



Technical Assistance in Support of the Haiti DCA Program

Haiti AMAP Final Report

October 2007
USAID Contract GEG-I-00-02-00013-00 TO# 3

Prepared for: USAID/Haiti

Prepared by:
Chemonics International
1717 H Street NW, Washington, DC 20006

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International, Inc.

Table of Contents

Acronyms		2
Executive Summary		3
SECTION I	General Background	5
	A. Initial Diagnostic Assessment	5
	B. Scope of Work	6
	C. Contract Structure and Implementation	9
	D. Results	11
SECTION II	Accomplishments	13
	A. SOFIHDES	
	B. Sogebank and Sogesol	
	C. SME Report	
	D. Capital Bank	
	E. Seminar Series	
SECTION III	Conclusions and Recommendations	
	A. Conclusions	
	B. Lessons Learned	
	C. Recommendations	
ANNEX A	Original Action Plan for Technical Assistance Implementation	A-1
ANNEX B	Revised Technical Assistance Matrix	B-1
ANNEX C	Overview of Provided Technical Assistance	C-1

Acronyms

APB	Bankers' Association
DCA	Development Credit Authority
DAI	Development Alternatives, Inc.
DAI/MSME	DAI's microfinance project in Haiti
ODC	Office of Development Credit
SME	Small, Medium Enterprise
SWOT	Strengths, weaknesses, opportunities and threats
TA	Technical Assistance
USAID	United State Agency for International Development

Executive Summary

USAID Haiti introduced the USAID Development Credit Authority (DCA) Loan Portfolio Guarantee facility to support two local banks, SOFIHDES and Sogebank, for US \$2 million and US \$3 million respectively, as part of the Mission's Sustainable Increased Income for the Poor strategic objective. This facility intended to help boost the banks intervention in riskier and poorer micro, small and medium enterprise sectors in productive sectors such as textile manufacturing, agribusiness, services, art, handicraft, and light manufacturing.

Chemonics conducted an on-site diagnostic of the existing credit risk management systems of the three institutions-SOFIDHES, Sogebank and Sogesol¹. A review and assessment of credit management systems was conducted resulting in a thorough understanding of the existing loan portfolios and lending operations of the three institutions. The report² also encompassed a diagnostic review of each of the three banks, identifying weaknesses and proposed ways to address them. A technical assistance action plan was then outlined for each bank and was based on the diagnostic recommendations.

The overall diagnostic conclusions demonstrated that the three institutions have very distinct target markets and product lines. At the time of the diagnostic, Sogebank was oriented towards larger corporate financing, although it served an SME market segment that it hoped to better penetrate and develop a product line more suited to sector needs. Sogesol was completely focused on the informal microfinance segment and received consistent product development and credit management technical assistance from ACCION International, which is a major shareholder. Their immediate needs were oriented towards back office and internal controls support and further development of SME business evaluation mechanisms currently conducted for a salaried employee product. SOFIHDES was facing severe delinquency management problems, stagnant portfolio growth and a much undiversified product line. They needed to gain a clearer understanding of their SME market segment in order to adapt and develop new and more competitive products. They also required a review and re-engineering of credit and back office operations to significantly enhance operational efficiency.

The short-term technical assistance delivered aimed at improving and enhancing the credit practices and procedures of two commercial banks, Sogebank and SOFIHDES, and strengthening the management capacity of their borrowers. The technical assistance, training, and additional support for these banks resulted in: (1) reduced and more controlled loan losses because the institutions would have improved screening mechanisms through which to issue DCA-guaranteed loans and better collections procedure to follow up on delinquent loans; and (2) more cost-effective, streamlined, and efficient lending procedures which would be more profitable because of reduced costs. A revised technical assistance package later included scopes of work for Sogesol and Capital Bank.

¹ Sogebank moved the beneficiary status of their guarantee to Sogesol, their 35% owned microfinance subsidiary, which is tightly linked to Sogebank for operations and strategic direction.

² *Diagnostic and Action Plan*, written by Chemonics International. February 2006

In order to ensure the success of this facility, additional support was provided to these institutions in the form of technical assistance to strengthen their capacity to manage viable credit risk management systems. This support took a myriad of forms of technical assistance in reviewing internal documents, training of management staff, as SME market sector report, seminar series as well as the recruitment of a local SME credit senior credit advisor and credit officer.

SECTION I

General Background

Haiti is the poorest country in the Western Hemisphere and one of the poorest in the world. Formal sector employment has been deeply constrained by years of deteriorating business environment, driving the population to either outward migration, unemployment or self-employment. Migration has indeed boomed in the last 40 years, resulting in one of the region's largest Diaspora, accounting for one fifth of the total population. More than half of the migrants live in the US, sending remittances to their relatives constituting Haiti's largest source of foreign exchange. Self-employment remains the main option for people unable to obtain formal jobs and concerns 75 percent of working-age Haitians. Most of the self-employed take opportunity of the demand for retail urban services (food, cloth, jewelry, tailoring, barbering, car repairs, etc.) to create their own informal micro enterprise, reflected in the size of Haiti's service sector accounting for half of GDP compared to 27 percent for agriculture.

The SME agribusiness and productive sector has little capitalization and is in great need of more financing; specifically for the purchase of fixed assets, raw materials and supplier payments. The export-led agribusiness sector also requires technical assistance on how to improve their product quality and thus increase their competitiveness to meet international standards.

Beginning in 1995, significant changes in the regulatory framework resulted in a more competitive environment for Haiti's formal financial institutions. These changes included the removal of the 22 percent interest rate ceilings, the reduction of reserve requirements from 48 percent to 26 percent, and the licensing of five new banks. The financial sector liberalization increased competition and enabled banks to increase their lending activity, charge variable rates for their services, and, consequently, begin to consider informal micro and small enterprise clients.

Haiti's poor macroeconomic environment also provided an impetus to downscale. The economic contraction and corresponding reduction in the number of traditional large enterprise clients dictated that commercial banks would need to find new markets. The MSME sector seemed to be one of the better options: with unemployment rate of 70 percent at the beginning of the 1990s, micro and small informal enterprises became the primary source of employment for many Haitians. Although these informal enterprises are generally unable to fulfill the traditional collateral requirements, they have a great demand for financial services. This gap between the demand and the lack of supply from the existing institutions encourages commercial banks to see businesses such as these as important, untapped markets.

A. Initial Diagnostic Assessment

In order to effectively plan out support needed in the form of short term technical assistance, a comprehensive on-site diagnostic of the existing credit risk management systems was conducted of the three institutions. This resulted in a thorough understanding of the existing loan portfolios and lending operations of the three institutions. Furthermore, depending upon the current status of the bank, the executive management competencies, and discussions with the bank requesting

what technical assistance they would like, a technical assistance action plan was created. These were scripted in tandem based on the diagnostic recommendations and outlined for each bank.

This initial assessment, completed in February 2006, paved the way for the three banks in identifying weaknesses and proposed ways to address them. The comprehensive diagnostic assessment identified specific capacity development needs of each bank and formed the basis of a customized work plan for each of them. The initial assessment included a review of several internal bank documents, interviews with their credit departments, interviews with the banks' management teams, and an analytical report similar in structure to a CAMELS report.

The conclusions of the diagnostic assessments demonstrated that the three institutions had very distinct target markets and product lines. Sogebank's main target oriented towards larger corporate financing, although at the time of the assessment, it served an SME market segment that it wanted to penetrate and develop a product line more suited to sector needs. Sogesol was completely focused on the informal microfinance segment and received consistent product development and credit management technical assistance from ACCION International, who is a major shareholder. Their immediate needs were oriented towards back office and internal controls support and further development of SME business evaluation mechanisms conducted for a salaried employee product. SOFIHDES faced severe delinquency management problems, stagnant portfolio growth and a much undiversified product line. They needed to gain a clearer understanding of their SME market segment in order to adapt and develop new and more competitive products. They also required a review and re-engineering of credit and back office operations to significantly enhance operational efficiency.

For detailed information on the diagnostics of the banks, please refer to *Diagnostics and Action Plan: Technical Assistance in Support of the Haiti DCA Program* from March 2006.

B. Scope of Work

The objective of this project was to deliver short-term technical assistance aimed at improving and enhancing the credit practices and procedures of two commercial banks and strengthening the management capacity of their borrowers. The technical assistance, training, and additional support for these banks was intended to result in: (1) reduced and more controlled loan losses because the institutions would have improved screening mechanisms through which to issue DCA-guaranteed loans and better collections procedure to follow up on delinquent loans; and (2) more cost-effective, streamlined, and efficient lending procedures which would be more profitable because of reduced costs. The scope of work was organized with the following components and corresponding objectives:

1. Review and Assessment of Credit Management Systems

Objective: To have a thorough understanding of the existing loan portfolios and lending operations of the banks, identify weaknesses and propose ways to address them.

2. Training Courses and Seminars

Objective: To address the specific needs identified by SOFIHDES' and Sogebank's management teams including the strengthening of credit policy and procedures, streamlining loan analysis and administration processes, improving loan portfolio management, credit administration and bad

loans collection. Training will also be provided on how to utilize the USAID guarantee, including required reports, etc.

3. Capacity Strengthening for Management Teams

Objective: To support the management teams as they implement the USAID guarantee. Specifically, this is intended to strengthen the consulting arm or department that specializes in counseling targeted businesses on how to improve profitability, management, and accounting/auditing procedures. This will improve technical assistance services to businesses in DCA targeted sectors. Human resources needed: Two full-time locally-hired Senior Credit Officers will be assigned to SOFIHDES, under this activity.

4. Technical Assistance to Targeted Borrowers

Objective: To provide direct technical assistance to borrowers, through training and seminars, designed to address their administrative, financial and management needs.

Over the course of the contract, budget resources were expended across the components as presented in Table 1. As presented in Section II, USAID/Haiti resources under this contract were leveraged with complementary assistance to the counterpart banks and the industry being provided through another ongoing USAID/Haiti MSME finance support project. Because of the change in technical assistance, a revised budget allocation was also approved given the shift in targeted service. These figures are also represented in Table 1.

Table 1: Budget Allocation by Contract Component

TARGETED SERVICE CATEGORY	ORIGINAL BUDGET ALLOCATION	PERCENTAGE	REVISED BUDGET ALLOCATION ³	PERCENTAGE SHIFT
1. Review and Assessment of Credit Management Systems	\$103,716	19.7%	\$119,096	23%
2. Training Courses and/or Seminars	\$69,352	13.2%	\$61,722	12%
3. Capacity Strengthening for Management Teams	\$311,862	59%	\$311,175	59%
4. Technical Assistance to Targeted Borrowers	\$42,928	8.1%	\$35,866	7%
Total Budget	\$527,859	100%	\$527,859	100%

B.1 Technical Assistance Provided under Revised Scope of Work

³ Discussion of the table's revised budget if found under C. Contract Structure and Implementation

The above description of technical assistance activities supported the 2005 DCA loan guarantee that was scheduled to end in early 2007, though access to the guarantee ended in late 2006. Due to various delays in the design and implementation of this task order, the partner banks had limited time to utilize the technical assistance intended to strengthen their lending to the target sectors and tap into the guarantee. Near the end of the original guarantee, USAID/Haiti and the ODC began negotiating a new DCA loan guarantee and put the remainder of our technical assistance on hold until the target banks had been identified and the new DCA better defined. For the new guarantee, USAID continued its partnership with Sogebank and Sogesol and added Capital Bank, while deciding not to renew the partnership with SOFIHDES.

In early 2007, USAID/Haiti asked Chemonics and the DAI/MSME project to work together to provide technical assistance to Sogesol and Capital Bank in anticipation of the new guarantee. The new DCA agreement had two arms with each bank: one focusing on microfinance and one on SME finance. The Chemonics and DAI team were requested to focus the new technical assistance on SME lending. In reprogramming the technical assistance in this contract, the objectives remained the same, to strengthen Haitian financial institutions ability to provide financing to Haitian enterprises: There was also a reemphasis on SMEs as the main clients.

After extensive collaboration and consultation with Sogesol, Capital Bank, the Bankers' Association (APB), and USAID, Chemonics and DAI/MSME finalized a new technical assistance package, presented in the matrix in Annex B. This technical assistance matrix, or TA matrix, shows a holistic view with continued collaboration between Chemonics and DAI in providing the support to the banks. Some activities were intended to work in direct collaboration; others were implemented only by one organization and with the partner banks.

