EVALUATION OF THE PROVINCIAL ENTERPRISE DEVELOPMENT (PED) PROJECT

(521-0223)

Prepared for

USAID/Haiti
Blvd Harry Truman
Port-au-Prince, Haïti

16 December 1994

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Contract No: 521-0000-C-00-5005-00

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EXECUTIVE SUMMARY

1 Introduction

The Provincial Enterprise Development (PED) project was authorized and started at the end of June 1991, suspended a few months later and reactivated in July 1992. The planned completion date is June 1996. PED is executed by the Haitian Development Foundation (HDF).

The evaluation has been done in Haiti between 21 November and 16 December 1994. The objective was to determine the effectiveness of PED in credit on reasonable terms to provincial centers, as well as continuing to expand credit in Port-au-Prince and the surrounding area, and to assess the success of the project in dealing with the daunting problems of the recent and current political and economic environment.

PED was designed to comprise three essential components: (1) a capital fund especially for lending to entrepreneurs in the provincial areas, to be supervised by a Fund Management Group (FMG); FMG would also involve the commercial banking sector by providing funds and analytical support; the FMG component was not reactivated with the rest of PED because commercial banking development was not perceived to be within the scope of humanitarian assistance; (2) Provincial Private Enterprise Development (PPED) to foster small businesses by providing them with information and help in the preparation of project proposals; and (3) Institutional Support for further strengthening the lending capabilities of HDF, and other private sector microenterprise lending agencies.

2 Evaluation Methodology

Normal steps of project evaluation were taken, including the following:

- review of USAID project files, with particular note of the Project Paper;
- questionnaires-interviews with persons who are/have been involved with the project; and
- questionnaires-interviews with a cross-section of HDF and PPED clients and other beneficiaries.

3 Objectives and Functions of the Haiti Ped Project

- Goal: to stimulate private sector growth, especially in the provinces, and to improve the well being of the population through employment and income generation.
- Purpose: to expand micro and small enterprise access to credit throughout Haiti, especially in provincial towns.

4 Institutional Capacity for Financial Operations

Administrative management is carried out by the Executive Director, assisted by an international technical advisor, under the direction of a Board of Directors. In principle, 10 members sit on the Board: a President, a Vice President, a Secretary-Treasurer, the Executive Director of HDF, and 6 Directors. Effectively 42 persons are employed by HDF: 11 senior officers, holding a university-level degree; 21 middle level officers, carrying out executive or administrative functions in such positions as deputy administrative officer, accounting assistant, credit officer, secretary, documentalist, etc; and 10 general office positions such as driver, messenger, office assistant, etc.

Considering the weakness of the Haitian economy, and taking account of causes of the serious crisis, both political and social, one is impressed by the staff of HDF, who have overcome a great challenge due to their diligence and sense of responsibility.

5 Profile of the Client-borrowers

The majority of HDF's new clients we met in Port-au-Prince, Croix-des-Bouquets, Jacmel, Cayes, Cap-Haitien and Jeremie felt they had no other choice than to approach HDF for a loan as a result of a shortage of investment funds and of their own working capital. Others were trying, and confronting difficulties, to meet the requirements set by HDF in order to receive additional loans. Credit has become a must in order for them to survive as owners of micro and small enterprises.

External circumstances and patterns of skill acquisition greatly affect the profile of entrepreneurship. HDF has provided credit to clients undertaking the following activities: bakery, grocery store, soft drink distribution, restaurant, livestock, sale of food commodities, furniture-making, iron-making, tailoring, auto-repair shop, etc.

HDF clients are owners of micro and small enterprises, employing between 1 and 10 workers, including the owner and family. They receive loans ranging from 3, 000 gdes to 50, 000 gdes ($200 to $3570). As of November 30,1994, HDF had 1,049 clients and a loan portfolio of approximately 19,325,000 gdes ($1,380,400). Loans are provided at a 22% interest rate. In addition, the client pays a registration and processing fee of 2% and a life insurance premium at approximately 1.2% of the loan. Repayment cycles are generally short to reflect the shorter buy-manufacture-sell cycle of micro and small enterprises.

Many HDF clients can no longer provide an array of products and services. They have shifted their activities mostly to commerce. Most of them have become "risk averters" not because of lack of entrepreneurial spirit but due to the economic and political environment which inhibit effective investment. For example, the unreliability and the inadequate availability of basic utilities such as electrical power and water has been a major constraint to conducting normal business activities in Haiti.

6 Lending Procedures, Loan and Project Performance

The lending procedures of HDF are organized around a strategy of concentration on a core activity, aiming to provide small loans in high volume at low costs to micro and small entrepreneurs, who are not in a position to get financial credit from commercial banks. The idea is that an increasing number of output units (loans)could be produced at low additional unit cost, and that the market demand for the output is relatively high.

HDF handles three types of loans:

- "traditional" loans • "small" loans • "group" loans.

The Foundation specializes in their traditional type of small loans of 3,000 to 50,000 gdes (approximately $200 to $3,500) for a few specific purposes and delivery to a well defined single-type market. HDF is authorized to make higher loans, but the Board of Directors is required to approve any loan exceeding 50,000 gdes. The most common loans are less than 20,000 gdes (less than $1,400), and are granted only to entrepreneurs in industry, including agro-industry, and commercial services for short and medium-term periods, mostly for working capital and purchases of ordinary tools, equipment for production and transport, and buildings. The Foundation does not finance agriculture. Moreover, HDF does not lend for speculative trade or for purchases of goods or land and buildings for private use.

HDF's small loan program is available to clients in pressing need of only 500 to 10,000 gourdes. The small loan program is on a "fast track" initiation procedure, with lower requirements for a repayment guarantee.
HDF's group loan facility is a procedure for on-lending funds to cooperatives or other NGO's such as the Fonds Haitien d'Aide à la Femme (FHAF), the Haitian fund for assistance to business women. Although the Foundation has had only a very few of this type of loan in its portfolio, HDF has a policy preference for group loans. Such a facility is potentially relatively profitable because much of the cost of follow-up and collection is absorbed by the group organization.

The quality of the foundation's portfolio is better at the end of this past financial year than it was a year earlier. Nevertheless, the portfolio is no better than fair. Compared to last year, both the number of performing loans and their aggregate value improved from about three-fifths of the total to about three-quarters. At the same time, the number and value of both non-performing and uncollectible loans decreased significantly.

This is an impressive improvement, occurring during the second year of economic contraction, which has been largely caused, or at least, aggravated by the imposition of the economic and financial embargo. However, the improvement does not yet put HDF in an especially good position. Losses on loans are still high at about one-tenth of the portfolio's value, and about one-sixth is represented by non-performing loans. Together, these uneconomic and bad loans account for a quarter of the portfolio.

Viewing the portfolio's weakness from another approach, the rate of recovery and rate of return on the whole portfolio is shown to be uneconomically low. Over the past two years, the average annual return on the loan portfolio has been fluctuating around 16%, showing no trend nor wide swings, while the rate of collection on payments due has varied somewhat more around its average of 25%, and is possibly showing a small improvement, especially in the past year. Nevertheless, the return on portfolio is well below any competitive rate of interest, and the rate of collection is seriously low.

In making comparisons among the branches in portfolio quality, the Port-au-Prince office dominates the global picture, of course, but it does not differ much for the office in Cap-Haitien. However, the quality of the portfolio of the younger and much smaller branch at Les Cayes is significantly different. There, the collection rate is high, and no losses on uncollectible. Therefore, the rate of return on the total amount lent is at about 22%, which is the regulated market rate.

PED has already achieved certain objectives set for it in the project logframe. HDF has operating branches in four provincial centers; three of them were opened after the startup of PED. A fifth provincial office has already been launched with a training seminar for the local loan advisory council. It was held December 9 to 10, 1994, and the office will be officially opened later this month in St Marc. In addition, the Port-au-Prince branch has opened a satellite office in Croix-des-Bouquets, a suburban center toward the northeast, and plans to open another such installation within a few weeks in a suburban center southwest of Port-au-Prince.

HDF is unquestionably the primary microlending institution in Haiti. The logframe sets a target of 250 loans to microenterprises. HDF made 294 loans in 1992/93 and 375 in the past year, 1993/94. Of those loans, 121 and 271 were made by the provincial offices alone in those years, respectively. Although a few other similar institutions also lend to microenterprises, HDF surpasses them in breadth of organizational objectives, operations, and size. The other institutions are Fonds Haitien d'Aide à la Femme (FHAF), Société Haïtienne d'epargne et de crédit (SHEC, the successor organization to MEDA), and Save the Children, which has a strong program in the Central Plateau region.

Implementation of PED by HDF has reached a point about 53%, or so, along its LOP. About 26% of the overall grant has been disbursed.

7 PPED Functions

PPED is a major component of PED. Its functions are directed specifically for development of entrepreneurial capacity in the interior regions of the country. Initially, PPED was directed to undertake four principal activities:

- baseline studies in provincial centers
- outreach services: assistance to credit-oriented institutions based in Port-au-Prince for expanding their operations into provincial areas
- project development services for help in provincial areas in project preparation and presentation
- National PPED Forum for promotion of enterprise and investment in semi-annual public discussions.

