to how the BCI might address those concerns.

A. Current Events

Just a few days after the bank opening, the final crisis of the Duvalier regime began. From January 31 to February 11, 1986, even though the bank was open most of the time, business activity practically ceased. Even after Duvalier's departure, business activity was below normal and it is uncertain when the situation will return to normal. Moreover, it is very difficult to predict how the change in government will affect the BCI. During the last year of the Duvalier government the pace of business activity decreased considerably. Few investments were made, imports were reduced due to a lack of foreign exchange, and merchants kept low inventories in anticipation of losses due to looting and rioting. This led to an above normal liquidity in the banking system and to shortages of consumer goods and industrial inputs.

The BCI had expected to attract some of this excess liquidity to form its deposit base. Yet if business activity increases and investment and import volumes return to normal, some of this liquidity may disappear. On the other hand if the new government is not successful in creating a favorable business climate, a part of this liquidity may be converted into dollars and sent abroad. Both scenarios may tend to make the BCI deposit growth slower than anticipated and thereby reduce the principal source of funds for lending.

Loan demand, which was higher than anticipated before the bank opening, will probably be even higher if the favorable business scenario materializes and only moderately slower if the unfavorable business scenario results. In both cases it is anticipated that the flow of savings will not be sufficient to satisfy loan demand.

B. Deposit Policy

In anticipation of the possibility of an overflow of deposits coming from a very liquid economy with very few investment opportunities, the BCI Board has limited the amount of term deposits to a maximum of Gdes 50,000 from any one individual and limited savings account activity by placing a maximum on monthly balance increases of Gdes 15,000 from any one individual. If the economy is not excessively liquid, then this policy will inhibit the inflow of savings.

C. Lending Policy

The BCI Board has not yet adopted a lending policy. The only policy existing is the limitation by the Savings Banks Law of 10% of capital as the maximum amount of loan to any single individual. Loans are analyzed and approved on a "one to one" basis from customers from the higher income groups. At the close of the reporting period, the average income of borrowers for all loans approved was \$3,200 a month. (See Exhibit I). This indicated that the first BCI loans will be directed to upper income borrowers.

D. Financial Planning Function

At the close of the reporting period, the bank had not completed a budget for the rest of fiscal year 1986, nor had the responsibility for financial planning been assigned to any of its officers. Further, financial guidelines for budgeting purposes had not been determined. At

the present time, the Credit Manager, with the LTA assistance, is preparing a budget for the rest of FY 86 using reasonable assumptions but with very few inputs or guidelines from other departments and/or the board of directors.

E. Internal Auditing Function

To ensure the proper functioning of any financial institution that is entrusted with funds from the public, it is important that all activities be verified for accuracy and conformance with the rules and regulations under which it operates. The Technical Assistance team has recommended to the BCI that an internal auditor (and eventually an internal auditing staff) be employed, who will be responsible to the board of directors. The Savings and Loan and Operations Advisor, Carol Oman, recommended in her report that the BCI hire the internal auditor and to have develop an internal auditing plan prior to the bank opening. She also included in her report a draft job description for an internal auditor to serve as a guide for recruiting a competent person for this position. Instead, the BCI decided to assign the internal auditing function to the accounting department, which is not an ideal situation.

F. Accounting

Even though the head of the accounting department was hired some time ago, the accounting system is not fully functional. As of the close of the reporting period, no financial statements have been issued covering the pre-operational period.

A recent review of the account system made by the LTA revealed that some aspects of mortgage lending accounting are not adequately covered in the book of accounts. The LTA has met several times with the accountant to review the accounting of loans in process, interest accruals, insurance escrows, disbursements for closing fees, etc., to make sure the accounting is done according to savings and loan institutions acceptable standards.

G. Data Processing and Information Systems

The bank has begun operations using a manual system for posting savings accounts and using two used NCR accounting machines for general ledger posting. All records, forms and transactions are done by hand. While this system might be adequate for the beginning of operations, it requires extensive manual labor and is subject to errors. This situation will be accentuated when the volume of bank operations increase. While some of the credit department information requirements are handled in an IBM-PC using Lotus 1-2-3 and DB III packages, it is likely that the BCI will have to upgrade in operations and management information systems.

H. Loan Documentation

The LTA has raised questions as to the accuracy of income and employment information on loan applications. It seems that disclosure of this type of information is a very sensitive area for most customers and credit officers. Yet accuracy in this area is crucial for proper analysis of loan applications.

I. Marketing Strategy

The current high liquidity of the banking system and the obvious need for mortgage credit in a country where mortgage lending activities have been restricted, has led the BCI to believe that no marketing strategy was needed either for savings mobilization or to attract borrowers from certain income groups. Given that scenario, the bank's board of directors placed limitations on deposit taking and gave instructions to the credit department to receive loan applications without restrictions in order to utilize the funds they felt the bank would have available even with the deposit limitations.