B.2 Breakdown of Revised Technical Assistance

As noted above, the revised plan for technical assistance, covering three main themes was determined through collaboration with USAID/Haiti, DAI/MSME, Capital Bank, and Sogesol. The agreed upon Revised Technical Assistance Matrix (Annex B) shows the assignments, deliverables, and anticipated level of effort for each. We note that everyone involved understood that the later assignments and the priority areas for support would be better defined as the initial activities were implemented and the market and the institutions were more clearly defined. Some of these will happen after the life of this contract and this report. Chemonics' portion of the technical assistance fed directly into DAI/MSME's portion of the work. We have described the technical assistance theme that Chemonics worked on (Theme 1) from the TA matrix.

TA Matrix Theme 1 - SME Credit Strategy, Product Design, Policy and Procedure Review

This task was intended to build the foundation for our partner banks to ably move into SME lending, beginning with assessing the market (financial demands of SMEs, capacity of SMEs to manage credit, and analysis of appropriate mechanisms for lending to SMEs). This initial step was performed by a Chemonics consultant and utilized existing reports and programs, and also conducted various forms of direct research with SMEs and associations (focus groups, interviews, etc.). We then worked directly with Sogesol to develop and refine their SME sector strategy and to develop appropriate products to match the needs of SMEs and the banks. The final stage of this task was to advise the banks on policies and procedures as well as best practices to enable them to function efficiently and effectively on a daily basis. As Sogesol has

an institutional relationship and commitment to ACCION International, we were requested to subcontract this work directly to them. We conducted similar work with Capital Bank though bank management determined they were not ready for this next step and we finally agreed on a more truncated plan for providing them technical assistance. The two primary tasks were:

1a: SME Credit Strategy and Product Design. The first phase of Task 1 evaluated the SME market through a market assessment (building on Chemonics broader SME sector assessment done earlier in the project), then to facilitate developing a strategy for accessing the SME market for each bank, and finally to develop appropriate financing products for SMEs. We noted that Capital Bank was wary of moving too far ahead in their planning prior to evaluating the market assessment and strategy development assistance before making decisions on the remaining activities. We developed the work plan with the assumption that they will move forward on the basis of the initial assessments and discussions and they did finally agree to a modified form of the technical assistance package.

1b: SME Policy and Procedure Manual Development. The second phase of Task 1 was to advise Sogesol and Capital Bank on policies and procedures to ensure efficient and effective implementation of the SME market strategy. The primary responsibility was to present internationally recognized best practices and adapt them to each bank's systems, in areas including: credit analysis and loan approval procedures and disbursement procedures for term loans (if applicable) in light of new customer base and also delinquency management. The Sogesol work was completed by ACCION under the same subcontract as above and Capital Bank opted out of this technical assistance.

C. Contract Structure and Implementation

This contract was structured specifically to provide short term technical assistance originally targeting two banks in Haiti: Sogebank and SOFIHDES. To assist productively, the initial report created concrete scopes of work for assistance needed by the banks in order to effectively pursue their interests in the DCA loan guarantee for SME lending. Each scope worked off of the previous one, assuming the bank would implement what was agreed upon in the previous technical assistance, and increase its productivity and capacity throughout the life of the project. The original technical assistance framework is exhibited in Annex A.

At the inception of the project, the banks were requested to commit at least two staff persons to the project, both as a liaison to management and to ensure that the banks are a part of, and committed to, the process. The senior staff person was to be in charge of the implementation of the action plan. Critical to the diagnostic is senior management buy-in, and this was to be ensured at the beginning of the project. Although during the initial assessment and as activities began, the banks were committed during the time of all assignments; it is during the in-between phases that were difficult to continue communications or follow-up. It was also difficult to receive documents for consultants due to the proprietary nature of the information. Many times, the consultants were not given background documents until they arrived in Haiti-or there was limited background information-which caused slight delays in their beginning stages of work.

This created a demand for flexibility and creativity on the part of Chemonics and its consultants, because many times information was not readily available or in its final version that would have

permitted even further progress during the consultants' trips to Haiti. Thus, in effect, there was no structure to monitor and evaluate the bank's progress; only the recommendation put forward from the consultant's limited time in-country and the hopes that when the next consultant arrived, the information they needed to move forward would be in its completed/finalized state.

Because there was no field office to implement the work, it was essential the home office assess any hazards and take all precautions necessary before sending consultants to the field. Due to the climate of the country at the beginning of 2006, much of the technical assistance was not able to commence until later in the year. As we moved forward with the work, we noticed a significant increase in our budgeted materials due to the security precautions we found necessary while sending consultants to the field; without a field office or additional support on the ground, we could not take risks when sending someone to Haiti. Thus, a modification shifted funding from our time to materials. This change, along with the new technical assistance, slightly modified the distribution of funds allocated to each targeted service category (Table 1).

In addition, communications with USAID/Haiti, the bank clients, or consultants in the field, also caused strain on implementation. Many times, phone lines were not even working, or the connection was terrible, often leading to inaccessibility of contact via phone or email. This caused delays in implementation and often simple miscommunication. Other delays were a direct result of USAID's request in December 2006 for Chemonics to put all technical assistance on hold until further notice.

All of the implementation was based on short term assistance; therefore this created a high volume of fielding consultants. Any delay in getting the consultants to the field delayed the overall work plan for the project. Many times, at the beginning, approvals would be pending for weeks. Toward the end of the contract, however, approvals were processed timely, and USAID/Haiti worked with the Embassy to push through any country clearances.

There was also difficulty in recruiting for specific assignment, namely one of the credit officers for SOFIHDES. The original agreed upon candidate notified Chemonics days before the beginning of the assignment to explain that another job came up in a safer environment. The process to find another suitable candidate took several weeks, a trip to the field and lengthy approval processes due to the type of candidate found. Not to mention after further discussions with SOFIHDES, it appeared the original senior credit officer position was no longer the most appropriate; therefore, a new scope of work and level of effort needed to be approved before finding a suitable candidate for a senior credit advisor.

In the first quarter of 2007, negotiations for the new technical assistance plan began. As the new TA matrix had a considerably higher level of effort above our existing contract, Chemonics had to revisit project resources and allocation of funds. We were able to reallocate short-term expatriate time to the new activities and, with increased efficiency in travel and security logistics, we were able to ensure sufficient time was available for each consultant to complete each assignment. The appropriate expert or mix of expertise was determined for each assignment in collaboration with our partner banks and USAID/Haiti. Reporting requirements were met by each assignment, indicated in each scope of work, and contract reporting requirements were met by the project home office team.

Chemonics implemented much of the new technical assistance with DAI/MSME. It was a pleasure to work with their professional and personable staff. They offered their office to use since we did not have a field office, and provided additional support while we and our consultants were in the field. We had a common vision of the work to be performed, and a common understanding on how to move forward. Given that the new assistance altered our original implementation plan and budget, it was easily facilitated under this partnership.

D. Results

Despite delays and changes in the scope of work, all technical assistance was carried out to completion by the end of the contract, including the agreed upon new technical assistance. The banks were pleased with each assignment, and have progressed in their ability to control loan losses. Furthermore, they have also found more cost-effective and efficient lending procedures by way of recommendations from the short term consultants and through the seminar series under the new technical assistance plan.

Throughout the life of the project, SOFIHDES' assistance has resulted in finalizing revised personnel and operations manuals; finalizing a revised credit manual; a comprehensive report detailing the existing risk credit analysis and monitoring practices and policies of SOFIHDES and a credit assessment model; and accompanying instructions/guidance, including an overview of training required for staff on utilizing the new model both for initial risk assessment and monitoring through the life of the loan. Also, one senior credit advisor and one credit officer were hired. The senior credit advisor's work resulted in measuring performance of individual staff within the credit department; the development of an internal credit manual; and in-field training of management regarding customer service, refining their commercial skills and building the staff's technical and service skills. The credit officer's work resulted in a strengthening of the credit loan portfolio by focusing on repayment of outstanding loans and monitoring the credit operations to ensure portfolio quality is maintained.

Support to Soficonseil resulted in recommendations on specific future trainings needs of Soficonseil and other BDS providers for meeting the SME market BDS needs, as well as the training materials produced for the Soficonseil SME market BDS needs training.

During this contract, Sogebank and Sogesol's technical assistance resulted in recommendations and a road map for Sogesol staff to prepare a fully developed internal controls manual; recommendations and guidance for Sogesol to prepare fully revised and finalized policies and procedures, human resources, accounting and information technology manuals; support from ACCION, which defined institution-specific SME strategy document; final credit policies and procedures manuals for SME; final SME market analysis on financial demands study; a report on the re-evaluation of Sogebank's delinquency management procedures, including recommendations on specific ways to strengthen the current policies and practices; and a road map to guide Sogebank staff on implementing the recommendations for improving the delinquency management systems.

Toward the end of the project, support for Capital Bank resulted in a final SME market analysis on financial demands Study; a training program outline for credit officers in relation to the SME

Market, written recommendations for effective handling of the SME Market and how to implement within Capital Bank's policies and procedures.

The SME Sector Market Assessment and the facilitation of Seminars 1 & 2 hit the industry as a whole. The assessment gave an initial review of the SMEs in Haiti, and what financial opportunities are available through SMEs that the banking sector might be interested in. The seminars' training materials provided the banks with the necessary tools and techniques for loaning to SMEs.

Much of the work performed under the original scope of work created a more structured, formulated work plan to which the banks should adhere to in order to increase their portfolios. Although these changes are not quantifiable, the banks' perception of their quality performance has changed dramatically with each scope of work. Two pieces were not conducted as originally formulated under the initial assessment plan: an internal auditor was not hired for SOFIHDES, and the SME Market Sector Assessment did not originally produce a loan product for SOFIHDES. The internal auditor's scope of work was later incorporated into the senior credit advisor's duties. The original SME assessment did not include as much detail as was originally anticipated, and so a loan product for SOFIHDES was not discussed until much later in the technical assistance. Regardless of these changes, throughout the life of the project, the short term assistance provided and resulted in the banks' gain of high-quality products and deliverables that have increased their capacity and moved them toward lending to the SME market.

SECTION II

Accomplishments

Below discusses the overall work performed under the task order by bank. Annex C outlines the work by consultants and descriptions of activities conducted.

A. SOFIHDES

The technical assistance action plan for SOFIHDES included the review and rewriting of back office policies and procedures and current manuals to streamline operations and increase operational efficiency, an SME business analysis training, the hiring of two credit officers to analyze credits and manage the portfolio and the management of the loan cycle, beginning with the monitoring of prospective clients through the delinquency management. Soficonseil's capacity in business assessments, market analysis, business planning, financial modeling and other areas of business development services were strengthened so that it can better serve its SME customers, as well as expand their SME client base, making better use of the DCA Facility. Thus, a training of trainers was conducted for Soficonseil staff. This training focused on addressing and serving the needs of current and potential SME loan clients, as identified by the market assessment.

SOFIHDES has an important role in Haiti as a lender, and fills a key niche market for SMEs. SOFIHDES and (Soficonseil, the consulting arm of SOFIHDES) has extensive contact with SMEs in Haiti and is one of the most active Haitian entities working with this important segment. Given the lack of good market and industry data in the country, SOFIHDES has an opportunity to share expertise through gathered information.

SOFIHDES has unique, valuable product offerings. Based upon expert industry opinion, banks are not doing the lending SOFIHDES does. Managers emphasize SOFIHDES is a for-profit company, with obligations to its shareholders, in conjunction with its 'double bottom line' mission to service economic needs to foster enterprise in Haiti. SOFIHDES has many foundational elements of good practices in place. However, the condition of the existing portfolio is a serious red flag for which increased management attention is suggested.

Based on the findings and recommendations of the initial assessment, a series of scopes of works were created for SOFIHDES, in collaboration with the bank. The following short term assignments were conducted: A review of SOFIHDES' back office policies, operational procedures, and internal controls; A review of SOFIHDES' credit policies and operational systems; providing two credit officers to strengthen the management teams; a credit risk assessment; and a Small Medium Enterprise Business Development Services Training for mid-level staff. The following describe the technical assistance provided over the life of the project.

A1. Back Office Policies, Operational Procedures, and Internal Controls Review

This activity undertook an evaluation of SOFIHDES's back office processes in order to strengthen the institutional capacity. Policies and procedures for the administrative, financial, internal controls and information technology areas had been documented on an on-going basis; as needs developed, however comprehensive back office manuals had not been developed. The back office operations were reviewed and recommendations made to revise them in order to streamline operations and increase operational efficiency. The review included an examination of current organizational and management policies, personnel management procedures, accounting practices and internal controls systems.