Five baseline studies have been carried out already in as many provincial centers: Cap-Haitien, Cayes, Jeremie, Jacmel, and St-Marc. Three more are for the coming year in Gonaives, Hinche, and Petit-Goave. These baseline studies convey an analytical view of the soci0-economic characteristics, and also the opportunities and constraints on business and industry in the area. The studies are used in assessing the feasibility of establishing a branch of the Foundation in the area.

8 Institutional Support

HDF has benefited from institutional support of international experts financed by USAID, which is by far the Foundation's principal donor. The relationship between the Foundation and USAID is excellent, and maintained with monthly meetings by HDF with USAID's Chief of the Economic Growth Office and twice-weekly meetings between the executives of HDF and the Project Manager at USAID, whose portfolio in the Economic Growth Office includes the PED project.

9 Management and Long-term Strategy

The Foundation has always placed importance on long-term strategy. The Board of Directors adopted a 5-year "road map" in 1989, and is currently thinking about the next five years. Memorandums have been written on the subject over the past two years, and was an agenda item in the latest Board meeting. The strategy is strong because HDF wants to be strong and determined to be very good and effective in a limited scope of activities before branching into new types of operations.

10 Conclusions and Recommendations (representative items)

- Develop a higher degree of efficiency in the organization and reduce costs by, among other steps, reducing the amount of time spent by credit officers in doing work for applicants, which might be accomplished by (a) improving the capability of applicants to do this work: eg, by providing them with readable step-by-step instructions and example responses as guides, and (b) classroom techniques: eg, a scheduled group session for all new applicants.

- HDF needs to establish clearer definitions and indicative measures of (1) "operational self-sufficiency," (2) "self-sustainability," (3) employment creation and preservation, and (4) bench marks for achievement of development objectives *vis a vis* independent financial viability. The Foundation can achieve both development and financial viability, but it should have pre-determined weights for its objective function.

- A target date and schedule of intermediate achievements (events) for self-sustainability within the life of PED should be set by HDF, preferably in consultation with USAID. Due to the difficult economic situation, the Foundation has operated in a defensive mode. Within the changed and positive environment, HDF can and should now set the target(s) and work toward self-sustainability. The Foundation survived the embargo period quite well, indicating that it should be able to operate on its own.

- HDF, through the agency that provides business and technical advisory services, should encourage and assist HDF beneficiaries to organize within industry groups for mutual business enhancement by discussing and finding solutions to common problems and exchanging information and perhaps ideas.

- PPED should be retained and developed until HDF opens and provides services throughout the whole country. Thus, an action plan formulated by the international technical advisor to PPED could be implemented by the PPED staff.

- PED's LOP should be extended by two years, or more, in order to enable (1) making up the time lost in 1991/92; (2) taking advantage of the improved macroeconomic environment, similar to the assumptions in the project design; and (3) execution of recommended next steps, especially those concerning PPED and the self-sustainabily of HDF.

ACKNOWLEDGEMENTS

This evaluation was carried out by a three-person team working in Haiti from November 21 to December 16, 1994, under the supervision of E Morgan Gilbert, Private Enterprise Project Manager, Office of Economic Growth, United States Agency for International Development (USAID) in Port-au-Prince, Haiti. Ralph Denizé, Private Enterprise Specialist, in the same office, rendered assistance in overseeing the evaluation. Both are thanked for their information, availability, and constant cooperation. Hyatt Abdul Wahab, Chief of the Office of Economic Growth, who maintained an attentive overview of progress during the whole working period, is especially appreciated, not only for setting aside valuable time, but particularly for his questions, suggestions, and insights offered during several meetings. The interested advice and comments from Gail Spence, Program Officer, were highly useful and reflected in the structure of this report.

More than 40 staff members of the Haitian Development Foundation (HDF), which is the executing agency of the Provincial Enterprise Development (PED) project, are thanked for their friendship, hospitality, and especially for their conscientious and thorough working procedures and comprehensive records. Guy R Paul, Executive Director of HDF, is appreciated for providing all possible facilities as well as the directive to his staff to be responsive to the evaluation team's requests for information; Nguyen C Khai, Technical Advisor to HDF, who has been a strong force behind the development of the working procedures, was a highly valuable source of essential explanations; Luckner Badio, Director of Operations and Credit, and Régine Mevs, Manager of the Provincial Private Enterprise Development (PPED) component of PED, are appreciated for all their diverse and sincere actions to assist.

The evaluation team sought and collected an immense quantity of information, both by general requests and by specific interviews of staff and clients of HDF, using questionnaires. The information was examined systematically, analyzed for the evaluation of the PED project, and organized as concisely as feasible for this report.

All the help of named and unnamed persons is appreciated, but the final responsibility for the interpretation and presentation of their suggestions in this report, like the report as a whole, is the responsibility of the evaluation team: Maurice Thorne, Kénold Moreau, and Georges Brunet.

ACRONYMS, ABBREVIATIONS, AND SPECIAL NOTES

APB	Professional Bankers' Association
FHAF	Fonds Haitien d'Aide à la Femme (Haitian fund for assistance to business women)
FMG	Fund Management Group
HDF	Haitian Development Foundation (Fondation Haitienne de Développement), also mentioned as "the Foundation"
MSE	micro and small enterprise(s)
PED	Provincial Enterprise Development Project
PPED	Provincial Private Enterprise Development
SHEC	Société Haïtienne d'epargne et de crédit
SOFIHDES	Société Financière Haïtienne de Développement

Monetary unit and rate of exchange:

The monetary unit in Haiti is the gourde (Gde); gourdes (Gdes) in the plural form. Prices and accounting values, however, are often expressed in terms of the Haitian dollar (H$), which is equivalent to Gdes 5.00 but which exists only nominally.
US dollar 1.00 = Gdes 14.00
US dollar 1.00 = H$ 2.80

1 INTRODUCTION

1.1 Objectives of the Evaluation

The purpose of this evaluation report is to provide the USAID Mission to Haiti with a mid-term assessment of the Provincial Enterprise Development (PED) project (521-0223). The project was authorized and started at the end of June 1991, suspended a few months later and reactivated in July 1992. The planned completion date is June 1996.

The evaluation of PED has taken place in Haiti between 21 November and 16 December 1994 by a three-member team. The team sought to determine the extent of the effectiveness of PED in the project's pursuit of its objective of extending credit on reasonable terms to provincial centers, as well as continuing to expand credit in Port-au-Prince and the surrounding area. The evaluation team was also mandated to assess the success of the project in dealing with the daunting problems of the recent and current political and economic environment, which were the following:

(1) suspension of the project for a year, as well as suspension of all other USAID development projects, immediately after the project's start-up;

(2) some of the elements of the project were no longer feasible a year later, when the project was reactivated, because they did not come under the scope of humanitarian assistance;

(3) the negative and uncertain operating environment, characterized by a paralyzing trade embargo and downward spiraling economy; and

(4) a prevailing progressively negative business climate throughout the life of the project to date.

1.2 Attributes of the PED Project

PED follows Project No 521-0181, which provided assistance to the Haitian Development Foundation (HDF) between 1984 and 1992. During that period, HDF became established as the nation's primary lending institution to micro and small enterprises (MSE) in Port-au-Prince and Cap Haitien. PED has the mission to go further afield and to introduce the credit facility and related activities in technical assistance to four or more important provincial centers. HDF was selected and contracted to execute PED, which was designed to comprise three essential components, as specified in the project paper:

(1) a capital fund especially for lending to entrepreneurs in the provincial areas; a Fund Management Group (FMG) would oversee the management of the lending facility and monitor the establishment of HDF branches in the outlying centers; the FMG would also involve the commercial banking sector by providing funds

and analytical support; the FMG component was not reactivated with the rest of PED because commercial banking development was not perceived to be within the scope of humanitarian assistance;

(2) a component to foster small businesses by providing them with information and help in the preparation of project proposals; this component is called Provincial Private Enterprise Development (PPED); and

(3) an Institutional Support component for further strengthening the lending capabilities of HDF, and other private sector microenterprise lending agencies.

1.3 Environment for Business and Credit

Many views on the economic prospects for business and credit in Haiti are possibly correct, yet they could easily be incorrect. Events of the past nearly four decades and especially the turn taken in the past few years have severely damaged the economy, its public infrastructure, trade channels, and development of entrepreneurship, and caused inflation and other distortions in prices and resource allocation. Consequently, the chances are about nil for a heavy-demand, low-risk credit market.

The future may appear discouraging, but the recent past has surely been worse. The past environment has been problematic. Producers have faced business uncertainties and impediments that have seriously affected their production and revenues, and consequently their ability to service their credit repayments. The same circumstances also create demand for credit. Thus, the situation of relatively high demand for credit and an environment that impedes loan repayments. Demand is there but so is the risk, requiring bankers to be more watchful on their own investments - the loans they grant their clients.