The result of this strategy after the first month of operation is as follows: 2.0 million gourdes in deposits (both savings and term), almost 50.0 million gourdes in loan applications of which approximately 7.0 million gourdes have been approved. Loans approved are for the well

to do (average monthly income of loan applicants Gdes 16,000) with almost none approved to middle income groups. The failure to attract sufficient savings will seriously hamper the BCI's ability to make loans to all income groups.

J. Pilot Program

After the events of late January and early February, 1986, some delays can be expected in the pilot program; and as a result, September, 1986, is far too optimistic a date to have a completed pilot project ready for financing.

Some of the reasons for the delay can be summarized as follows:

- Administrative delays. The new Haitian government is gradually reorganizing the public administration function. This will affect the Pilot Program in the sense that it is not possible to know now what technical requirements will apply to the project and who has authority to approve it.
- Employer Participation. Another delay could result from a reassessment on the part of the business sector to participate in the program, which to date, is still unclear.
- Land Constraint. There is some doubt as to whether land can be obtained at a cost low enough to make possible its utilization in a low income housing project.
- Availability of Services. Water supply is critical in Port-au-Prince.
- Infrastructure and Construction Costs. There are reasons to believe that local construction materials like cement, crushed stone, sand, gravel, etc., might decrease in price. Therefore developers and builders might delay initiation of a project in anticipation of lower prices.

- Developer Identification. It will take some time to identify developers interested in participating and to prepare terms of reference to regulate their participation.

VII. RECOMMENDATIONS

A. Current Events

It is very difficult to predict how the change in government and the resulting change in pace in business activity will affect the BCI. The best guess is that deposits will not grow as fast as predicted due to the opening of other investment opportunities and that loan demand will at least be equal to what it is now if now higher. This situation may very well lead to cash limitations to satisfy loan demand.

It is recommended that the BCI board of directors and upper management monitor the situation carefully and try to respond quickly to changes in the business environment. In order to do that, three things are important: (1) that a financial planning function separate from any other management functions and responsible directly to the general manager be created; (2) that the board of directors give the general manager authority to act within reasonable budgeting constraints in matters concerning savings mobilization, marketing and advertising; and (3) that the bank maintain membership and close contact with local organizations like the Bankers Association, the Haitian American Chamber of Commerce, as well as obtain membership in regional organizations like the Caribbean Association of Building Societies and Housing Finance Institutions and the Inter-american Housing Union.

From the marketing and training point of view, contact with savings and loan associations in the Dominican Republic and building societies in Jamaica, and participation in regional conferences and seminars would be extremely valuable.

B. Deposit Policy

It is the LTA's opinion that all restrictions that tend to interfere with the free accessibility of customers to savings opportunities should be removed. This recommendation is made keeping in mind that at least 50 percent of the population of Haiti is not used to dealing with banks. Putting restrictions to the free flow of savings is not the best way to broaden the base of bank customers.

The interest rate on deposits should be the only variable the BCI should use to manage the flow of savings. In order to do that, the BCI should request from the "Banque de la Republique d'Haiti" (BRH) permission to lower the floor on interest rate payable on term deposits from 10 percent to 7 percent which is the passbook account rate. This would permit the BCI to offer lower interest rates for term deposits in times of high market liquidity and higher rates during period of low liquidity.

C. Lending Policy

It would be desirable to follow a conservative lending policy initially until the amount, type and stability of deposits can be determined with more certainty than is known in the early months of operations. Credit activity should be concentrated in this period on loans of moderate size for purchase, construction and improvement of primary residences. Large construction loans, land purchase loans and construction loans for residential/commercial development should be deferred until actual operational experience suggests that such loans could be safely and prudently made.

D. Financial Planning Function

Planning is a process that business organizations use to help prepare for the future. It has two major management purposes: to establish goals or objectives and to prepare ways to reach the objectives. Thus, planning is concerned both with end results and with the means by which the desired results will be accomplished.

The board of directors should establish the goals and objectives, and management should design the plans to achieve them. In the absence of a clear goal and objective by the board of directors, as is now the case, management should take the initiative and suggest a course of action.

The budget or financial plan is the foremost planning instrument used by business organizations today. In the context of the BCI, the bank, with the LTA's assistance, is preparing a complete budget for the rest of fiscal 1986 that will include a projected profit and loss statement, a projected cash flow statement and a pro-forma balance sheet. However, it is essential to create within the bank a financial planning function charged with budget preparation, including its revision and control, and with providing the board and management with timely information to permit adjustments in the bank's asset/liability policy.

The creation of the position of financial manager is recommended. The financial manager should be responsible directly to the general manager and have in the hierarchy a position at least equal to the other functional managers (the Credit Manager and the Operations Manager). The financial manager should be independent of the accounting department and should not have any other administrative function other than his/her defined role.