Tom Shaw went out in November 2006 as the consultant for this assignment. After the initial review of the back office procedural manuals, it was clear that the current documents did not accurately reflect all of the operational and organizational changes that had occurred within SOFIHDES since these manuals were first produced in 1996. In reviewing certain sections with SOFIHDES staff, it was also clear that some polices were not being correctly and systematically applied even though they were recognized as important. Additionally, there was no formal process for the revision of policy manual within SOFIHDES, even though this revision process was described in the manuals. The decision was made by the consultant, in collaboration with the SOFIHDES, to reformat and revise the current documents bringing them up to international standards. Conversely, starting from "scratch" would have taken much longer, and much of the policies contained in the manuals were still relevant, although they needed to be updated slightly to make them more realistic for the institution. Discussions were held with the SOFIHDES senior management to evaluate the manual's policies, and to revise outdated information and clarify current policy standards. From this discussion, our consultant made suggestions and recommendations for a revised manual to include missing elements and add updated terminology and policies where appropriate.

Given the time needed to review, reformat and integrate comments for the three manuals, only two were completed through a "second draft" format stage. The two revised documents were the Personnel Manual and the Ethics Manual. Moreover, the personnel and ethics manuals were combined into a single "Personnel Manual." Integrating the two manuals was a more logical option than continuing to have two separate documents. In fact, the original SOFIHDES personnel manual already contained a significant portion of the ethics' manual in it, prompting staff members to read only that portion of the ethics manual.

We are excited to report that SOFIHDES was pleased with the consultant's approach and technique used to complete the job; one of the recommendations from Mr. Shaw's work was for SOFIHDES to follow-up by revising their manual, including his suggestions, and completing a finished product.

A2. Credit Policies and Operational Systems Review

Through Enterprising Solutions Global Consulting (ESGC), a subcontractor on this task order undertook an evaluation of the SOFIHDES loan cycle management at the beginning with the monitoring of prospective clients through the delinquency management process. This was to assist in the strengthening SOFIHDES' delinquency management capabilities and risk management strategies. Based on the findings of the review, the consultant made recommendations and prepared updates to the current credit manual.

At the time of the consultancy, SOFIHDES' current performance limitations were a result of weak portfolio and delinquency management; specifically loan appraisal and monitoring, as well as loan past due classification transparency and follow-up. Given the volatile Haitian environment and SOFIHDES weak performance, it is in SOFIHDES' interest to implement international best practices, which were recommended and outlined for them during this consultancy.

The portfolio appraisal and management problems outlined in the consultant's review were a result of passive management, inadequate credit appraisal and monitoring techniques and a lack of standardized policies and procedures. More specifically, SOFIHDES does not perform a thorough due diligence of clients during loan appraisal, and does not categorize the comparative credit risk through loan grades. Loan monitoring is reactive, where loans are not reviewed on an annual basis to monitor actual performance and thus enable the bank to have a clear and actualized risk evaluation of its portfolio. Credit officers were not maintaining close relationships with clients for better monitoring of their performance and detecting potential problems or difficulties that may affect loan repayment. This practice eliminated guessing and created a clearer estimate of SOFIHDES' real short and long term credit risk, crucial for future financing decisions. Finally, delinquency management was extremely passive and with a serious lack of transparency. There was no precise delinquency management guidelines which orients SOFIHDES on the type and frequency of the follow up required. Furthermore, past due loans were not classified according to international best practices.

The consultants, two short term specialists in credit operations, carried out a thorough review and even drafted refinements to "re-engineer" SOFIHDES' credit procedures and practices to strengthen the bank's credit systems and capabilities in November 2006. Through the review, the consultant discussed and completed appraisals and reviews in order to strengthen the bank's credit systems and capabilities. Among other tasks, the consultant led discussions with SOFIHDES concerning: credit appraisal, disbursement, monitoring, delinquency management, credit committee review, and write off policies. In order to strengthen the bank's credit systems and capabilities, the existing credit procedures and systems were reviewed including client selection, loan policies, disbursement and monitoring, delinquency management to determine appropriateness and adequacy. The consultant also worked with SOFIHDES' general management to recommend policy changes to streamlined credit operations and increased operational efficiency, and reviewed the Credit Manual, providing an outline of the key missing elements.

This technical assistance focused on identifying key problems, developing and providing tools for better portfolio management and formalizing credit policies and procedures to be documented in a credit manual. The SOFIHDES credit manual was reviewed and an outline of a final version was developed. SOFIHDES senior management was very well aware of its specific loan appraisal and management weaknesses and through this consultancy has begun to implement some of the recommendations and tools provided.

SOFIHDES was impressed with the consultant's thorough understanding of the needs, given the bank's current status, and found the work performed useful and the recommendations ones with which they could easily manage and follow-up.

A3. Hiring of full time Senior Credit Advisor and Credit Officer

Chemonics worked with SOFIHDES to identify candidates for what was planned to be two long-term positions, originally slated as one Senior Credit Officer, and one Credit Officer for the bank. However, as a result of our discussions with SOFIHDES regarding their credit unit's needs, we rewrote the scope of work for this assignment from a Senior Credit Officer to a Senior Credit Advisor who was responsible for building the capacity of the credit unit. With the increase in expertise, a revision of the level of effort was necessary to accommodate for the higher salary this position. A mutually agreed upon solution considered this assignment a part-time long-term relationship providing approximately 10 days each month of technical assistance. After several months of reviewing applications, conducting an extensive recruit, and completing interviews for this position, Ms. Martine Bouchereau Gomez was identified as the candidate for SOFIHDES' Senior Credit Advisor, and Ms. Ludmia Dezemma was identified as the strongest candidate for the Credit Officer position. Both worked with SOFIHDES from the first quarter of 2007 until contract completion.

During this period, SOFIHDES focused on improving the general health of their current portfolio, in order to solidify its asset base before pursuing further growth of their portfolio. Therefore, the Senior Credit Advisor's role centered on this fundamental need, under three main focus areas: assistance with underperforming loans in their portfolio; development of a credit manual; and training and guidance to SOFIHDES' credit department.

Over the course of her time at SOFIHDES, Ms. Gomez intervened to resolve several difficult cases, working with SOFIHDES credit officers to regularize poorly functioning loans, and meeting with the SOFIHDES executive team to identify strategies to deal with the more problematic cases. The final product was submitted to SOFIHDES on August 28th, 2007.

Martine also met regularly with the SOFIHDES executive team to discuss the progress of the credit manual she developed, ensuring the final product was in line with their expectations. This was a difficult task to accomplish, as Mr. Thony Moïse (Deputy General Manager) was not always available for consultation; regardless, Martine moved forward and interviewed several SOFIHDES employees, assessed the current working performance and organization in order to create a draft manual that, as of September 28, 2007, was in the board's possession for review and approval.

SOFIHDES cannot say enough about the value of Ms. Martine Gomez's contributions to their credit department. Her technical expertise and experience proved to be a valuable asset to SOFIHDES over this past quarter, and has helped to place SOFIHDES into a position from which it can begin to focus more on spurring the growth of its portfolio in the coming fiscal year.

–Thony Moïse, Deputy General Manager

Despite the fact that Martine's contract has ended, she is committed to see this manual come into effect, and has offered her time to make any necessary updates or changes. Ideally, the bank would appreciate further assistance to keep Martine on short term to see the fruition of the manual and how it's implemented in the office; alternatively, Chemonics suggested to the bank that, given they were at the end of the fiscal year and are already discussing budgetary needs they

could prioritize, devise a plan to hire Martine short term to effectively complete the manual and implement its structure.

Because of Martine's efforts in assisting with underperforming loans and the credit policies and procedures credit manual, no formal training course was developed during her time at SOFIHDES. She did, however, creatively pursue focusing on the staff's customer service, refining their commercial skills and building the staff's technical and service skills while working with contentious clients. She built capacity with the junior staff by inviting them to shadow her on site visits and demonstrated first-hand proper procedures and best practices to use when dealing with difficult loan cases. She also created guidelines for future trainings, should SOFIHDES pursue installing a course for their credit department.

As Credit Officer for SOFIHDES, Ludmia Dezemma's main roles included promoting credit products offered by the bank to a targeted client base, analyzing credit cases and requests, negotiating the terms and conditions of financing, presenting potential files to the credit committee, and effectively managing every aspect of the loan portfolio for which the credit officer was responsible. Since April 2007, she has made 11 site visits to follow up on delinquent or underperforming loans, and recovered HTG 8,194,946 in unpaid payments. She has also prepared and presented 6 credit dossiers, totaling over HTG 10 million, to the SOFIHDES executive team, three of which were approved for implementation; the other three are currently pending.

**SOFIHDES RECOVERED UNMADE
PAYMENTS PORTFOLIO
LUDMIA DEZEMMA- CREDIT
OFFICER**

MONTH	AMOUNT IN HTG
APRIL 2007	635,379.00
MAY 2007	933,645.35
JUNE 2007	703,750.90
JULY 2007	2,007,854.89
AUG 2007	2,436,211.00
SEPT 2007	1,478,105.00
TOTAL	8,194,946.14

According to Mr. Moïse, Ms. Dezemma was especially strong when she needed to follow up with clients to ensure payments were made on a regular basis. Her skill set therefore complimented SOFIHDES' strategy this year of focusing on improving the strength and health of their portfolio. During an exit interview with the bank and the two credit consultants, all three mentioned that the credit department would be well-served with a commercial person, perhaps a commercial manager for new ideas and methodologies. Mr. Moïse furthered the discussion and explained that despite Ms. Dezemma's work ethic, thoroughness and attention to detail, SOFIHDES would like to hire a commercial manager to take one of the credit officers' positions, particularly to compliment the recommendations brought forward by Ms. Gomez. SOFIHDES has therefore made the decision not to hire Ms. Dezemma full time and will be looking for an officer with more of these skills sets.

Overall, SOFIHDES was very satisfied with the work of both consultants, and has especially emphasized Ms. Gomez's technical contributions and Mr. Dezemma's pursuance to reduce the bank's outstanding unpaid loans has helped to place SOFIHDES into a position from which it can begin to focus more on spurring the growth of its portfolio in the coming fiscal year.

A4. Credit Assessment and Delinquency Management Review

As part of the strategy to improve the credit analysis and monitoring capacity of SOFIHDES, Mr. Andrew Tulchin was fielded to provide technical assistance in developing a credit risk assessment model, a scoring tool, for SOFIHDES. The consultant's initial assignment included reviewing existing policies and practices of credit appraisal and monitoring within SOFIHDES, and work and worked with SOFIHDES in the beginning stages to develop a credit assessment model/scoring tool that will be used by the credit unit and other appropriate staff as a scoring tool for the bank in order to better manage loans through the entire loan cycle. A plan for developing its implementation was the second part, including guidance on structuring loan covenants for each credit to maximize repayments.

This more sophisticated credit appraisal and monitoring system will eventually enable SOFIHDES to better manage loans through the entire loan cycle, from the initial loan application stage through repayment. The principle is that prior to approval each loan receives a risk grade from very credit worthy to risky (similar to a credit matrix system such as Moody's or Standard and Poors).

The consultancy was broken down in two parts: the first week was spent meeting with SOFIHDES management to align around mutual goals for the consultancy; thereafter, discussions were held with SOFIHDES staff regarding actual day-to-day activities, management activities, and intended goals, and to ensure understanding of internal operations, Haitian business environment, and sector. After identifying with SOFIHDES management, strategic goals for the entity to tie credit risk assessment efforts with other operational requirements, a document review of SOFIHDES' existing activities, data, and information was conducted. Best practice literature was then conducted in the field on the topic to fit into the Haitian operating context and the organizational culture of SOFIHDES. The following week's activities consisted of conducting analysis and writing up the results, constructing the risk assessment model, and holding conversations with professionals in credit assessment in developing countries to verify this model's efficacy.

As part of Mr. Tulchin's review of SOFIHDES and its existing activities, a number of institutional qualities were documented that outlined the present condition of the bank's foundational elements, including how they report, what the status is of the existing portfolio management and collections, data collection and credit assessment systems. This tied into the construction of the credit risk assessment model, and how it would assist with the current portfolio, taking into account SOFIHDES organizational culture, industry standards, and Haitian context.