Prospects are improving for a growing credit market and declining risk. From a macroeconomic vantage point, credit is necessary for the development of enterprise in the country. Small producers have a strong need for a credit institution such as HDF, which is about the best way to expand private enterprise in the country. One considerable barrier is the administratively determined rate of interest. Interest rates, like currency exchange rates, should be primarily determined by the market. In any situation, a negative rate of interest is undesirable. The current market rate, set by the authorities at 22%, is a negative rate of interest, given the estimated current rate of inflation. However, It is understood that the government is considering a change of policy in this regard for early implementation, therefore no particular action is recommended at this time.

2 EVALUATION METHODOLOGY

The normal steps of project evaluation were taken in this approach. The procedure included the following:

- review of USAID project files, with particular note of the Project Paper;
- questionnaires-interviews with persons who are/have been involved with the project; and
- questionnaires-interviews with a cross-section of HDF and PPED clients and other beneficiaries.

Considerable information from different perspectives were collected during the review process. The review was followed by an analysis of the information from documents, responses to the questionnaires-interviews of HDF staff and entrepreneur-clients, and evaluation of the project in terms of achievements and use of resources in fulfilling its purpose and meeting objectives, by means of verifiable indicators. Comparisons were made between the observed achievements and outputs and the logframe statement of verifiable objectives and specified outputs.

The analysis has lead to conclusions and recommendations. They necessarily have a certain bias of subjective interpretation, and certainly are tentative in view of the recent socio-economic developments. Perhaps the most difficult challenge in formulating the conclusions is in defining a divide between viability and developmental need, that is, between economically profitable self sufficiency and social gains. HDF supplies a market in which demand may be large but competition is low. The reason is obvious. It is not a very profitable market. If it were, HDF would find itself in competition with a number of commercial banks or other financial intermediaries.

3 OBJECTIVES AND FUNCTIONS OF THE HAITI PED PROJECT

The PED project goal is to stimulate private sector growth, especially in the provinces, and to improve the well being of the population through employment and income generation. The purpose of the PED project is to expand MSE access to credit throughout Haiti, especially in provincial towns.

Specific objectives of PED include the following:

- strengthening of HDF as the leading lending agency for business credit to micro and small enterprises
- increased credit on reasonable terms in provincial centers
- availability of high level business information services to provincial enterprises through PPED
- increased employment generation (important in the dormant FMG component)
- extension of credit to MSE entrepreneurs who previously have not had access to credit through institutional support
- improved investment services in provincial centers
- increased access to credit to MSEs in the greater Port-au-Prince area

- achievement of operational self-sufficiency of HDF branches in selected provincial centers

4 INSTITUTIONAL CAPACITY FOR FINANCIAL OPERATIONS [1/]

4.1 Structural Organization of the Project

The current development of the HDF is characterized by the Foundation's organizational structure, administration, financial management, and the resources at its disposal for implementation of its action plan and achievement of its objectives. The organizational structure of HDF in the central offices comprises the following positions

- Board of Directors, with 10 directors
- Executive Director
- Director of Operations and Credit
- Personnel Department
- Collection Department
- Credit Department
- Department for the Coordination of PPED

In the provincial areas, the structure of the four centers consist of the following:

- Management Committee, with 4 to 6 members
- Manager
- Credit Officer
- Secretary and/or Office Assistant (in some offices)

4.2 Resource Management

The management of resources encompasses personnel management, financial management, and material management. Comprehensively said, it is the management of the development of the Foundation.

Administrative management is carried out by the Executive Director, assisted by an international technical advisor, under the direction of a Board of Directors. In principle, 10 members sit on the Board: a President, a Vice President, a Secretary-Treasurer, the Executive Director of HDF, and 6 Directors.

1/ The original version of this chapter, written in French, is placed in an annex.

Effectively 42 persons are employed by HDF and placed in the following positions:

11 senior officers, holding a university-level degree

21 middle level officers, carrying out executive or administrative functions in such positions as deputy administrative officer, accounting assistant, credit officer, secretary, documentalist, etc.

10 general office positions such as driver, messenger, office assistant, etc.

In general, the highest educational level of the average staff member is two years of study beyond secondary school, often in fields that do not correspond in any manner to the functions they hold in HDF.

4.3 Evaluation of Key Persons/Decision-makers

Each of the key persons/decision-makers of the Foundation were evaluated. Those persons fill the following positions, and a statement of evaluation is found in an Annex to this report:

- Executive Director
- Director of Operations and Credit
- Chief Accountant/Controller
- PPED Coordinator
- Manager of Regional Studies
- Annex Manager

4.4 Management of Financial Resources

A comparison is made of the financial situation in 1991 and 1994, in order to evaluate HDF's financial management. The items of the review include the balance sheet, the income statement, the audit report, the reports on the rate of delinquent loans, and the portfolio. These are shown in Table 4.1 below.

The results of the review show that the financial management is sound and the global financial balance is positive. An audit would be required to assure that these conclusions are appropriate.

Table 4.1 Evaluation of Financial Management of HDF, Selected Statistics (end of financial year 1990/91 and 1993/94)

Items	to 30/09/1991	to 30/09/1994	Difference	%
Balance (gdes)	25,043,835	40,541,471	15,497,636	62
Balance (gdes)	25,043,835	40,541,471	15,497,636	62
Net Income (gdes)	1,847,848	-2,842,890	-995,042	-54
Audit Balance (gdes)	-	82,372,549		
Rate of Arrears (%)	26 %	18 %	8 %	
Delinquency Rate or Provision for Bad Debts	4 %	13 %	9 %	

Portfolio (millions of gourdes)

	Average of period	Loan Portfolio	Guarantee Portfolio
1.	Average 1981-1991	12.8	1.8
2.	Average 1988-1991	19.0	2.5
3.	Average 1991-1993	20.3	2.9
4.	Average to 30/9/93	21.4	3.5
5.	Average to 30/9/94	20.9	5.8
6.	Average to 30/9/94	20.5	5.8

Considering the permanent anemic state of the Haitian economy, taking account of the harsh blows that have caused the serious crisis, both political and social, one is impressed and must admit that the staff members of HDF have overcome a great challenge due to their rigor, morals, dynamism, and sense of responsibility. This praise is merited despite certain negative findings concerning bookkeeping and recorded calculation errors, particularly in Jeremie and Port-au-Prince. The disturbances of the Haitian crisis in the past several years are evident. The effects show in the recorded losses of the period, particularly with respect to overdue repayments and the rate of loan delinquencies, and above all in the comparison of the financial position in each of the two observed years.

4.5 Management of Material Resources

Land and buildings, office furniture, office equipment, computers, air conditioners, and kitchen appliances make up the material resources. Casual observation finds that the offices are well kept and the physical materials are well managed, as demonstrated by their condition and markings for inventory tracking. Nevertheless, we must point out the lack of photocopiers in the branches and a problem of transportation at the head office, as well as in the branches, and that no mention is made of any vehicle in the file of physical assets.

4.6 Development Management

Development of the NGO is managed by the Executive Director, who is assisted by an international technical advisor, and guided by a written strategy plan. The plan is attached as an annex. Certain significant points that are taken from responses to a questionnaire, interviews, perusal of documents, and observation, are listed here:

- two branches are envisioned to be opened each year, eventually covering the whole country
- a regional study is undertaken prior to finalizing a decision to open a branch
- the costs of establishing the branches are supported by USAID
- the branches are furnished with the same credit management tools as used in the head office
- access is freely given to clients to use the tools of HDF in the head office and in the branches

5 PROFILE OF THE CLIENT-BORROWERS

Micro and small entrepreneurs - who are the backbone of the non-agricultural sector in Haiti in terms of providing a livelihood and the basic goods and services - have been faced in the past years with increasing prices for primary raw materials and tools and a decrease in sales due to a declining economy and purchasing power of the population as a whole. The majority of HDF's new clients we met in Port-au-Prince, Croix-des-Bouquets, Jacmel, Cayes, Cap-Haitien and Jeremie felt they had no other choice than to approach HDF for a loan as a result of a shortage of investment funds and of their own working capital. Others were trying to meet the requirements set by HDF in order to receive additional loans. Credit has become a must in order for them to survive as owners of micro and small enterprises.

External circumstances and patterns of skill acquisition greatly affect the profile of entrepreneurship. HDF has provided credit to clients undertaking the following activities: bakery, grocery store, soft drink distribution, restaurant, livestock, sale of food commodities, furniture-making, iron-making, tailoring, auto-repair shop, etc.

HDF clients are defined as owners of micro and small enterprises, employing between 1 and 10 workers, including the owner and family. They receive loans ranging from 3, 000 gdes to 250, 000 gdes. As of November 30,1994, HDF had 1,049 clients and a loan portfolio of 19,324,603.50 gdes. Loans are provided at a 22% interest rate. In addition, the client pays a registration and processing fee of 2% and a life insurance premium at approximately 1.2% of the loan. Repayment cycles are generally short to reflect the shorter buy-manufacture-sell cycle of micro and small enterprises.