The financial planning and budgeting function will permit the bank's management to monitor its investment policy in order to achieve the following targets:

- To balance loan disbursement with deposit inflows.
- To maintain as near as possible a 1:1 loan to deposits ratio.
- To maintain the 5 percent ratio required by law.
- To maintain the composition of assets established as bank policy.

The LTA has drafted and presented to the BCI General Manager a Job Description for this position.

E. Internal Auditing

While the accountant could fulfill the role of internal auditor, this is not recommended as the most appropriate way of handling internal auditing function. The internal auditor should not report to general management or be involved in daily transactions as would be the case if the accountant were also the internal auditor. A draft job description for an internal auditor was prepared which could serve as a guide for recruiting a competent internal auditor.

F. Accounting

It is suggested that a Short Term Advisor with an accounting speciality be asked to review the functioning of the accounting procedures some time during the early months of operations.

Peat Marwick and Mitchell could also be asked to review it. This might be done under their external auditing contract, particularly since extensive auditing activities will not be required until the close of fiscal year 1986.

G. Data Processing and Information Systems

At this time, it is difficult to have a clear idea of the volume of operations anticipated by the bank and the level of automation and/or integration of cost effective data processing and information systems that will be needed.

The Savings and Loan Operations Advisor and the LTA have several recommendations concerning posting machines, black light signature verification systems and savings accounts, use of security paper and ID cards, etc.

The LTA has not met with representatives of NCR to obtain information on recent posting and accounting systems. However, he has obtained information and prices on a number of items to help achieve better consumer service, correction of transaction, and security. Nothing has been done to date by the bank in this respect.

It is recommended that the bank take immediate action at least in as far as security of operations is concerned, that is, posting machines and black light signature verification systems for savings accounts.

It is also suggested that a Short Term Advisor be scheduled for the latter part of the next reporting period to make an evaluation of the long term data processing and information needs of the bank according to the scope of work prepared by the LTA and submitted to the bank in September 1985.

H. Loan Documentation

The Mortgage Lending Advisor in his next tour of duty should carry out a detailed audit of the loan applications processed by the bank and prepare a report on how well they conform with the documentation requirements spelled out in the credit manual.

This LTA should also conduct a sampling to verify if loans approved have been processed in accordance with the procedures set forth in the credit manual and to determine if a sufficient auditing trail is left for future checking by the internal auditing department.

I. Marketing Strategy

A short term advisor on savings mobilizations should be retained to help the bank design a marketing strategy and a marketing master plan to position the bank in the Haitian financial market for savings and home loans. A scope of work has already been prepared by the LTA for that purpose.

It is also recommended that the bank avail itself of the opportunities of participating in the Marketing Seminars planned by the Building Societies Association of Jamaica (BSAJ). The LTA is keeping the BCI general manager informed of the scheduled seminars.

J. Legal Framework to Raise Funds from Non-Savings Sources

We suggest that at the earliest opportunity, Claude Bovet should visit Haiti to advise the bank in alternatives to raise funds from non-savings sources and to make recommendations on the legal framework required for that purpose and the means to obtain it in the context of Haitian legislation and legal practice.

K. Pilot Program

In order to keep delays to a minimum, it is suggested that a local architect/planner be hired as short term consultant for the program. This consultant would advise the bank on issues such as land selection, infrastructure and design requirements, cost parameters, developer selection, and administrative procedures to get the program to an early start. The outcome of the architect's task will be the elaboration of terms of reference by which developers, builders, employers and borrowers should follow to obtain financing under this program. Part of the architect's task would be to set up guidelines for the bank to be used for selecting those projects to be financed and to make sure that they meet all zoning regulations and local authority approval requirements.

VIII. FINANCIAL STATUS OF THE CONTRACT

The costs of operating the contract from inception to date totalled \$147,618.98 leaving an unexpended balance of \$675,431.02. These costs are broken down as follows:

CATEGORY	BUDGET	EXPENDITURES 7/14/85 TO FEB. 28, 1986	BALANCE @ 2/28/86
Salaries & Wages	\$245,800	\$ 38,619.57	\$207,180.43
Fringe Benefits	71,280	8,651.05	62,628.95
Consultants	77,000	9,860.00	67,140.00
Travel and Transportation	42,500	12,764.53	28,735.47
Allowances and Per Diem	130,375	26,254.97	104,120.03
Supplies and Equipment	13,000	12,980.00	20.00
Other Direct Costs (includes DBA)	53,335	3,331.22*	50,003.78
G&A @ 11.9%	<u>15,920</u>	<u>2,947.54</u>	<u>12,972.46</u>
Total Direct Costs	649,210	116,408.88	332,801.12
Overhead @ 28%	<u>173,840</u>	<u>31,210.10</u>	<u>142,629.90</u>
Total	\$823,050 =====	\$147,618.98 =====	\$675,431.02 =====

*Does not include local secretarial services @ \$700 per month to be included in the March/April voucher.