The report for this consultancy goes into detail regarding first steps that need to be made for credit assessment improvements in mind to advance the company to achieve sustainability and financial self-sufficiency. Operational goals, for example, should also aim to enhance this potential and probability for success. Many of these points and recommendations reiterate previous Chemonics consultants from the office policies, operational procedures, and internal controls review assessment as well as the credit policies and operational systems review as a starting point. Reviewing these documents would showcase the successes and advances of the company, but also review areas identified where progress still remains to be made. Despite the fact that SOFIHDES was not ready to start using the credit risk assessment tool, Mr. Tulchin

created a draft of the tool, with a risk indicator sheet, data entry and scoring list, collateral value scoring list and provided a multitude of additional useful pieces to show how to score SMEs and templates for more streamlined approaches to reporting Monthly Loan Reports and Monthly Managers Reports.

Recommendations focused on actionable items to be addressed immediately and over the course of the next year. The emphasis was on incremental change and easy-to-implement solutions. Longer term goals, where applicable, were also suggested. Recommendations fall under five distinct categories: Foundational Elements; Reporting; Existing Portfolio Management & Collections; Data Collection; and Credit Assessment System. Details to this assessment are found in *SOFIHDES Credit Risk Assessment* from September 2007.

Given the reporting diligence during this assignment, the bank was thoroughly impressed with the consultant's work. Despite the fiscal year ending and the bank under tremendous stress and tight deadlines, Mr. Moïse expressed his gratitude during a personal phone call to Chemonics and complimented the work performed under this report. He found that although the risk model could not yet be utilized, Mr. Tulchin went above and beyond his scope of work to create a concrete list of recommendations that SOFIHDES needs to focus on now so that they may use the model he constructed.

A5. Soficonseil SME BDS Training

Chemonics sought to strengthen Soficonseil's understanding of the BDS needs of the SME market as part of the strategy to improve the capacity of SMEs to take loans and expand their business. Soficonseil is the consulting and business support arm of SOFIHDES and this activity was intended to work directly with the clients of SOFIHDES and other financial institution's SME lending units.

The work was performed by Jean-Robert Estime for Soficonseil and consisted of a training program aimed at strengthening Soficonseil's ability to meet the needs of its clients by increasing its capacity in business assessment, market analysis, business planning, financial modeling and other areas of BDS. The training was comprised of the following topics: business assessments, market analysis, business planning, and financial modeling. The trainer was also asked to cover the potential issues within the SOFIHDES (lender) and Soficonseil (consultant) relationship, particularly the potential for firms to assume participating in a Soficonseil support program will automatically make them eligible for a loan. The consultant collaborated with USAID/Haiti, SOFIHDES/Soficonseil, and our other partners in Haiti while conducting the assignment. The consultant, having completed the SME Market Analysis on Financial Demands for this task order, reviewed relevant literature on the SME market segment in Haiti and Soficonseil's current offerings, and worked with Soficonseil to finalize a comprehensive 3-day training to strengthen its capacity to meet the market needs of the SME market segment. Mr. Estime then conducted a participatory training based on adult learning methods for Soficonseil staff, and prepared a report setting forth findings and recommendations for future trainings and capacity building activities for Soficonseil.

As discussed with the bank, the consultant remarked that Soficonseil works toward delivering high quality services to enterprises, associations, institutions and individuals, improving their

management skills, increasing their productivity, expanding their sales and helping them better respond to market opportunities. But at the time of the consultancy, the Soficonseil Mission was not yet clearly stated and agreed upon by all team members, as well as SOFIHDES management and staff. Soficonseil should be able to provide services rapidly, at affordable costs, and meet the specific needs of a broader range of clients. Developing a communications plan will position them to create a uniform mission as well as make their enterprise one of the leading BDS providers on the Haitian market. The Soficonseil brand should be well known, independently from, but linked to, SOFIHDES, as a source of quality services oriented towards total customer satisfaction.

Productive SMEs are the primary market of Soficonseil. This market will be expanding over the coming years because commercial banks, especially those that operate under the DCA Loan Portfolio Guarantee, are increasingly interested to give loans to productive SMEs. One of the key conclusions reached in the SME Market Sector Assessment⁴ is that SMEs, in all targeted sectors, request technical assistance and training to expand their businesses. This situation creates great opportunities for Soficonseil which can develop a package of technical assistance, training and access to credit, to help formalize SMEs and support their growth. Because of this, the following paragraphs highlight some of the main conclusions and recommendations

Several conclusions and recommendations came from this consultancy. As of September 2007, the technical staff was only comprised of three members, lacking utility for quick reactions and performance to the needs. There was also a lack of core competencies in marketing and training design an implementation. This is important if Soficonseil does, in fact, want to continue with training activities in their portfolio. In addition, Soficonseil had a small number of clients (less than 20), because: i) it was not well known and did not attract a great number of companies, associations and individuals; ii) it did not subcontract services to other BDS providers and thus has a very limited capacity to rapidly respond to clients' demands; iii) it was more oriented to working with SOFIHDES' clients than reaching out to a broader pool of business people and institutions, through a demand-driven approach that would position Soficonseil as a true BDS provider instead of a division of SOFIHDES.

Among the recommendations, it was proposed to diversify the range of services offered by Soficonseil, by gradually introducing two new categories, besides the consulting, accounting and training services currently provided: *Information services* that will mainly deal with market information on prices, buyers, sellers, norms and standards, for the main value chains in Haiti; *Facilitation Services* to help national and foreign entrepreneurs comply with administrative requirements and understand the business environment, to achieve their investments goals. The main idea offers demand-driven services that can be easily implemented through a flexible and practical approach, instead of focusing on rather heavy studies that imply higher levels of effort. Soficonseil

Chemonics spoke directly with Michele Jumelle from SOFIHDES, and she was very pleased with Mr. Estime's performance for Soficonseil. She especially appreciated Mr. Estime's knowledge of the banking sector in Haiti, and his respect to Haiti's current reality.

⁴ Final report of SME Assessment, entitled *AMAP Haiti SME Market Assessment Report*, on file at USAID/Haiti

B. SOGEBANK AND SOGESOL

Based on the initial diagnostic assessment, the technical assistance action plan for Sogebank included the development of a market strategy for the SME market in order to diversify the bank's client base and enhance the SME product line. As suggested in the assessment, training on SME credit analysis including how to conduct business assessments and evaluations was provided in order to ensure sound credit appraisals and monitoring. Given the hardships faced when working in a difficult business climate, Sogebank specifically requested assistance in delinquency management mechanisms as well.

Based on the findings and recommendations of the initial assessment, a series of scopes of works were created for Sogebank, in collaboration with the bank. Sogebank moved the beneficiary status of their guarantee to Sogesol, their 35% owned microfinance subsidiary, which is tightly linked to Sogebank for operations and strategic direction. Thus, work concentrated primarily on Sogesol. Work with Sogesol included a comprehensive review of the bank's existing policies, procedures and internal controls. With this information, assistance to Sogesol built on the expertise and knowledge of its staff, working hand in hand with the technical assistance provided to complete 70% of the drafting process of a Manual of Administrative & Financial Procedures, including integrated internal controls. The following provides details to the technical assistance provided over the life of the project.

B1. Review of Existing Policies, Procedures and Internal Controls for Sogesol

The technical assistance action plan for Sogesol involved the performance of a through review and possible re-engineering to better streamline current back office policies and procedures and internal controls. Based on the findings of the review, the short term consultant recommended and prepared updates to the existing back office manuals and developed an internal controls manual. The following showcases the highlights of the work done in November 2006 by Juliette Chateaufneuf to Sogesol.

Policies & Procedures

The consultant worked with Sogesol department heads, to the greatest extent possible given their individual day-to-day workloads; acting as a facilitator and technical advisor to staff, key elements of a given procedure were analyzed and documented. This participative approach helped ensure Sogesol's ownership of the final product as policies & procedures are only valuable to an organization if they are completely understood, written down and applied. A framework of 12 sections of a comprehensive Procedures Manual was developed and approximately 70% of their contents drafted. Assuming no unforeseen problems are encountered, the manual was scheduled to be completed by the end of February 2007. Before the consultant's departure, a copy of the draft manual that contained clear directions of the work remaining to be done was distributed to everyone. In addition, a list of the individuals responsible for various sections of the manual was developed and agreed upon.

"Sogesol worked closely with consultant Juliette Chateaufneuf during the process of writing their back office procedures. Ms. Chateaufneuf was very experienced and her work had been very beneficial to [Sogesol]. The [recommended] dead lines have been respected and we were able to do a great deal of work under her guidance and supervision"
-Ms. Daphne Louissaint, Sogesol

Role of the Internal Control (IC) Unit (9 employees)

The head of the IC unit worked closely with the consultant during the mission when procedures were developed with each of the other department heads. Coaching was provided on how to monitor HO staff's compliance to procedures and on the design of additional auditing tools. The consultant led discussions with the general manager and director of finance and operations (DFO) that encouraged the sharing of previous auditors' reports with the head of IC and to an increased understanding of the management role of this unit.

Complexity of 'Hors Bilan' Operations

A key section of the Procedure Manual developed with the consultant entitled "*Opérations de crédit Hors Bilan*" describes in detail the complexity of the accounting process SOGESOL needs for accurate reporting. As more efficient ways of recording the transactions made at Sogebank's branches are discovered, this section should incorporate the changes on an on-going basis.

Adequacy of Chart of Accounts:

Changes in the design of the chart of accounts were suggested so that it could better reflect Sogesol's organisational structure and its activities and to allow for consolidation of relevant information generated by the branches and head office. These suggested modifications will especially facilitate Sogesol's tracking of its credit operations' costs and the development of key financial ratios. In addition, the consultant and Sogesol's head of accounting drafted complete descriptions of what goes into each account that was to be finalized when the new account numbering system is completed.

The consultant commented how all of the Sogesol employees who worked with her made valuable contributions to this assignment and its achievements. They appeared highly committed to the process that was begun and they expressed their strong desire to complete the work as soon as possible. The bank could not say enough good things about Ms. Chateaufneuf; they believe that her in-depth knowledge of back-office support to banks is why they were able to complete so much in so little time. Her technical assistance saved the bank time and increased the capacity of middle management.

B2. Sogesol SME Credit Strategy, Product Design, and Policies and Procedures

In order to ensure the success of the new Development Credit Authority (DCA) Loan Portfolio Guarantee facility, additional support was provided to Sogesol and Capital Bank in the form of technical assistance that strengthened the institutional capacity to assess the market and develop and implement appropriate products, procedures, and systems to lend to SMEs in Haiti. The program also provided technical support to train bank staff on implementing this strategy and to better understand the policies and procedures associated with SME lending.

Sogesol requested to work with ACCION, an invested firm that has been providing technical assistance to Sogesol since 2000. During the first phase of this technical assistance project for Sogesol, the primary objective was to assess the current SME strategy and business goals. Sogesol had developed a draft strategy document which was strengthened during the technical assistance. In assessing and revising this strategy, the institution's current loan products were evaluated in terms of their suitability for the SME sector and developed new products with appropriate terms and conditions for Haitian SMEs. The second objective was to adapt and/or

create new procedures for working within SME lending. In collaboration with Sogesol executive management, these adaptations have been integrated into the institution's policies and procedures manuals and systems. The following technical assistance breaks down the objectives into two activities:

ACTIVITY 1: SME Credit Strategy and Product Design

Suggested format of and recommendations made for Sogesol's SME strategy document

In early 2007, Sogesol management had developed an SME strategy document with financial projections. It was reviewed and adapted according to its proposals and discussions with management. The team changed the format to include more discussion of the market research completed to-date and proposed modifications to strengthen the strategy. These modifications are highlighted below.

During recent meetings with Sogesol management, the key points of discussion included the SME market segments to be targeted based on the market analysis results, the credit products to be offered, the internal structure for delivering these products, and the requirements in terms of human resources and information system customization and management. For each point, facilitated discussion highlighted advantages and disadvantages of different approaches and provided recommendations to Sogesol management. Decisions were made through consensus to ensure the bank had buy-in to what would be changed as a result of the discussion.

Although the DCA facility will provide a guarantee for Sogesol loans to SMEs engaged in production or manufacturing activities, all sectors, including trade and services, will be targeted with the new SME credit products. The market analysis and Sogesol's initial experiences in the market indicate that the SME credit market for production activities is likely to be relatively shallow. As reflected more generally, the trade and service sectors represent the majority of economic activity and must be included as part of the target clientele. To achieve the modest growth targets, all SMEs will be targeted with the new credit products regardless of activity type. In the first 12 months (including a 6 month pilot), Sogesol has set a target of 60 active SME clients. While all SMEs will have access to the new products, only SMEs engaged in production or manufacturing will be submitted for registration under the DCA guarantee facility.