Because of the economic and political uncertainties of recent past, many HDF clients can no longer provide an array of products and services. They have shifted their activities mostly to commerce. Most of them have become "risk averters" not because of lack of entrepreneurial spirit but due to the economic and political environment which inhibit effective investment. For example, the unreliability and the inadequate availability of basic utilities such as electrical power and water has been a major constraint to conducting normal business activities in Haiti.

During the life of this USAID-funded project the goal is for HDF to create 10,000 jobs. Although the overall impact of HDF's lending programs is hard to assess, evidence gathered in the course of our interviews with clients. The questionnare is reproduced in an annex. suggest that they have failed to bring about the anticipated alleviation of poverty and growth of employment stated in the Project Paper. However, there has been a spread of entrepreneurship through the opening of the several annexes and offices. At the time of the official inauguration of the Croix-des-Bouquets office in mid-November 1994, 40 loans were approved and already disbursed, 15 were approved and were soon to be disbursed, and approximately 1,000 loan requests were in process. The majority of the new clients had a one-person business.

From the point of view of employment and income generation, self-employment (one-person business) is considered a micro and small enterprise. However, proliferation of the small business unit is not necessarily a sign of economic health. In the past three years, this has been a survival strategy to cope with a deepening economic crisis, rising unemployment, and worsening poverty in Haiti. HDF clients best know their trade. Some have been making optimal use of their scarce resources, and during the past three years they have proven amazingly persistent and ingenious.

Women are the economic pillars of the provincial areas. In addition to the limits of market infrastructure faced by all micro and small entrepreneurs, women face special cultural barriers. They also tend to work with traditional products which are more likely to encounter market saturation. More than 30% of HDF clients are women. They are concentrated in the smallest and least profitable trades (vente de provisions alimentaires au marché). However, these tasks can commonly be taken over by men when the work becomes modern or financially more profitable. Some of the specific problems women face derive from the cultural environment, extensive child care and domestic responsibilities, lack of assets (collateral) and low educational and literacy level.

As a result of the interviews conducted with HDF's clients, it can be stated that micro and small enterprises can be highly efficient even though most are unlikely to expand and are not primarily seeking to maximize profits but simply to generate income (self-employment creation). The trade-off in promoting micro and small enterprises is not so much between profits and employment but rather between private returns and social costs, or between short-term and long-term growth prospects. Micro and small enterprises generally offer lower wages, fewer fringe benefits, and worse working conditions for the same type of work as larger enterprises.

Through its operations, HDF seeks to provide technical and financial assistance to groups and individuals who do not have access to traditional sources of credit to expand their activities. Even though HDF has been engaged in retail lending and thus reaches the smallest businesses in a given community, its programs have not been entirely tailored to local condition. HDF has to be more responsive to the needs of its clients, especially in the provincial areas, and to tailor its intervention accordingly. HDF must establish a good and balanced relationship with its beneficiaries to mobilize their support and existing resources. This requires making HDF more accessible to the people, learning from the people and incorporating some of their social institutions into the mechanism of the agency.

For many prospective HDF clients who live in remote areas in the provinces and are not quite qualified to become credit beneficiaries, the most important factor in determining their access to the Foundation is thru a service called social intermediation. Social intermediation builds links between disadvantaged groups and the institutions charged with delivery of services. Social intermediation takes a number of forms including advocacy and a range of social support services. Perhaps the most powerful form of social intermediation is the mobilization and development of self-help groups. These groups serve multiple purposes. Solidarity groups of borrowers can reduce the transaction costs of reaching dispersed individuals. Although initial costs may be high, group lending decreases costs for borrowers, since clients are able to save on fees for registration and transportation costs to annexes or offices.

In addition, groups which use a joint liability system can reduce the risk of repayment problems as well as collateral requirement. Since all members lose borrowing privileges until default by any member is resolved, enforcement becomes less of an issue. The group acts as a self-policing mechanism to insure on-time loan repayment. In some circumstances groups can also be cost effective mechanisms for the delivery of various types of enterprise development training and market information to micro and small entrepreneurs with little formal schooling. In the case of training, local groups can be used to reinforce key messages and behavior. In the case of women, groups provide them with a legitimate "social space" beyond the home and a sense of solidarity that allows them to deal more freely with unfamiliar institutions and processes.

Self selection of group members appears to be critical to the success of groups for borrowing and saving purpose. The concept of joint liability depends on members' sense of trust and collective responsibility. Typically these groups form around shared characteristics and needs, such as economic interests, shared production and marketing needs, common residential or production location, or a shared cultural/provincial background.

5.1 Entrepreneurial Capacity

Insufficient strengthening/upgrading of HDF is due partly to the quest by USAID for short-term achievements and visible results, as well as unrealistic requirements.

Most HDF clients are not likely to graduate to the next scale of operation. From a production perspective, an increase in scale is not necessarily warranted nor desirable. Most businesses are retail services and customized production of goods. More generally, small-scale operations are preferable when sales markets are limited and for hedging against business risks by maintaining a small but versatile production capability,eg, craftsmanship.

Entrepreneurship, as such, is not lacking in Haiti, and the supply response of entrepreneurship, in terms of the number of people who have established a micro and small business, has been proven to be highly elastic. The problem, it seems, is the inefficiency of entrepreneurs in carrying out routine managerial functions. Also, entrepreneurs have difficulties diversifying into new trades because of their lack of experience in such ventures, barriers to entry, and the lack of incentives/support.

Arguments for supporting microenterprises are the promotion of empowerment and balanced growth to forestall the widening of gaps that prevent the emergence of a strong and well integrated domestic economy.

Such a domestic base is necessary for sustained long-term growth, to withstand external shocks, and to avoid severe structural bottlenecks that result from the lack of strong horizontal and vertical linkages. In fact, micro and small enterprises in particular provide crucial links between traditional and modern production systems, between agriculture and industry, between rural and urban areas, and between production and consumption patterns.

These objectives of empowerment and balanced growth are compatible with a horizontal diversification of micro and small enterprises and community-based programs.

Value systems and behavioral attitudes in social mobility, competition for success, and scope for individual achievement and initiative vary across the different provincial areas of Haiti. These in turn condition the sources and dynamics of socio-economic change.

HDF's continuous support of micro and small enterprises might also be the most effective means for reaching the poorest households, especially those headed by women.

Support of micro and small enterprises would thus help achieve social integration and equity (income redistribution) through income generating activities. In this respect, traders are often the most effective channel for reaching marginal populations and integrating them into the broader economy.

5.2 Points in a General Assessment of the Situation

It is unclear whether credit officers who monitor repayments are also equipped to offer advice related to HDF's clients' individual production, marketing and management concerns.
As a reliable long-term funding source, HDF has to be institutionalized and sustained. Institutionalization is indispensable for accomplishing lasting achievements.

Shortage of investment funds and working capital is holding back development of the private sector in Haiti, particularly micro and small enterprises. In part, this scarcity is simply a reflection of low income levels and the persistence of large subsistence (non-monetized) segments of the economy. But it also springs from weaknesses in policies and institutions which hamper resource mobilization and restrict the private sector's access to available finance. There are also financial market regulations which reduce savings deposits and discourage banks from lending to micro and small enterprises.

In Haiti, the ceiling rate of interest is set by the government. Rates have changed little overtime and hence real rates are primarily determined by variations in the rate of inflation.

It has been recognized that, in the past, the government has over extended its capacity to manage the economy through intervention in resource allocation. There is now a move toward greater reliance on market forces for credit allocation. Complex systems of credit allocation need to be dismantled and interest rates are to be allowed to reflect the state of the credit market and the foreign exchange market, plus differentials in risk and maturity.

It is recognized that an administratively imposed rate of interest below the economic market rate may undermine the Foundation as a financial institution and its key role in development of microenterpises, especially in provincial areas, and possibly leaving the community without any institution should its activities end. Commercial interest rates enable HDF to cover administrative costs and eventually to establish reserves to cover losses due to loan default. In addition, commercial interest rates also strongly encourage graduation to formal credit institutions that charge lower interest rates, prevent misallocation of production factors such as excessive use of capital (over capitalization), encourage more careful screening of borrowers, encourage better repayment morale. Furthermore, commercial interest rates is one of the critical factors in institutional sustainability, with the alternative being continued subsidies from USAID to support lending operations.

6 LENDING PROCEDURES, LOAN AND PROJECT PERFORMANCE

6.1 Lending Procedures

The lending procedures of HDF are organized around a five-year strategy plan adopted in June 1989. The primary strategy of the plan is commonly called "volume-low costs," meaning that HDF should concentrate its operations within a core activity. The idea is that an increasing number of output units (loans)could be produced at low additional unit cost, and that the market demand for the output is relatively high.