In examining the internal structure for delivering the SME products, the options of both a centralized unit as well as a more integrated approach were discussed at length. According to the original strategy document, a centralized unit would focus on offering the SME products. In establishing such a cost center for managing the SME portfolio, Sogesol would be better able to manage operational expenses and portfolio quality. More importantly, it would minimize the impact on the existing branch network and its culture. However, the duplication of the back office and other staff render this approach less efficient. In addition, it may not be as effective in promoting the products through the creation of a product "silo" based at head office. This factor has slowed the success of some other new products at Sogesol and other ACCION partners. Consequently, a more integrated approach has been adopted. Under this approach, Sogesol will leverage its existing staff and delivery channels while significantly enhancing its evaluation capacity through the addition of a few Credit Analysts at a central office.

They will be supported by one administrative staff member who will manage the SME database. This integrated approach minimizes the human resources requirements while adding specialized staff for the credit evaluation, a step in the process which will be distinctly different for SMEs. The SME portfolio will remain on the internal books of each branch which originated the loans. The main purpose of keeping the SME portfolio on the branches' books is to ensure that promotion of this product is being done across the network - rather than by just a single centralized unit - so as to leverage the existing delivery channels. In many cases, it will be more convenient to use the branches for administration and recovery due to their close proximity to commercial areas. This integrated approach will be essential to offering this product in the provincial areas. It will also allow for incentives to be created for SME loan origination at the branches and enhance portfolio volume.

Due to the different information requirements, SME client and loan information will be captured into a separate database from the microfinance portfolio. Since the projected number of clients is relatively low compared to the current number of active borrowers, this will allow Sogesol to begin the pilot quickly.

Overall bank buy-in and process for catalyzing decision making

Throughout this strategy and product development process, Sogesol management has demonstrated strong initiative and interest in serving the SME market segment. Initial discussions with management have indicated strong buy-in and willingness to work to achieve the project deliverables jointly according to the timelines established in the project planning stage. The basis for these discussions has been the strategy document with financial projections developed by Sogesol management.

The board of directors has provided its preliminary approval for this strategy document. ACCION is represented on the board and has supported the development of the SME strategy since the initial presentation of the concept by management in early 2007. The completed strategy document, product design, pilot design, and policies and procedures were scheduled to be presented by Sogesol management to the board of directors for final approval in October 2007.

Sogebank expressed interest in receiving similar technical assistance, particularly in revising its SME lending policies and procedures. This is occurring in parallel to this project and will create a more effective tool for Sogesol to use, particularly after solidifying their product design.

Options and recommendations on new product terms, tenors, and characteristics tied to SME market analysis and final bank SME strategy document

To service the SME segment, a range of three key products will be offered. These products have been chosen to meet the various needs of the segment while mitigating the risks associated with larger loan sizes.

Working Capital Term Loans: For most activities except those which have less tangible working capital needs (e.g. construction and transport) or are already highly indebted (e.g. textiles), short term working capital term loans will be offered. This product's design is similar to Sogesol's current small business loan products.

Fixed Asset Term Loans: All SME clients will have access to longer term fixed asset term loans. Due to its longer term, a more sophisticated financial evaluation will be necessary. The terms and conditions of these credit products will be flexible within certain parameters. The maximum loan size will be the equivalent of US\$150,000. Yet, the average loan is expected to be much lower. Loan terms will be extended to as much as 36 months. Again, the average is expected to be shorter. For highly seasonal businesses, repayment terms may be more customized. Pricing will be commercially competitive.

Leasing: In addition, subject to the passage of legislation currently being considered to liberalize this sector, a leasing product will be developed as a supplement to the fixed asset term loan at a later stage after the completion of this technical assistance project.

Input provided to implementation plan for new product pilot and timeline for implementing the plan

Through discussion, Sogesol management plans on revising the pilot plan. Under the new plan, the pilot will be conducted with the participation of 4 branches in Port-au-Prince and Les Cayes. The pilot will be launched during the first quarter of the 2007-08 fiscal year. The leasing product will only be introduced when the regulatory framework for entering this sector has been clarified. As of the date of this report, this had not yet taken place.

ACTIVITY 2: Policies and Procedures

The work on Activity 2 consisted of adapting the current lending policies and procedures, especially in terms of the credit evaluation, for the delivery of the SME credit products. The objective was to integrate the SME procedures into the core manuals of the Commercial Department. ACCION adapted Sogesol's current lending policies and procedures, especially in terms of the credit evaluation, for the delivery of the SME credit products. For the pilot phase, SME procedures have been integrated into the Commercial Department's core procedures. These will be distributed to the pilot branches and used to develop the training modules. Detailed proposals for the policies and procedures to Sogesol management were also developed and presented. These proposals were debated at length and adjusted through consensus decision making. Overall, Sogesol management agreed to a thorough lending process, including several steps to create a well-established and organized structure. For detailed information, refer to *Sogesol SME Credit Strategy, Product Design, and Policies and Procedures*, October 2007.

Previous knowledge of Sogesol through past and present technical assistance resulted in time saving throughout the development of strategy, product and procedures that truly fit the institution. ACCION's work was highly regarded by Sogesol, and complimented the relationship ACCION has with the bank.

B3. SME Market and Product Development

Please note that the SME Market and Product Development is the second part to the comprehensive *SME Market Sector Assessment*. The first section of the report provided an overview of the SME sector in Haiti, and the second was conducted with Capital Bank and Sogesol to provide much more in-depth information for the two banks. All of this information is

included in the *SME Market Sector Assessment* along with more detailed layout, analyses and research; for the sake of this section, the report details the SME market and product development under Section VI: Analysis of SME Financing Opportunities.

The SME Market and Product Development is primarily the result of a market analysis at the firm level conducted in USAID-supported sectors: The first step was to gather information on past experience of SME lending to provide useful data to banks and then take into account the current business climate, as perceived by the private sector. Then the characteristics and performance of targeted SMEs were assessed, using a questionnaire validated by Sogesol and Capital Bank, and tested with selected enterprises. The financing gap was evaluated for productive SMEs in selected sectors through a demand-driven approach, using the same questionnaire. For each sector, sources of information that can be used by banks were provided to locate potential SME clients, presented case studies when possible, and made a SWOT analysis to identify and analyze more precisely SME lending opportunities for financial institutions. Overall, 34 enterprises involved in productive activities allowed access to their information for this analysis. Useful data from the Ministry of Commerce and Industry were also researched, including the tables found in Tables 3&4, on the following page.

The report continued with discussions on current SME loaning and the amount of loans that have been accessed by SMEs over the past three decades. In general, the main sectors who received SME loans included: Food industry (24%); Agribusiness (15%); Construction (11%). See Table 2 below.

In conclusion, the current business climate is rather favorable to SME lending, especially if interest rates keep declining and security is fully restored. The adoption by the parliament of the law on movable property as collateral is a major step forward that will help banks address the financial needs of productive SMEs. Therefore, the assessment analyzed the potential SME clients in-depth, including SWOT Analyses and Case Studies under each sector. The details for each sector can be found in the SME Market Sector Assessment. The sectors included were: Handicrafts; Tourism; Garment /textiles; Construction; and Waste Management.

For a quick study, Table 5 shows the highlights to many of the viable sectors the banks can find business opportunities.

Table 2: Loan Disbursement among Haitian Sectors

Sectors	Number of Firms	Loan amount HTG (K)	%
Agribusiness	26	114,431	22.89
Handicraft	2	628	0.14
Tourism	4	26,850	5.37
Garment	7	39,108	7.82
Construction	7	12,209	2.44
Food Industry	25	109,427	21.89
Others	33	197187	39.45

Tables 3 & 4. Potential Targets for SME Source: Ministry of Commerce and Industry

Export Industries

SECTORS	NUMBER OF FIRMS	PRODUCTS
Textile	28	Garments, Embroidery, Gloves, Belts
Agribusiness	22	Essential oils, Mangos, fresh processed
Industrial Handicrafts	4	Items in metal, wood, fibers

Domestic Market

SECTORS	NUMBER OF FIRMS	PRODUCTS
Manufacturers	59	Furniture, Fertilizers, Ropes
Beverages	29	Juices, water, ice, rum
Food industry	76	Bakeries, paste, flour, oil, fats
Construction	29	Materials, Contractors, Engineering

Table 5. Productive SME Financing Opportunities

ACTIVITIES GOOD/SERVICES FINANCED	TARGET GROUPS	SECTORS	TYPES OF FINANCING	FINANCIAL INSTITUTIONS, DONOR PROJECTS
<u>Raw material Production</u> <ul style="list-style-type: none"> - Agricultural inputs (fertilizers, seeds, pesticides, small tools) - Tractors, pumps, other equipment. - Fish aggregating devices - Handicraft raw material and tool/equipment 	Large farmer, fisherman association/cooperatives. Large artisan workshops and cooperatives Small SME formal or informal	Agriculture Handicraft	<ul style="list-style-type: none"> - Short/mid term loans at commercial rates in US\$., Contracts mandatory and payable to banks - Leasing - Warehouse receipts - Co financing with donor projects and development banks. 	DCA-Banks Commercial banks IDF SOFIDHES USAID VC Fund IDB PRIMA UNDP Canadian aid
<u>Post-harvest operations</u> <ul style="list-style-type: none"> - Cleaning/grading/packing units - Warehouses - Cold Storage Chains - Wet coffee processing Units - Oil expellers - Rice and coffee hullers 	Large farmer, fisherman association/cooperatives Small agribusinesses Construction companies	Agriculture Handicraft Construction	<ul style="list-style-type: none"> - Lines of credit for working capital with minimum cash collateral. - Loans for capital investments with movable property as collateral - Equity financing - Leasing - Co financing with development banks. 	DCA-Banks Other commercial banks. IDF SOFIDHES USAID VC Fund IDB
<u>Processing/Industry/Tourism</u> <ul style="list-style-type: none"> - Raw material purchase/storage - Transport/vehicles - Food industry, - Biodiesel production, - Processing equipment/material - Warehouses, commercial and industrial buildings - Hotel expansion/modernization - Handicraft and textile expansion/diversification - Storage/sales/exports of finished goods. 	Large agribusinesses Hotels, restaurants Handicraft factories Construction companies Garment manufactures	Agriculture Handicraft Tourism Textile Construction	<ul style="list-style-type: none"> - Lines of credit for working capital with minimum cash collateral. - Loans for capital investments with movable property as collateral. - Warehouse receipts - Equity financing - Leasing - Co financing with development banks. 	DCA-Banks Other commercial banks. IDF SOFIDHES USAID VC Fund IDB IFC

C. SME Market Assessment Report

The SME Report provided a comprehensive overview of the SME sector through secondary research in order for USAID to accurately assess this sector's creditworthiness and the specific risks of lending to SMEs. A detailed and thorough assessment report of the SME market sector – including recommendations on specific needs of the SMEs (market demand), potential level of risk for the banks, and how the banks could better access this market segment through competitive and demand-driven products-was produced and created the base for the revised technical assistance. This assessment has proven to be a useful tool in the beginning steps to strengthening the Haitian financial sectors' ability in providing loans to the SME sector and to expanding use of the DCA facility.

This assessment of the Haitian SME sector was undertaken in anticipation of the new package of support to the banking sector in Haiti, targeting specific technical assistance to SOGESOL and Capital Bank though also intended to educate the sector as a whole about the opportunities in SME lending. It was anticipated that this assistance working in conjunction with several other USAID initiatives was to facilitate access to credit for Haitian SMEs. The proposed assistance helped demonstrate to the Haitian banking sector that lending to SMEs can be a viable and lucrative business proposition. It is hoped that this will, in turn, stimulate the extension of credit at market rates and with appropriate collateral requirements without the need for donor support. The USAID programs are planned to target productive sectors such as agriculture, tourism, handicrafts, construction/infrastructure, textile/garments and waste management.

The proposed assistance demonstrated to the Haitian banking sector that lending to SMEs can be a viable and lucrative business proposition. It is hoped that this will, in turn, stimulate the extension of credit at market rates and with appropriate collateral requirements without the need for donor support. The assessment built a sound understanding of the SME sector in Haiti and, more specifically, compiled relevant information on constraints and mitigating factors affecting the creditworthiness of the cohort of potential borrowers both under the guarantee and for access to finance in general. The final product served as the basis for the financial sector to more confidently move into SME lending, providing recommendations on promising sectors and also a methodology for banks to continue their own investigations prior to making any final decisions.