HDF handles three types of loans:

- "traditional" loans
- "small" loans
- "group" loans

The Foundation specializes in their traditional type of small loans of 3,000 to 50,000 gdes (approximately $200 to $3,500) for a few specific purposes and delivery to a well defined single-type market. HDF is authorized to make higher loans, but the Board of Directors is required to approve any loan exceeding 50,000 gdes. The most common loans are less than 20,000 gdes (less than $1,400), and are granted only to entrepreneurs in industry, including agro-industry, and commercial services for short and medium-term periods, mostly for working capital and purchases of ordinary tools, equipment for production and transport, and buildings. The Foundation does not finance agriculture. Moreover, HDF does not lend for speculative trade or for purchases of goods or land and buildings for private use.

HDF's small loan program is available to clients in pressing need of only 500 to 10,000 gourdes. The small loan program is on a "fast track" initiation procedure, with lower requirements for a repayment guarantee. HDF's group loan facility is a procedure for on-lending funds to cooperatives or other NGO's such as the Fonds Haitien d'Aide à la Femme (FHAF), the Haitian fund for assistance to business women. Although the Foundation has had only a very few of this type of loan in its portfolio, HDF has a policy preference for group loans. Such a facility is potentially relatively profitable because much of the cost of follow-up and collection is absorbed by the group organization.

HDF intends to achieve its goal of attaining high volume at low cost by shaping its operations into a process to handle a standardized service. The process comprises mostly routines, with the least possible need for decision-making based on either complex analysis or expertise that the credit officers do not have or would not likely develop on the job. HDF's standardized service is one particular type of financial loan, the small short-term loan to those who have no other source. The HDF is trying to implement the necessary process for high volume replication of their standard product at a relatively low marginal cost by specializing in a limited type of loan, almost without variant, that meets a nearly identical need among a common type of client.

Realization of the "volume/low cost" strategy requires the Foundation to maximize the number of applications, loan appraisals, approvals, disbursements, and collections handled by a fixed quantity of HDF resources. The strategy implies attainment of low unit cost, ie, low cost per loan, made possible by spreading the charge for fixed costs over many loans. However, all variable inputs, such as the costs of the hours put in by credit officers, loan collectors, accountants, and administrators usually increase proportionally to the number of loans, and account for a greater proportion of total cost than fixed capital. In other words, the size of the variable portion of the operational costs of financial services is high, irrespective of the volume produced, in contrast to other activities such as industrial production. An important reduction of unit cost by increasing the volume and spreading the cost is difficult to achieve in the financial loan business, especially if a greater volume requires making loans at a higher margin of risk.

Large loans are usually more profitable because the cost involved, both fixed and variable, is normally about the same as for a small loan. If the total monetary amount were the measure of loan volume, rather than the number of loans, the strategy of "high volume and low cost" would be best executed by dispensing larger loans. The Foundation, however, is constrained by its objectives and policies concerning the size of loans. Therefore the implementation of its strategy requires a substantial rate of growth in the number of clients and an increased proportion of productive loans in its total portfolio, while decreasing variable costs and reducing the proportion of losses. Operations and administrative support must become more efficient.

Guided by its strategy: high volume and low cost, HDF has opened a number of offices in order to extend its market reach. Clients are serviced from the main office, one sub-office (a second sub-office is scheduled to be opened later this year), and four branches (called Annexes). In all places, HDF delivers primarily one product to a narrow market by a rather simple and standardized process.

As a result of the strategy approach, the number of steps, the number and types of documents, and the amount of time required for decision-making is reduced considerably while retaining the necessary financial prudence. The narrow specifications of HDF's financial service and the market are summarized in an annex.

6.2 Standardization and Training

An important strength of HDF is the effort devoted to the transfer of understanding and capability for executing the standardized lending process. The knowledge is diffused throughout the organization in several forms, including manuals, seminars, and informal instruction.

The credit process is described for the staff professionals in two important training/reference manuals produced by HDF: one covers the credit operations and another the accounting procedures. These manuals are major determinants of a high standard of proper and consistent operations over a long period of time. The Foundation also conducts training seminars before opening a new provincial office for the local committee of loan advisors that will serve the new office.

The working environment appears to provide encouragement and opportunities to acquire expertise in the loan process and other aspects of operations. Training is important for insuring consistency and high performance in the process and perpetuation of the integrity of the institution's objective and strategy. At least another manual is required for similar application in using and maintaining the computerized MIS system, which is being installed and refined.

6.3 Loan and Project Performance

The quality of the foundation's portfolio is better at the end of this past financial year than it was a year earlier. Nevertheless, the portfolio is no better than fair. Table 6.1 shows the relevant data. Compared to last year, both the number of performing loans and their aggregate value improved from about three-fifths of the total to about three-quarters. At the same time, the number and value of both non-performing and uncollectible loans decreased significantly.

This is an impressive improvement, occurring during the second year of economic contraction, which has been largely caused, or at least, aggravated by the imposition of the economic and financial embargo. However, the improvement does not yet put HDF in an especially good position. Losses on loans are still high at about one-tenth of the portfolio's value, and about one-sixth is represented by non-performing loans. Together, these uneconomic and bad loans account for a quarter of the portfolio.

Viewing the portfolio's weakness from another approach, as presented in Table 6.2, the rate of recovery and rate of return on the whole portfolio is shown to be uneconomically low. Over the past two years, the average annual return on the loan portfolio has been fluctuating around 16%, showing no trend nor wide swings, while the rate of collection on payments due has varied somewhat more around its average of 25%, and is possibly showing a small improvement, especially in the past year. Nevertheless, the return on portfolio is well below any competitive rate of interest, and the rate of collection is seriously low.

Comparisons among the branches in portfolio quality of each are shown in Tables 6.3 and 6.4. The picture for the Port-au-Prince office dominates the global picture, of course, but it does not differ much for the office in Cap-Haitien. However, the quality of the portfolio of the younger and much smaller branch at Les Cayes is significantly different. There, the collection rate is high and the rate of return on the total amount lent is at about

TABLE 6.1 GLOBAL PORTFOLIO QUALITY

	End of financial year				Percent of total				Percent yearly change		
	90/91	91/92	92/93	93/94	90/91	91/92	92/93	93/94	91/92	92/93	93/94
NUMBER OF LOANS											
Performing	692	382	526	720	74	53	55	71	-45	38	37
Non-performing	208	242	294	174	22	33	30	17	16	21	-41
Uncollectible	29	99	145	120	3	14	15	12	241	46	-17
TOTAL NUMBER	929	723	965	1,014	100	100	100	100	-22	33	5
AMOUNT (gdes'000)											
Performing	12,027	6,967	11,257	14,761	76	60	63	75	-42	62	31
Non-performing	3,234	3,843	4,335	3,093	20	33	24	16	19	13	-29
Uncollectible	657	777	2,238	1,756	4	7	13	9	18	188	-22
TOTAL AMOUNT	15,918	11,587	17,830	19,610	100	100	100	100	-27	54	10
AVERAGE SIZE (gdes)											
Performing	17,380	18,238	21,401	20,501					5	17	-4
Non-performing	15,546	15,880	14,745	17,776					2	-7	21
Uncollectible	22,659	7,848	15,434	14,633					-65	97	-5

TABLE 6.2 GLOBAL RECOVERY ON DEFAULT PAYMENTS

	End of financial year				Percent of total			
	90/91	91/92	92/93	93/94	90/91	91/92	92/93	93/94
DEFAULT AMOUNT (gdes'000)								
Performing	149.5	111.4	137.9	192.8	1.2	1.0	1.2	1.3
Default up to 30 days	100.2	67.3	95.4	124.6	0.8	0.6	0.8	0.8
Default 31 to 90 days	49.3	44.1	42.5	68.2	0.4	0.4	0.4	0.5
Non-performing	359.3	507.8	660.6	413.5	11.1	11.7	15.2	13.4
Default up to 90 days	140.4	182.9	205.2	161.1	4.3	4.2	4.7	5.2
Default more than 90 day	218.9	324.9	455.4	252.4	6.8	7.5	10.5	8.2
Amount recovered (gdes'000)	195.0	151.9	207.5	209.2				
RETURN ON PORTFOLIO (yr avg	16	16	17	12				
RATE OF COLLECTION/DUE (%)	28	20	21	26				

TABLE 6.3 COMPARISON OF PORTFOLIO QUALITY AMONG BRANCHES AT END OF YEAR, 1992/93 - 1993/94

	HDF portfolio		% total		Port-au-Prince		% total		Cap-Haitien		% total		Les Cayes		% total	
	92/3	93/4	92/3	93/4	92/3	93/4	92/3	93/4	92/3	93/4	92/3	93/4	92/3	93/4	92/3	93/4
NUMBER OF LOANS																
Performing	526	720	55	71	368	357	49	61	82	89	62	60	76	112	100	97
Non-performing	294	174	30	17	255	120	34	20	39	50	30	34	0	4	0	3
Uncollectible	145	120	15	12	134	110	18	19	11	10	8	7	0	0	0	0
TOTAL NUMBER	965	1,014	100	100	757	587	100	100	132	149	100	100	76	116	100	100
AMOUNT (gdes'000)																
Performing	11,257	14,761	63	75	8895	8976	59	69	1316	1399	73	65	1046	1830	100	98
Non-performing	4,335	3,093	24	16	3938	2403	26	18	398	661	22	31	0	29	0	2
Uncollectible	2,238	1,756	13	9	2137	1656	14	13	101	100	6	5	0	0	0	0
TOTAL AMOUNT	17,830	19,610	100	100	14,970	13,035	100	100	1,815	2,160	100	100	1,046	1,859	100	100
AVERAGE LOAN (gdes)																
Performing	21,401	20,501			24,171	25,143			16,049	15,719			13,763	16,339		
Non-performing	14,745	17,776			15,443	20,025			10,205	13,220			-	7,250		
Uncollectible	15,434	14,633			15,948	15,055			9,182	10,000			-	-		

TABLE 6.4 COMPARISON OF RECOVERY ON DEFAULT PAYMENTS AMONG BRANCHES AT END OF YEAR, ^92/93 - 1993/

	HDF portfolio		% total		Port-au-Prince		% total		Cap-Haitien		% total		Les Cayes		% total	
	92/3	93/4	92/3	93/4	92/3	93/4	92/3	93/4	92/3	93/4	92/3	93/4	92/3	93/4	92/3	93/4
DEFAULT AMOUNT (gdes'000) :																
Performing	138	193	1	1	116	145	1	2	15	21	1	1	7	11	1	1
default up to 30 days	95	125	1	1	78	89	1	1	12	13	1	1	6	9	1	1
default 31 to 90 days	43	68	0	0	38	56	0	1	4	7	0	1	1	2	0	0
Non-performing	661	414	15	13	601	326	15	14	59	85	15	13	0	2	-	8
default up to 90 days	205	161	5	5	186	128	5	5	19	32	5	5	0	2	-	5
default over 90 days	455	252	11	8	416	198	11	8	40	53	10	8	0	1	-	3
Interest recov'd (gdes'000)	208	209			165	124			26	18			17	25		
RETURN ON PORTFOLIO (%)	17	12			16	10			20	10			22	15		
RATE OF COLLECTION (%)	21	26			19	21			26	15			71	65		

the controlled market rate because the loan interest is paid up on nearly all loans, and losses on uncollectible loans is nil.

6.4 Goals and Achievements

As already said here and elsewhere, any achievement in industry and finance during the past few years is remarkable, given the past contraction of the economy. Small producers need not be affected much by political conditions but the general state of the economy can have various effects. Demand might fall due to a depressed market, but it might rise as consumers switch from higher cost imports to local products. In either situation, the cost and availability of materials is likely to affect many small producers as much as the larger ones.

With reference to Table 6.5, it is seen that HDF in its execution of the PED project has already achieved certain objectives set for it in the project's logframe. HDF has operating branches in four provincial centers, listed in the data tables and elsewhere in this report; three of them were opened after the startup of PED. A fifth provincial office has already been launched with a training seminar for the local loan advisory council. It was held December 9 to 10, 1994, and the office will be officially opened later this month in St Marc.

In addition, the Port-au-Prince branch has opened a satellite office in Croix-des-Bouquets, a suburban center toward the northeast, and plans to open another such installation within a few weeks in a suburban center southwest of Port-au-Prince. The satellite offices should improve the effectiveness of credit officers by sharply reducing the cost of contacting clients, especially as traffic congestion in the urban center increases.

Clients will benefit for the same reason, and an increase in the client base can be expected. The cost of the installation and its upkeep might be more than the gain. However, these and other factors were considered by the directors of the Foundation in making the decision to expand to the outlying locations. A good measure of net cost increase or saving can be reached only by an accurate cost-benefit analysis.

HDF is unquestionably the primary microlending institution in Haiti. The indicator mentioned in the logframe for PED sets a target of 250 loans to microenterprises. HDF made 294 loans in 1992/93 and 375 in the past year, 1993/94. Of those loans, 121 and 271 were made by the provincial offices alone in those years, respectively. Although a few other similar institutions also lend to microenterprises, HDF surpasses them in breadth of organizational objectives, operations, and size. The other institutions are Fonds Haitien d'Aide à la Femme (FHAF), Société Haïtienne d'epargne et de crédit (SHEC, the successor organization to MEDA), and Save the Children, which has a strong program in the Central Plateau region.

TABLE 6.5 GOALS AND ACHIEVEMENTS

Goal: HDF to extend active lending operations to 4 to 6 provincial towns
Goal: HDF to be leading microlending institution, making loans to 250 microenterpreneurs

	Year	Number of new loans				Percent yearly change		
Office or Branch	Estab	90/91	91/92	92/93	93/94	91/92	92/93	93/94
HDF - ALL OFFICES		258	59	294	374	-77	398	27
Port-au-Prince [a]	1979	200	40	173	103	-80	333	-40
Cap-Haitien	1989	58	19	44	44	-67	132	0
Les Cayes	1992			77	62			-19
Jeremie	1993				99			
Jacmel	1994				66			
TOTAL : ANNEXES ONLY		58	19	21	271	-67	537	124
ANNEX SHARE OF TOTAL (%)		22	32	41	72	43	28	76

	Amount of new loans (gdes'000)				Percent yearly change		
Office or Branch (Annex)	90/91	91/92	92/93	93/94	91/92	92/93	93/94
HDF - ALL OFFICES	7,210	2,177	8,901	11,217	-70	309	26
Port-au-Prince [a]	6,112	1,646	6,448	5,029	-73	292	-22
Cap-Haitien	1,098	531	1,147	1,221	-52	116	6
Les Cayes			1,306	1,805			38
Jeremie				1,896			
Jacmel				1,266			
TOTAL : ANNEXES ONLY	1,098	531	2,453	6,188	-52	362	152
ANNEX SHARE OF TOTAL (%)	15	24	28	55	60	13	100

[a] Includes the office in Croix-des-Bouguets, opened Nov 1994

The logframe specifies an employment creation target of 10,000 new jobs, which is an unrealistic aim that cannot possibly be met. The target was set in the optimistic times of 1991, and was influenced by the excellent job-generating experience of SOFIHDES (a bank project assisted by the USAID) and the impact of loans previously granted by HDF in Porto-au-Prince. Creation of a new job requires new investment, either in a new enterprise or for expansion. The PED project document does not require PED to focus on new investment, and HDF does not put this condition on its loans. HDF loans are more frequently used to keep a business operating and its current work force employed, thus saving jobs. Indeed, HDF credit policy permits loans only to enterprises that have been in business for at least a year. [2/] In sum, a target for new jobs, at 10,000, is set too high, and should be scaled down to a realistic number.

In an industrialized country, a $5000 investment in capital equipment alone per worker would not be unusual, even for a labor-intensive enterprise. In such circumstances, more than $50m would be needed to create 10,000 jobs. The budget in effect for PED provides $7m for lending capital. This would be sufficient for less than 1,500 jobs in a medium industrialized country. Or said, in another way, less than $700 is expected to be sufficient to create a job. That might be sufficient for a sewing machine and bench, or implements for other handicraft production, but not enough for a vehicle, building, or equipment for mechanical processes, even when working capital is not counted.

Loans of the size and terms that HDF provide and PED supports are not really for significant job creating capital investment. The loan terms are for longer periods than usually required for working capital loans, but nonetheless are frequently used for buying materials and other expenditures normally funded out of working capital. The average HDF loan is less than 18,000 gourdes, or less than $1,500 (at 12.5 gourdes per dollar), which is enough to purchase materials for several months, necessary spare parts for equipment, tools and instruments, and such. Such purchases save jobs. Table 6.6 shows the number of jobs either saved or created: 360 maintained or created in 1992/93 and 379 in this past year. Given the disruptions in the economy and in the project during its lifetime, and that only a tenth of the budgeted lending capital support has been obligated, specifically, $705,000, the employment figures look reasonable.

6.6 Efficiency and Viability of HDF

Certain statistics are shown in Table 6.7 as additional indicative measures of project performance. The statistics in this particular table highlight a potentially wide scope for efficiency improvements. Again, however, it must be emphasized that the economic environment has been exceptionally difficult. Perhaps, mention should be made that other factors are good indicators. Although, the bare data show weaknesses, they also show

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2/ Chapter 2, Section 1, Paragraph 1.2 of the HDF credit manual.

TABLE 6.6 IMPACT INDICATORS

			Percent of total		Change (%)
	92/93	93/94	92/93	93/94	93/94
Number of beneficiaries					
men	183	201	67	55	10
women	89	150	33	41	69
groups	1	13	0	4	1200
total	273	364	100	100	
Employment maintained/created					
men	254	243	71	64	-4
women	106	136	29	36	28
total	360	379	100	100	
Number of loans by sector					
Industry	80	61	29	17	-24
Service	64	55	23	15	-14
Commerce	125	236	46	65	89
Agro-industry	4	12	1	3	200
Amount by sector					
Industry	2404	2203	28	20	-8
Service	2234	2066	26	19	-8
Commerce	3650	5802	43	53	59
Agro-industry	165	977	2	9	492

TABLE 6.7 PORTFOLIO AND EFFICIENCY INDICATORS

	91/92	92/93	93/94	91–94	Change per yr (%) 92/93	Change per yr (%) 93/94
Number of new loans	59	294	374		398	27
Amount of new loans (gdes'000)	2,177	8,901	11,217		309	26
Average size of new loans (gde	36,898	30,276	29,992		-18	-1
Number of loans (yr end)	723	801	1,014		11	27
Number of credit officers /a.	11	16	23		45	44
Total annual operating cost (gdes)			9,185			
cumulative USAID disbursement (US$'000)				2,804		
Number of loans/credit officer			44			
Operating cost/new loan (gdes)			24,559			
Operating cost/gourde newly lent			0.82			
USAID cost/new loan (US$)				3.86		
USAID cost/gourde newly lent (US$)				125.75		

/a. Average number of officers, having various titles, who handle credit, rec and delinquent loans.