The assessment detailed findings for the productive sectors USAID programs will target such as agriculture, tourism, handicrafts, construction/infrastructure, textile/garments and waste management. The chosen sectors for industry-specific analysis acted as representative of the likely borrower cohort based on USAID/Haiti's current sectoral priorities for technical assistance. The proposed USAID programs may also encourage loans to SMEs in waste management and construction/infrastructure, two additional pieces included in the final assessment. USAID's intention is to help SMEs engaged in productive activities raise working and equipment capital by mitigating critical constraints that hamper access to lending, such as the provision of large collateral. In this case, USAID/Haiti has defined SMEs per the size of the loan, i.e. any organization taking a loan from \$25,000 to \$300,000 is considered an SME.⁵

⁵ Internationally recognized definitions for SMEs typically revolve around number of employees or annual turnover. Given this definition based on loan size there are risks that a large business may classified SME because of the amount they are borrowing.

The methodology used to facilitate the report's final version was based on in-country interviews and focus groups, interviews in Washington, DC of development practitioners who are familiar with Haiti's business operating environment, and secondary sources. The results were then created in SWOT Analyses for each SME sector- including case studies and broken down examples of potential SME targets for the banks- as well as discussion on the current domestic market(s) and detailed statistic breakdowns of each sectors' make-up. It is not intended to present, and should not be read as, a comprehensive examination of SME competitiveness across a broad analytical framework; though is intended to show the potential market for SME lending in Haiti. The agriculture, handicrafts, tourism and garment sectors have been chosen for industry-specific analysis in the detailed report's Section V as representative of the likely borrower cohort based on USAID/Haiti's current sectoral priorities for technical assistance. The proposed USAID programs may also encourage loans to SMEs in waste management and construction/infrastructure discussed in the *Haiti SME Market Sector Assessment's* Section VI.

Main findings include understanding that the challenges facing SMEs in Haiti are myriad and complex, but by no means unique. Many of the countries where USAID works have similar deficiencies in the legal and regulatory enabling environment, local infrastructure, and business know-how in the marketplace. These countries also have similar or worse conditions of political instability and street crime. USAID's experience over the past eight years in such countries as Rwanda and Nicaragua shows that bankable SMEs do exist even in challenging operating environments, and that SME lending support (e.g. technical assistance, guarantees, etc.) and other general support to access to finance, when properly designed and paired with appropriate resources for technical assistance, can successfully stimulate meaningful change in credit access for SMEs in such countries, often with lower-than-projected default rates.

Lenders in Haiti are not unwise to approach SMEs with caution, as Haiti is undeniably a high-risk country and SMEs are riskier clients than large, well-established enterprises. However, by failing to make a basic effort to reach out to SME borrowers, analyze risk factors beyond the amount of collateral a borrower has, or design appropriate products for cash-flow lending to SME clients, lenders are also passing up an opportunity for potentially explosive growth. The following highlights the main points from the SME assessment. For further details, please refer to the *Haiti SME Market Sector Assessment* from July 2007.

The main finding from interviews and questionnaires shows that there is a strong interest from SME for expanded/improved financing in the construction, tourism, handicraft, textile and agribusiness sectors. Larger SMEs have legal status and modern organizational structure, so they already maintain solid relationships with commercial banks. Therefore, there is an ongoing competition among top banks for this segment of the SME market. The financial structure and performance of SME widely vary and is linked to individual management styles, not to the sectors. However, there is a concentration of undercapitalized companies, mainly in the textile/assembly sector. Smaller SME are often informal (agribusiness, handicraft, construction) and need a proactive attitude from banks to acquire a formal status and develop financial statements.

The main demand for SMEs includes the following:

- Decrease interest rates, especially for loans linked to productive activities. Banks must expect that SME will increasingly borrow in US\$, given the big difference with loans in HTG and the stabilization of the HTG.
- Reduce cash collateral, particularly for construction companies with public contracts, to free up working capital.
- Avoid mortgage as much as possible due to high transaction costs.
- Make venture capital funds and other forms of equity financing more accessible.
- Apply new legislation on movable property as collateral when in effect.
- Provide managerial and technical training and TA.

In order for successful lending to SMEs, banks should adopt a case per case and not a sector approach. They should diversify lending among sectors. Some of the financial institutions, based on their current strategy and their comparative advantage should help large micro-enterprises that already are their clients become eligible to the new SME loans. Financial institutions could also team up with BDS providers and/or donor-funded programs to be sure that loan recipients benefit from appropriate training/TA. In some cases, especially for smaller SME, TA interventions should precede loan approval and disbursement. It will also be necessary to verify the existence of reliable/secure markets and buyers, with written contracts (payable to banks if possible). In some cases, the domestic market may offer good opportunities (food industry, construction, construction materials etc.), but one must be aware of the growing competition from products coming from the Dominican Republic. It has also been recommended that USAID/Haiti and USAID-supported banks try to build up synergies with other donor-funded programs, such as PRIMA to share information and explore co-financing possibilities. And lastly, especially during the initial phase, banks should seek to share risks with other financial institutions that have more experience in SME lending and should carefully examine each loan application to identify the best financing options, including equity and debt financing. In that spirit, they should work closely with the Industrial Development Fund and SOFIHDES and the VC Fund that will be set up by USAID/Haiti.

Follow-up suggestions based on findings:

- Based on market assessment results, banks should develop institution-specific strategies, determine SME loan terms and characteristics, and plan a pilot phase. They may use the existing questionnaire/methodology for further information. The pilot phase is important to gather more in-depth information, finalize strategies and acquire a better knowledge of a sector in a specific geographic area, such as tourism in Jacmel or Cap Haitien.
- When ready, banks should market SME loans as a new product or package that clearly presents distinctive advantages relative to current commercial credit. Among these advantages, they should insist on decreased interest rates for smaller SME which are moving up from the micro-enterprise world, and they should emphasize the reduced amounts of collateral required for larger, formal SME. In both cases, coordinated technical assistance and training will be a big plus.

In conclusion, there is no doubt that the USAID-supported banks will be able to use incentives to finance SME of all sizes operating in the construction, agribusiness, textile, handicraft and tourism sectors.

Table 6: Challenges and Opportunities in Accessing Credit

Challenges in Accessing Credit	Opportunities to Increase Access to Credit
Conservative nature of banks in Haiti and asymmetric information between lenders and SME borrowers. SMEs perceived by lenders to be volatile.	Develop stronger processes to analyze risk factors other than collateral; develop and market SME credit products, including seasonal loan products; and to foster outreach to SME borrowers.
Inadequate credit reference information system.	Facilitate linkages between commercial lenders in order to bolster credit history sharing. As a longer-term solution, develop a private credit bureau and/or provide assistance to the public bureau to facilitate proactive information-gathering and information-sharing.
Short tenor of debt due to short-term deposit structure.	Expand use of certificates of deposit and other longer-term deposit instruments. Enhance prudential supervision, including the creation of deposit insurance, as a means to increase confidence in such instruments. Explore development of the term life insurance market as a means to lengthen the term of money available in the financial system.
SMEs are generally unable to register their businesses due to the lengthy and centralized business registration process. Lenders therefore classify them as microenterprises, Taxes are a major obstacle to SME formalization.	Advocate with the Government of Haiti to reform the business registration process, especially Step 6. Eliminate unnecessary steps and shorten the processing time of necessary steps. Expand the process outside Port-au-Prince, at first through hand documentation and carbon copies, and later, when electricity and information technology penetration improves, through a Web-based registration portal. Alternatively, devolve registration authority to the département level. The GOH could provide a 2 year tax break for newly formalized SME. Banks should offer commercial rates much lower than microfinance loans.
SMEs lack business skills, have opaque or nonexistent financial statements and business plans, and have a limited understanding of how to market to lenders, investors, or prospective customers.	Provide BDS services to clients until the capacity of BDS providers is strengthened enough to offer consulting services to SMEs. Establish referral systems between banks and BDS providers, such as the SOFIHDES/Soficonseils arrangement, to demonstrate profitability of lending to creditworthy SMEs.
Uncertain contracts enforcement environment and the lack of centralized collateral registries makes it difficult for lenders to recover losses in the event of loan default.	Build capacity of CCIH to offer arbitration services. Help banks incorporate arbitration clauses into loan and collateral agreement templates. Create a unified registry for movable collateral. As a longer-term solution, explore options for improved land titling, a unified registry for real property, and the introduction of title insurance.

D. Capital Bank

Toward the end of the Haiti AMAP Task Order, USAID requested technical assistance to Capital Bank to improve Capital Bank's business assessment, specifically toward an analysis to increase business opportunities in the SME sector. This was done by discussions with USAID/Haiti and Capital Bank in September 2007. The scope of work for the work conducted was approved for

the time table of the last week in September. It was conducted by Kate Naughton, our consultant who also facilitated Seminar 2 of the seminar series.

Due to the time frame of the consultancy, it was a bit difficult to have the necessary conversations with Mr. Theodate (Head of Credit at Capital Bank) or his loan officers since Capital Bank's fiscal year ends September 30. However, the information gained from the initial meetings and written material provided indicates that Capital Bank is still at a very preliminary stage in developing a program for lending to SMEs. Capital Bank has not yet formulated a strategy for lending to SMEs, and due to a combination of being a relatively small bank, senior management being very busy, and a natural caution when considering unknown risks, it does not seem likely that they will be available to develop one in the short term.

Capital Bank is still thinking through its approach to target markets, but expects to focus on industries where they already have large enterprise clients, such as textiles, construction, and tourism. It was not clear how big the bank expected the SME market to be, nor was it clear how much demand it thought there would be for its SME products.

The Bank expects its loan policies and procedures for SMEs to be fundamentally the same as for large enterprise loans. A key difference is it is harder to get information on SMEs, especially financial information. It is not always possible to get information from activity on a prospective client's account with Capital Bank: S/he may not have an account with Capital Bank as it only has a total of 15 branches, which are not always located near target SMEs. Therefore, it intends to start a pilot program of SME lending in Port-au-Prince which will later be expanded to the provinces. Capital Bank has already made some loans to SMEs, using the same loan policies and procedures as for large enterprise loans. Capital Bank has 3 loan departments: large enterprises (3 loan officers); SME (2 loan officers); and Consumption/Mortgage (3 loan officers). Mr. Theodate would like future technical assistance to provide for training for all Capital Bank loan officers. Capital Bank does not distinguish between loan officers and credit officers.

In summation, Capital Bank did not know exactly what technical assistance they require. Thus, a general technical assistance program will not be responsive to their needs. To overcome these challenges, recommendations have been written regarding where Capital Bank currently stands and what they would need to push forward to create a base for the SME Market. One of the recommendations from Mr. Naughton included hiring a Resident Advisor. Mr. Theodate of Capital Bank was really excited about the idea of a Resident Advisor/Expat Supervisor plan. He has planned to discuss this with his senior management and believes they will agree to it. He would like to finalize discussions at the end of October, after Capital Bank finished its budget process. To further Capital Bank's work in the SME sector, Mr. Theodate wanted to include a better definition of Bank SME strategy and target SME clients, and hoped to draft a proposal and have USAID develop a Scope of Work for additional assistance.

E. Seminar Series

The four part seminar series under the new TA matrix has begun by Chemonics and DAI/MSME. The intent was to conduct each targeted assignment noted above and have the implementing consultants from each develop the content and give the associated seminar targeting the banking community as a whole. This broader outreach was intended to have two

impacts: First to build the understanding of SME lending as a viable option for Haitian banks; and second, to initiate SME lending thought in the industry and potentially uncover future DCA guarantee partners. Chemonics and DAI/MSME worked closely with the Bankers' Association to finalize the subject matter, the seminar schedule and the trainers for each seminar. Due to the circumstances around the final TA assignments, the seminars became stand-alone activities though they retained the same technical focus.

Asset and employment creation are the key to economic growth and stability in rebuilding Haitian society. Haitian society is very entrepreneurial; however, most Haitian Small and Medium-sized Enterprises (SMEs), in common with SMEs in other developing countries, do not have access to formal sector financing options. Haitian financial institutions are highly liquid hence have funds to lend, but are reluctant to lend to SMEs due to a high level of perceived risk.