TABLE 6.8 USAID/HDF COOPERATIVE AGREEMENT (JUNE 26, 1991) GRANT OBLIGATION BUDGET AND DISBURSEMENT FOR THE PROVINCIAL ENTERPRISE DEVELOPMENT (PED) PROJECT (nearest US$'000)

	Obligated 1991	Obligated 1993	Obligated 1994	Total Obligated	Project budget rev '94	Obligation as % of budget	Remaining to be obligated
HDF and FMG	272	-267	0	5	5	100	0
INSTITUTIONAL SUPPORT	200	238	50	533	994	54	462
PPED	242	194	215	681	1457	47	776
HDF TA PSC	140	170	150	460	590	78	130
PPED (FMG) TA PSC	140	280	75	420	450	93	30
APB Advisor	140	-140	0	0	238	0	238
LENDING CAPITAL							
HDF lending capital	0	705	-250	455	2000	23	1545
FMG lending capital	1000	-1000	0	0	3000	0	3000
PPED lending capital	1000	0	-750	250	2000	13	1750
SUBTOTAL							
TOTAL EXPENSES	3134	180	-510	2804	10734	26	7931
OTHER INPUTS:							
PROJECT MANAGEMENT (USAID)							
PADO Project Officer (US)							
PADO Asst Project Officer (Haiti)							
AUDIT							
EVALUATION							

NOTE: The negotiated budget in the Cooperative Agreement, June 1991, has been revised three times: June 1993, August 1993, and September 1994.

strengths in the Foundation for its ability to stay in place or make some progress in the face of unfavorable circumstances in the lifetime of PED to date. Much of the Foundation's development role could be better explained from an analysis of HDF's data base, but time and the scope of this evaluation does not permit that level of analysis.

6.7 USAID PED Project Support

The USAID support to HDF has almost become a tradition, and probably that is the most significant reason that the Foundation is the leading institution of its kind in the country. Many entrepreneurs are able to continue their production despite an otherwise adverse economic environment undoubtedly due to the availability of small loans from the Foundation.

The assistance given by USAID under the PED project has been severely curtailed due to governmental actions. The effective startup date for PED is the end of June 1991. Barely three months later, the Haitian government fell in a coup d'etat. Within a very short time, all aid but that for humanitarian assistance was brought to a halt, temporarily closing down PED before anyone had much of an opportunity to achieve a significant start. The project was reactivated in mid-1992, and now has barely passed the mid-point of its LOP (about 3 months in 1991, 6 in 1992, 12 in 1993, and 11 in 1994 when this present evaluation was started; a total of 32 months out of a 60-month LOP; or 29 months out of 48 months of an unbroken period).

Rigidly interpreted, the implementation of PED by HDF has reached a point about 53%, or so, along its LOP. Table 6.8 is a presentation of the amounts of funding provided by USAID directly for assistance to the project. About 26% of the overall grant has been disbursed. The proportions for specific line items range from 100% to 0% as shown in the following:

- 100% a small amount for operational requirements of HDF and FMG;
- 93% TA to PPED;
- 78% TA to HDF, the remainder will likely be exhausted before PACD;
- 47% for PPED;
- 54% for institutional support;
- 23% HDF lending capital;
- 13% PPED lending capital;

- 0% FMG lending capital; and
- 0% for an APB advisor, within the FMG component.

About half the budgeted funds for two line items have been disbursed, the funds intended for three lines have been exhausted, or nearly, and less than a quarter of the planned amounts for four lines have been obligated. The lending capital items, in total, account for 65% of the budget and 80% of the budgeted amount remain to be obligated later. The reason that no funds have been obligated for two line items, showing 0%, is that the FMG component and the APB advisor position were not reactivated along with the rest of the project. The two project elements have not yet been cancelled, and therefore remain in the accounting.

A high proportion of the local currency funds has been used in comparison to the commitment in US dollars. It appears that PED could be extended up to another two years, even if the lending capital items were disbursed at a faster pace, assuming that the FMG component be explicitly converted to PPED and, also HDF, institutional development purposes and that more of the total TA would be provided for short-term consultancies, by both local and international professionals.

7 PPED FUNCTIONS [3/]

PPED is a major component of PED. Its functions are directed specifically for development of entrepreneurial capacity in the interior regions of the country.

7.1 Objectives

The principal objectives for PPED are:

- promotion and development of productive Haitian enterprises exclusively in provincial areas
- stimulation of growth and development of the Haitian private sector, especially in provincial areas
- improvement in the well-being of the population through creation of employment and generation of savings

3/ The original version of this chapter, written in French, is placed in an annex.

7.2 Action Plan and Activities

Initially, PPED was directed to undertake four principal activities:

- baseline studies in provincial centers
- outreach services: assistance to credit-oriented institutions based in Port-au-Prince for expanding their operations into provincial areas
- project development services for help in provincial areas in project preparation and presentation
- National PPED Forum for promotion of enterprise and investment in semi-annual public discussions

Five baseline studies have been carried out already in as many provincial centers: Cap-Haitien, Cayes, Jeremie, Jacmel, and St-Marc. Three more are for the coming year in Gonaives, Hinche, and Petit-Goave. These baseline studies convey an analytical view of the socio-economic characteristics, and also the opportunities and constraints on business and industry in the area. The studies are used in assessing the feasibility of establishing a branch of the Foundation in the area. [4/]

7.3 PPED and Problems Related to the Embargo

An inadequacy in means of transportation in the Foundation creates problems for the functioning of PPED, as well as the activities of HDF in the branches. The members of the PPED feel strongly about the lack of motorbikes and 4-wheel drive vehicles.

As mentioned elsewhere, the embargo has caused failures of small businesses and a decline in credit demand. However, credit demand has been recovering since the last quarter of 1994.

8 INSTITUTIONAL SUPPORT

For at least the past five years, HDF has had the benefit of institutional support from international experts financed by USAID, which is by far the Foundation's principal donor. The relationship between the Foundation and USAID is excellent, and maintained with monthly meetings by HDF with USAID's Chief of the Economic Growth Office and twice-weekly meetings between the executives of HDF and the Project Manager at USAID, whose portfolio in the Economic Growth Office includes the PED project.

4/ A brief description of the history, staff, and services available at each of the branches is found in an annex, in the French version of this chapter.

The noteworthy progress made by HDF is due to excellent collaboration between the executive staff and the technical assistance provided by two international experts. One of the experts has had an integral role as Technical Advisor in the Foundation since 1990, now working as much as an OPEX (Operational and Executive Personnel) as an OPAS (Operational Assistance) advisor, as assigned. The other international expert, who left the project in May 1994, was the technical advisor for the PPED component.

9 MANAGEMENT AND LONG-TERM STRATEGY

Management and strategy is treated elsewhere in this report, particularly in chapters 4 and 6 on institutional capacity and lending procedures, respectively. However, a few additional points are addressed in this chapter.

Most of the HDF's administrative procedural files have gradually become obsolete for lack of occasional updating. HDF appears now to function informally, without official documentation of specifically defined roles and responsibilities within a clear organizational structure. Middle management officers would be more likely to be able to contribute and perhaps lead in long-term strategy if their roles were defined not only for daily functions and tasks but also the scope of opportunities for developing those functions now and for the future. An organizational chart would be required for clear definition of staff inter-relationships and limits on the scope for changes in an individual's functions.

The Foundation has always placed importance on long-term strategy. The Board of Directors adopted a 5-year "road map" in 1989, and is currently thinking about the next five years. Memorandums have been written on the subject over the past two years, and was an agenda item in the latest Board meeting. The strategy is strong because HDF wants to be strong and determined to be very good and effective in a limited scope of activities before branching into new types of operations.

10 CONCLUSIONS AND RECOMMENDATIONS

Conclusions and recommendations are combined in the following recommendations and points for consideration: [5/]

- Develop a higher degree of efficiency in the organization by, among other steps, reducing the amount of time spent by credit officers in doing work for applicants, which might be accomplished by either (a) improving the capability of applicants

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5/ Additional recommendations and details concerning those below are found in the French version of this chapter, in an annex.

to do this work: eg, by providing them with readable step-by-step instructions and example responses as guides, or (b) classroom techniques: eg, a scheduled group session for all new applicants (repeat applicants would be invited, but new applicants would be obliged), say, weekly, depending on the volume of applications, or (c) further simplification the forms, if possible

- Reduce costs per loan and per gourde lent: Increase the number of loans handled per officer, reduce the amount of time spent in the approval process (perhaps by some sort of bonus scheme, imposing short, fixed periods for certain steps, preparing the client more thoroughly in the working and requirements of the credit program in outreach seminars). The need is great for expansion of output with a given expenditure of all input resources.

- The HDF service is effective but should be more efficient, particularly in the reduction of late repayments, loan delinquency, and increased rate of collection. All personnel should be made aware that salaries are related to productivity.

- Reduce time spent in the collection process (also perhaps by some sort of bonus scheme). The need is great for expansion of output with a given expenditure of all input resources.

- HDF should undertake a complete self-analysis of all costs, including implied costs of capital funds in the bank account, and identify areas where output can be increased or costs reduced.

- The current reporting of performance and credit is very good, but more frequent reporting, say weekly while aiming for daily reporting, with running averages, could put a sharper edge on the working tempo.

- HDF needs to establish clearer definitions and indicative measures of (1) "operational self-sufficiency," (2) "self-sustainability," (3) employment creation and preservation, and (4) bench marks for achievement of development objectives vis a vis independent financial viability. The Foundation can achieve both development and financial viability, but it should have pre-determined weights for its objective function.

- A target date and schedule of intermediate achievements (events) for self-sustainability within the life of PED should be set by HDF, preferably in consultation with USAID. Due to the difficult economic situation, the Foundation has operated in a defensive mode. Within the changed and positive environment, HDF can and should now set the target(s) and work toward self-sustainability. The Foundation survived the embargo period quite well, indicating that it should be able to operate on its own.

In this respect, it should be emphasized that financial self-sustainability is attained when the return on equity, net of any subsidy received, equals or exceeds the opportunity cost of funds. As long as the institution is dependent on subsidies, it is not being self-sustainable, and is at risk of running down capital reserves upon withdrawal of financial aid.

- As a strong incentive for HDF to press harder in achieving the objective of becoming self-sustainable, USAID could set conditions on HDF, such as meeting target commitments, before obligating each tranche of the PED grant funds.

- HDF could benefit from setting up a part-time department for monitoring and development. The staff would be HDF's current staff, who would devote a certain proportion of their time weekly or monthly in working on the tasks of the department and meetings for discussions exclusively concerning monitoring HDF's performance and planning the organization's development. Some of the tasks of the new, part-time department could also be described as research, policy formulation, and management control. Short-term consultants, local and/or international, could be contracted for input of special expertise on certain matters.

- If graduation to the formal/modern sector (expansion of existing clients) is HDF's long-term objective, careful coordination of the financial and technical assistance is necessary. However, the HDF management finds this dual purpose to be onerous and does not have the staff to provide much more than follow-up and client supervision, or else the quality of its financial assistance will suffer. However, HDF clients need additional support.

  Through PPED, HDF could set up small, independent and local units for providing technical assistance to entrepreneurs/beneficiaries. These units will effectively assist the entrepreneurs in their daily business, for graduation, or as a follow-up to enterprise development. In this respect, the style and procedure of assistance efforts are as important as their substance. These efforts should be flexible and show concern for the local entrepreneurs.

  Flexibility is enhanced if HDF beneficiaries are organized into groups to discuss and find solutions to their business problems, to exchange ideas and information and to allow entrepreneurs to identify their respective needs. However, HDF, as a resource agency, should not seek to solve all problems itself but primarily act as a referral center.

  The group should consist of approximately seven entrepreneurs from varying business backgrounds. The dynamics and the cohesion of the group are very important. They should be able to meet on a regular basis under the guidance of a trainer (formateur) with business experience. Beneficiaries should thus be organized into groups on a self-help basis.

The objective of creating a group is to provide a forum for articulating and voicing needs, yet minimizing the threat to HDF as an established power center. HDF will continue to be successful when already existing patterns of relationship between the power center and beneficiaries become more stable.

- A major challenge in support of small and microenterprises is to reach them. HDF has to be flexible and responsive to the needs of its clients. HDF must continue to have sufficient autonomy to make ad hoc decisions in response to the needs of beneficiaries and field staff and to the quickly changing local environment. Also, certain tasks demand a sympathetic ear (e.g. outreach and referral), while others necessitate strict discipline and efficiency (e.g. loan collection).

- Expand the access of small and microenterprises to credit, by lifting interest rate ceilings and other disincentives which deter financial institutions from undertaking riskier and more costly lending programs.

- PPED should be retained and developed until HDF is represented and provides its throughout the whole country. In this situation, an action plan formulated by the former international technical advisor to PPED could be implemented the PPED staff.

- PPED should provide an ongoing seminar program concerning credit, the financial market, and financial management for the benefit of entrepreneurs in provincial areas. HDF clients claim to have been requesting educational seminars in topics such as these.

- The concept of the National PPED Forum should be implemented.

- One third of the Board of Directors of HDF should be changed each year. In this manner, a member would normally serve three consecutive years. But the Board may make an exception to this policy in the interest and needs of the Foundation for reappointment of a particular Director. The Executive Director would always serve ex officio.

  This policy of introducing sources of new perspectives and knowledge is in the spirit of HDF's charter. The policy should be adopted for each Local Management Committee, as well.

- The officers-in-charge of the branches should have six months, or more, of experience in the head office. The period might have to be shorter, say four months, if six would be too heavy for HDF's budget. Those with less than six months of experience have inadequate capacity to carry out the necessary directions in the branches.

- Responsibilities, tasks, and functioning relationships among the staff should be better defined and monitored for improvement in the quality and staff interest in the operations and success of HDF.

- PED's LOP should be extended by two years, or more, in order to enable (1) making up the time lost in 1991/92; (2) taking advantage of the improved macroeconomic environment, similar to the assumptions in the project design; and (3) execution of recommended next steps, especially those concerning PPED and the self-sustainabily of HDF.

- Given the change in the macroeconomic environment, HDF is prepared to adopt innovative policies for the medium term. An increase in the demand for loans, as expected, may require an additional top management position in order for HDF "to go into high gear," thus being able to keep pace with the demand. The policy of the recent past has necessarily been in a defensive mode, but now the opportunity is presented to be proactive, in view of the lifting of the international embargo and reduced constraints.

ANNEXES

A. TABLE AI: USAID OBLIGATION BUDGET AND DISBURSEMENT

B. Original, full text in French for Chapter 4

C. Synopsis of HDF credit policy and procedures

D. List of Persons Interviewed

E. Bibliography

F. Questionnaires for entrepreneur study and for institution study

TABLE A1 USAID/HDF COOPERATIVE AGREEMENT (JUNE 26, 1991) GRANT OBLIGATION BUDGET AND DISBURSEMENT FOR THE PROVINCIAL ENTERPRISE DEVELOPMENT (PED) PROJECT (US$'000)

	Obligated 1991		Obligated 1992		Obligated 1993		Obligated 1994		Total Obligated		Project budget (CA) June 1991; revised	
	US$	LC	US$	LC	US$	LC	US$	LC	US$	LC	US$	LC
HDF and FMG	171.467	100.074	0.000	0.000	-169.467	-97.074	0.000	0.000	2.000	3.000	2.000	3.000
INSTITUTIONAL SUPPORT	170.000	30.000	0.000	0.000	139.467	98.074	50.000	0.000	337.304	195.237	799.000	195.237
PPED	205.000	36.996	0.000	0.000	-40.000	234.000	100.000	115.000	265.000	415.996	309.000	1148.000
HDF TA PSC	140.000	0.000	0.000	0.000	140.000	30.000	140.000	10.000	420.000	40.000	550.000	40.000
PPED (FMG) TA PSC	140.000	0.000	0.000	0.000	250.000	30.000	75.000	0.000	390.000	30.000	420.000	30.000
APB Advisor	140.000	0.000	0.000	0.000	-140.000	0.000	0.000	0.000	0.000	0.000	238.000	0.000
LENDING CAPITAL												
HDF lending capital	0.000	0.000	0.000	0.000	0.000	705.000	0.000	-250.000	0.000	455.000	0.000	2000.000
FMG lending capital	0.000	1000.000	0.000	0.000	0.000	-1000.000	0.000	0.000	0.000	0.000	0.000	3000.000
PPED lending capital	0.000	1000.000	0.000	0.000	0.000	0.000	0.000	-750.000	0.000	250.000	0.000	2000.000
SUBTOTAL	966.467	2167.070	0.000	0.000	180.000	0.000	365.000	-875.000	1414.304	1389.233	2318.000	8416.237
TOTAL EXPENSES		3133.537		0.000		180.000		-510.000		2803.537		10734.237

OTHER INPUTS:
PROJECT MANAGEMENT (USAID)
PADO Project Officer (US)
PADO Asst Project Officer (Haiti)
AUDIT
EVALUATION

NOTE: The negotiated budget in the Cooperative Agreement, June 1991, has been revised three times: June 1993, August 1993, and September 19