USAID/Haiti has approved a Development Credit Authority (DCA) Loan Portfolio Guarantee facility with three local banks: SOFIHDES, Sogebank and its majority-owned microloan subsidiary Sogesol, and Capital Bank. This facility will assist Haitian SMEs to secure formal sector financing by offering banks a flexible tool to share the risk of defaults on lending to productive SMEs.

The guarantee enhances USAID/Haiti's economic growth and development strategy of improving economic growth, increasing family income, and promoting political stability through addressing the need to alleviate poverty, foster growth and generate employment. In order to ensure the success of the DCA facility, USAID/Haiti through Chemonics and in collaboration with the Bankers' Association of Haiti intends to provide Haitian banks with technical support to strengthen their institutional capacity for profitable and sustainable lending to SMEs.

In support of their objective of expanding the SME client base of Haitian financial institutions through strengthening capacity to market to and assess this class of borrower, USAID/Haiti and the Bankers' Association of Haiti have developed a series of 4 seminars on the topic of "Credit Strategy Aimed at Small and Medium-sized Enterprises":

- Seminar 1: Overview of the SME market and its financing needs
- Seminar 2: Tools and techniques for lending to SMEs, with particular reference to loan processes, policies and procedures
- Seminar 3: The importance of marketing and human resources in developing SME loan products
- Seminar 4: The role of senior management in leading the development of bank lending to SMEs

The Activity consisted of preparing and conducting research, outlines, a Powerpoint and oral presentations for Seminars 1 and 2, which were held on September 12-13 and 18-19, respectively, in Port-au-Prince, Haiti. All relevant information from the Powerpoint can be found in *Haiti Bankers Association SME Seminar Series-Summary Report for Seminars 1 & 2*.

Under TA Theme 1 – SME Credit Strategy, Product Design, Policy and Procedure

Seminar 1: “Tapping the SME Credit Market: Considerations for Haitian Financial Institutions diversifying into SME lending.”

Seminar 2: “SME Lending Tools and Techniques: processes, policies and procedures for SME lending.”

E1. General Findings

The Seminar participants (for seminars 1 and 2) were very interested in learning about the SME market, and how to lend to SMEs. They recognized the development and political stability benefits of supporting this market as well as the business benefits.

The participants had very little practical experience of lending to SMEs. There was no common definition of an SME, nor were there statistics for current lending to this market. When thinking of SMEs, participants tended to focus on the small end of the market, without giving much consideration to medium-sized enterprises.

The participants thought of SMEs as completely different from large enterprises and did not see them as simply a different form of enterprise which still has many common elements with a large enterprise.

The risks of lending to SMEs were perceived as being:

- Market - the risks inherent in the market sector in which the SME operates
- Company - the risks inherent in the enterprise itself
- Proprietor - the risks of the entrepreneur’s character and of the overlap between entrepreneur and enterprise

The seminar participants were still at the very initial stages of determining how to target and market to SMEs. Seminar 1 in the series gave an overview of the SME market in Haiti and suggested promising market sectors for SME lending. None of the participant banks have done any market or sector studies of their own yet, nor have they defined the type of SME to target within the chosen market sectors. Participants had given little thought as yet to the adaptation of existing bank credit policies to the SME market. They also need to distinguish between credit policy and credit procedure.

Participants had a good understanding of the loan products needed by SMEs, and of how to market those products to targeted SMEs. They were concerned about the cost effectiveness of lending to SMEs and needed to know how to develop techniques for processing the larger numbers of loans to be made to SMEs in ways which are both prudent and quick.

Although concerned about the risk of default by SMEs, participants had not given thought to creative ways to both reduce the risk of default and to collect funds due if there is a default. None of the participating banks have loan collection or work-out departments. Most participants stated that a default would result in a telephone call to the client within a week of the default. There was very little mention of re-scheduling or working with the client to recover loan funds, with the main loan recovery technique being the seizure of collateral.

E2. Recommendations

The primary recommendation is that Haitian banks receive more practical, hands-on technical assistance on how to lend to SMEs. This can be done in a seminar format through case studies and role plays, but should also be done on a one-to-one basis with each bank. The banks have a good understanding of the different industries to which they might lend, but not of the position and needs of the SMEs within those industries.

Future technical assistance should cover:

- More information about SMEs
 - The distinction between a Small and Medium Enterprise
 - Developing a definition of SMEs – preferably an industry-wide definition formulated through the Haitian Banking Association
 - Informal discussions with SMEs and/or trade associations about their financing needs
 - Ways in which loan officers can gather information about SMEs
 - Look especially along value chain of current large enterprise clients
- Review and if necessary amend each bank’s credit policy to facilitate loans to SMEs
 - Also review Central Bank regulations with respect to:
 - Acceptable collateral
 - Loan concentration
 - Write-downs and write-offs
- Review and if necessary amend each bank’s credit procedures to facilitate cost effective loans to SMEs
 - Develop initial screening tools to quickly identify promising loan candidates
 - Adapt existing loan procedures to reduce burden on bank and client without increasing risk to unacceptable level
- Develop marketing strategy and materials directed to SME market
 - Identify channels of communication
 - Networking
 - Key contacts
 - Analyze existing client base
 - Loan and deposit products
- Review and if necessary amend bank organizational structures, HR policies, and incentives to ensure prudent SME lending is appropriately rewarded
- Work with individual banks and Haitian Banking Association to develop specialized loan recovery departments with techniques targeted to defaulting SME loans.

SECTION III

Conclusions and Recommendations

A. Conclusions

Overall, specifically targeted short term assistance can be useful in helping banks take significant strides forward in improving their operations, risk management techniques and systems, and credit analysis and administration. With the assistance under this task order, the banks have an understanding of the steps needed to move forward, and eventually work for better lending to SMEs, the “missing link” of the market that has been untouched for quite some time, but still accounts for an estimated 80% of the work force. This task order provided assistance under the four targeted service categories: review and assessment of credit management systems; training courses and seminars; capacity strengthening for management teams; and technical assistance to targeted borrowers. Each bank has very different needs, and each represents a different component to the banking sector in Haiti.

SOFIHDES fills a key niche market for SMEs. SOFIHDES has extensive contact with SMEs in Haiti and is one of the most active Haitian entities working with this important segment. They have unique, valuable product offerings. However, the condition of the existing portfolio is a serious red flag for which increased management attention was needed, and guided SOFIHDES by reviewing its credit management systems, therefore strengthening the capacity of its management teams. For SOFIHDES, our technical assistance covered three out of four of the main targeted service categories: Review and Assessment of Credit Management Systems, Capacity Strengthening for Management Teams, Technical Assistance to Targeted Borrowers.

Sogebank is a large, diversified, well run bank. Its management has been recognized throughout this contract as being very professional and committed to the work at-hand. Sogebank has focused most of its business strategy on the pursuit on large corporate clients, and the progress made from the assistance provided will help Sogebank and Sogesol diversify its client base and more effectively penetrate the SME market. The bank needs to clarify its business strategy towards this sector and expand its product line. Sogesol is a strong performer, with an improving portfolio annually. Sogesol has a strong senior management and credit staff, even though its operational efficiency has been low in the past due to a more costly business model. The support for both provided assistance in three out of four of the main categories: Review and Assessment of Credit Management Systems, Capacity Strengthening of Management, and Training Courses and Seminars.

The SME Report provided a comprehensive overview of the SME sector and led to the development of the financial assessment for the SMEs, as well as assisting in the development of the first two seminars in the seminar series. The report assessed the sector’s creditworthiness and the specific risks of lending to SMEs. This assessment has proven to be a useful tool in the beginning steps to strengthening the Haitian financial sectors’ ability in providing loans to the SME sector and to expanding use of the DCA facility. The assistance helped demonstrate to the Haitian banking sector that lending to SMEs can be a viable and lucrative business proposition. Furthermore, it should stimulate the extension of credit at market rates and with appropriate collateral requirements without the need for donor support.

The assessment built a sound understanding of the SME sector in Haiti and, more specifically, compiled relevant information on constraints and mitigating factors affecting the creditworthiness of the cohort of potential borrowers both under the guarantee and for access to finance in general. The final product served as the basis for the financial sector to more

confidently move into SME lending, providing recommendations on promising sectors and also a methodology for banks to continue their own investigations prior to making any final decisions.

Capital Bank was not in the original assessment, and therefore we cannot draw conclusions on its portfolio. However, enough strong recommendations were made that will assist the bank in moving toward SME lending. One of the recommendations included hiring a Resident Advisor. Capital Bank was really excited about the idea of a Resident Advisor/Expat Supervisor plan. To further Capital Bank's work in the SME sector, they want to include a better definition of Bank SME strategy and target SME clients, and hoped to draft a proposal and have USAID develop a Scope of Work for additional assistance. Capital Bank is still thinking through its approach to target markets, but expects to focus on industries where they already have large enterprise clients, such as textiles, construction, and tourism. It was not clear how big the bank expected the SME market to be, nor was it clear how much demand it thought there would be for its SME products. From this contract, the support provided covered three out of the four main categories: Review and Assessment of Credit Management Systems; Capacity Strengthening of Management; and Training Courses and/or Seminars.

The seminar participants were still at the very initial stages of determining how to target and market to SMEs. None of the participant banks have done any market or sector studies of their own yet, nor have they defined the type of SME to target within the chosen market sectors; the information presented to them, however, has given them a "starter kit" of information in order for the participants to think about adapting existing bank credit policies to the SME market and distinguishing between credit policy and credit procedure. The Seminar participants were very interested in learning about the SME market, and how to lend to SMEs. They recognized the development and political stability benefits of supporting this market as well as the business benefits. The participants had very little practical experience of lending to SMEs. There was no common definition of an SME, nor were there statistics for current lending to this market. When thinking of SMEs, participants tended to focus on the small end of the market, without giving much consideration to medium-sized enterprises. Despite the original perceptions of lending risks to SMEs, the banks realized many of the misconceptions and ways to improve their outlook on the SME market as a whole. It will be interesting to hear how the rest of the seminar series goes.

B. Lessons Learned

Be creative and flexible: despite changes to the scopes of work, contract implementation delays or bad phone lines, as long as the project team in the home office and USAID/Haiti were open to creative solutions, the work performed went smoothly. This also plays a role in finding consultants for the work. Whether their performance was underwhelming, or they were difficult to receive approval for due to their status or salary, a solution was found for any difficulties.

Keep open communication: checking in with all of our consultants and clients (USAID and the banks) was extremely helpful, especially if there were questions that needed clarification. It also ensured that both parties agreed upon the task at-hand. This avoided miscommunication and also facilitated in slight changes that sometimes were necessary given time constraints, changes in scopes of work or travel itineraries.

Receive feedback throughout the contract: Ideally, written feedback. Many of the banks were busy throughout the year, and so a quick phone call answered most of our questions and requesting feedback on technical assistance, scopes of work, etc. At the end of the project, Chemonics sent out a questionnaire for both consultants and the banks, and some of the comments (mostly from the consultants) would have been very useful after their consultancy. We spoke with each one during and shortly after their trips; but to have given them one or two weeks after writing their final report to think about their comments or suggestions would have created a better picture- for us in the home office -of the reality in the field.

Do not underestimate the local experts: For every Haitian that we fielded, recruited, assisted us from the home office or field, we received positive feedback from and results for the banks. Particularly, working with Jean-Robert Estime and Martine Gomez provided some of the best insight and technical assistance throughout the life of the project. Their understanding of the Haitian reality and environment, along with their expertise, created a comfort level and skipped several steps to ensure a thorough job.

Ensure there is buy-in from the banks: providing support is not enough; the banks need to be invested if they are to gain anything from short term guidance/assistance. Despite an obvious disconnect not having a field office during this project, even those in the field find that it is difficult working with the banks. From our discussions, this appears mainly due to the high management's strained time table. Without buy-in, or cost-sharing, there is no liable responsibility placed on them, and no need for their prompt responses to inquiries. The amount of time spent just trying to get in touch with some of the banks could have been much more appropriately used to assisting them.

C. Recommendations

- Establish specific ratios at the forefront of the contract that will be measured to demonstrate whether USAID's interventions have been successful. In the case of our contract SME loan numbers and SME loan value, in addition to portfolio quality would have been good to measure for each bank at inception and quarterly.
- Ensure the banks are prepared for technical assistance they are about to receive by including a preparation step before a consultant departs. For instance, before any follow-up assignments, the bank should fulfill and send by email a summary of whatever necessary precursor steps had been taken to ensure they are ready for the upcoming assignment.
- Continue encouraging programs working on MSME development and finance to work collectively to streamline technical assistance and training to shared counterparts; our collaboration with DAI was successful and we believe the banks got more out of the combined resources.
- Continue to support programs to develop access to finance for, and business skills of SMEs. Based on the SME market assessment and work with the banks we know that there is unmet demand for SME finance, and we recommend that USAID continue with this type of assistance.
- Be creative in ways to assist the banks in technical assistance, particularly if the level of effort is insufficient. Although many banks were happy with the overall performance, one commented that one of the trips was too short.

- Cost-share with the banks on their technical assistance. Originally, the idea with the credit officer was to cost-share; although they provided office space, even benefits were paid by Chemonics for the officer.
- Follow-up with the banks regarding their upcoming internal goals. Information from the original assessment plan discussed some of the bank's goals for the upcoming year (2007). A program or activity to follow-up with these strategic changes should be in place so that technical assistance evolves as their capacity evolves.
- Commence/continue assisting SMEs engaged in productive activities raise working and equipment capital by mitigating critical constraints that hamper access to lending, such as the provision of large collateral.
- Monitor and evaluate the bank's progress, especially if possibly continuing with targeted short-term technical assistance. The 'in-between' time should include M&E so that the recommendations created between one consultant to another are accounted for.

ANNEX A: ORIGINAL ACTION PLAN FOR TECHNICAL ASSISTANCE IMPLEMENTATION

Action Plan Haiti AMAP Task Order 3 April 1, 2006-September 30, 2007		
Recommendations	Tasks	Milestones
SOFIHDES		
1. Improve credit analysis for new loans and management of current portfolio. Strengthen delinquency management capabilities.	Review and reevaluation of current credit policies and operational procedures	Credit manual updated.
	Review of current back office policies, operational procedures and internal controls	Backoffice manuals, including accounting, operations and personnel, updated.
	Hire credit management advisor/consultant	Credit management advisor hired.
	Hire internal auditor	Internal auditor hired.
2. Improve ability of Sofihdes to monitor portfolio quality so that the institution is able to take a more proactive approach to credit monitoring.	Develop a credit risk assessment model	Credit model developed and applied.
3. Expand current client base and explore market share in riskier SME segment, making better use of the DCA facility.	Sector assessment of SMEs; Develop a loan product for Sofihdes for SME market	New loan product developed and piloted.
4. Strengthen Soficonseil's capacity in business assessments, market analysis, business planning, financial modeling and other areas of BDS so that it can better serve its DCA loan customers.	Training for Soficonseil on SME market BDS needs	Soficonseil staff trained.
SOGESOL		
1. Strengthen back office procedures and make improvements to operations manuals.	Review of current back office policies, operational procedures and internal controls	Backoffice manuals, including accounting, operations and personnel, updated.
2. Strengthen internal audit capacity for Sogesol ensuring that it is adapted for the microfinance institution.	Training on internal auditing of MFIs for Sogebank internal auditors functioning within Sogesol and members of Sogesol's finance and administration office	Auditors and finance and administration officers trained.
3. Strengthen Sogesol's ability to carry out SME business appraisals.	Training on SME credit analysis and business assessments	Credit officers trained in SME business assessments.
SOGEBANK		
1. Diversify Sogebank's client base through increased outreach to SMEs.	Develop a strategy to expand into the small commercial loan market.	Strategy completed and integrated.
2. Improve Sogebank's capacity in delinquency management.	Reevaluate current delinquency management for SME and commercial sector loans	Delinquency management systems updated.
3. Strengthen Sogebank's ability to carry out SME business appraisals.	Training for Sogebank on SME credit analysis and business assessments	Credit officers trained in SME business assessments.
Support to Haiti AMAP Program	Assistance in new staff recruit for SOFIHDES	
	Technical follow-up, action plan review	
	Chemonics supervisory visit(s)	
	Final assessment and report development	

ANNEX B: REVISED TECHNICAL ASSISTANCE MATRIX

SME Finance Technical Assistance - SogesoI							
Technical Assistance Theme and Terms of Reference	Technical Assistance Type and Provider	TA Level of Effort (days)	Category	TA Deliverable	Bank Input	Bank Deliverable	Total Deliverable
Targeted Technical Assistance for DCA Partners							
1. SME Credit Strategy, Product Design, Policy and Procedure							
1a. SME Credit Strategy and Product design							
Perform SME market analysis on financial demands and integrate/leverage with Chemonics SME Review, USAID sector reports, other donors SME or value chain analyses and ADIF's light manufacturing/garment related industry assessment.	Senior SME development specialist/SME credit specialist (Chemonics)	2.5	Financial Analyst	SME Market Analysis Report - sector. Report is targeted to banking sector executives and board members and provides information and analysis useful in finalizing the remaining deliverables under 1a and 1b	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer)	Review of terms of reference and provide general input during implementation	Final SME Finance Market Analysis Report
	Haitian Banking Specialist (Chemonics)	1.0					
	Haitian Financial/Market Analyst (DAI)	5.0					
Definition of institution specific SME strategy document	Senior SME development specialist/SME credit specialist (Chemonics)	3.0	Financial Analyst	Suggest format of, provide input into, and make final recommendations for the bank's SME strategy document. Build bank buy-in and catalyze decision making.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer)	Finalize strategy decisions, ensure bank executive and board buy-in, document strategy decisions.	Final Bank SME Strategy Document
	Haitian Banking Specialist (Chemonics)	1.0					
	Haitian Banking/NPD Expert (DAI)	6.0					
Determination of institutional specific SME loan terms, tenors, and product characteristics	Senior SME development specialist/SME credit specialist (Chemonics)	2.5	Financial Analyst	Provide and document options and recommendations on new product terms, tenors, and characteristics tied to SME market analysis and final bank SME strategy document	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer) and new product/marketing team	Finalize decisions on SME loan terms, tenors, and product characteristics	Final, documented SME loan terms, tenors, and product characteristics
	Haitian Banking Specialist (Chemonics)	1.0					
	Haitian Banking/NPD Expert (DAI)	7.5					
Identify institution specific new product pilot plan	Senior SME development specialist/SME credit specialist (Chemonics)	2.0	Financial Analyst	Provide input into and document implementation plan for new product pilot.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer) and new product/marketing team	Finalize decisions on new product pilot plan and roll-out.	Final new product pilot plan and roll-out
	Haitian Financial/Market Analyst (DAI)	6.0					
	Haitian Banking Specialist (Chemonics)	1.0					
Modify loan terms as necessary	Senior SME development specialist/SME credit specialist (Chemonics)	2.0	Financial Analyst	Based on pilot or initial lending, suggest modifications to loan terms, tenor, or characteristics to incorporate lessons learned and/or provide suggested market/product analysis techniques to ensure continued product relevancy.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer) and new product/marketing team	Review and modify SME loan terms, tenors, and characteristics based on initial pilot or lending and/or institute systems to ensure continued product relevancy	Modification of previously documented and finalized SME loan terms, tenors, and product characteristics and or institute SME product review system
	Haitian Banking Specialist (Chemonics)	1.0					
	Haitian Banking/NPD Expert (DAI)	5.0					
1b. SME Policy and Procedure Manual Development							
Based on best practices of SME lending and strategy and product development work under 1.a. - make recommendations for policy and process including credit policy, credit analysis and loan approval procedures and disbursement procedures for term loans (if applicable) in light of new SME customer base, as well as delinquency management.	Senior SME Banker or similar (Chemonics)	6.0	Financial Analyst	Make recommendations and document suggestions for policies and procedures - recommendations should reflect best practice, institution's strategy, and SME loan type.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer)	Finalize decisions on policies and procedures.	Final documentation of policies and procedures to correspond to SME loan type and strategy
	Haitian Financial/Market Analyst (DAI)	6.0					
	Haitian SME Banker/Financial Analyst (DAI)	8.0					
Finalize credit policies and procedures manuals for SME	Senior SME Banker or similar (Chemonics)	4.0	Financial Analyst	Overview, oversight, and expert guidance during policies and procedures writing.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer)	Create new policies and procedures manuals	Policies and procedures manuals to reflect SME product and strategy
	Haitian Banking Specialist (Chemonics)	1.0					
	Haitian Banking/NPD Expert (DAI)	5.0					
2. SME Credit Training							
2a. SME Policies and Procedures Training							
Prepare training materials on new policies and procedures and tools	Senior SME Banker/Trainer (DAI)	7.5	Financial Analyst	Finalize training materials to correspond to SME loan policies and procedures and that provide practical application of SME credit analysis techniques and tools, as well as inculcate in new forms and paperwork	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer)	Provide input and suggestion into training materials. Provide participant list and background information.	Final training materials
	Haitian SME Banker/Trainer (DAI)	7.5					
	Senior SME Banker/Trainer (DAI)	12.5					
Train on new policies and procedures and tools to ensure policies and procedures are followed (i.e. new forms and paperwork, back-up data, etc), as well as specific calculation techniques for term loan lending (e.g. debt coverage ratio, break even analysis)	Senior SME Banker/Trainer (DAI)	12.5	Financial Analyst	Present training, final participant analysis, and suggested training follow-on plan	Credit managers, officers, and analysts	Provide uninterrupted support and commitment to SME policies and procedures and SME analysis tools and techniques training	Trained credit managers, officers, and analysts. Final training report and continuity plan
	Haitian SME Banker/Trainer (DAI)	12.5					
	Haitian SME Banker/Trainer (DAI)	12.5					
2b. Policies and Procedures Awareness Training							
Introduction of new policies and procedures and term loan disbursements, including internal auditing procedures to back office staff	Senior SME Banker/Trainer (DAI)	2.5	Financial Analyst	Present overview of SME policies and procedures and SME analysis tools and techniques training to back office staff.	Back office staff	Provide uninterrupted support and commitment to SME policies and procedures and SME analysis tools and techniques training	Informed back-office staff on SME policies and procedures and SME analysis tools and techniques
	Haitian SME Banker/Trainer (DAI)	2.5					
	Haitian SME Banker/Trainer (DAI)	2.5					
3. Market information, linkages, and Credit Officers payment structure							
Ensure institutional systems are in place so the bank is linked to the sectors and remain current on trends, opportunities, and threats, as well as marketing outreach to develop new clients	Senior SME Banker/Marketing Specialist (DAI)	7.5	Financial Analyst	Provide recommendations, tools, and techniques to ensure continued commitment to and understanding of SME sectors' opportunities and threats	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer) and new product/marketing team	Finalize decisions on institutional systems and responsibilities for SME market outreach, analysis, and development	Final market analysis, outreach, and development systems
	Haitian SME Banker/Marketing Specialist (DAI)	7.5					
	Senior SME Banker/HR Specialist (DAI)	10.0					
Incentives, and payment structures for SME product staff	Senior SME Banker/HR Specialist (DAI)	10.0	Financial Analyst	Recommendations on incentives and payment structures for SME product/credit staff.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer) and Human Resources Team	Finalize decisions on incentives and payment structures for SME product/credit staff.	Final incentives and payment structures for SME product/credit staff.
	Haitian SME Banker/HR Specialist (DAI)	10.0					
	Haitian SME Banker/HR Specialist (DAI)	10.0					
4. Institutional Buy-in							
Provide debriefs and institutional sensitization of new service offering and client type (provided at end of each assignment under 1.3) in order to secure management and governance approval	Expat labor included in individual assignments	0.0	Financial Analyst	During and/or after each technical assistance component, provide senior-level debrief.	Senior level managers and board members	Executive and board level support of technical assistance.	Senior level buy-in, support, and comprehension of technical assistance.
	Haitian SME Banker/Financial Analyst (DAI)	0.0					
	Haitian SME Banker/Financial Analyst (DAI)	0.0					

SME Finance Technical Assistance - Capital Bank							
Technical Assistance Theme and Terms of Reference	Technical Assistance Type and Provider	TA Level of Effort (days)	Category	TA Deliverable	Bank Input	Bank Deliverable	Total Deliverable
Targeted Technical Assistance for DCA Partners							
1. SME Credit Strategy, Product Design, Policy and Procedure							
1a. SME Credit Strategy and Product design							
Perform SME market analysis on financial demands and integrate leverage with Chemonics SME Review, USAID sector reports, other donors SME or value chain analyses and ADIH's light manufacturing/garment related industry assessment.	Senior SME development specialist/SME credit specialist (Chemonics)	2.5	Financial Analyst	SME Market Analysis Report - sector. Report is targeted to banking sector executives and board members and provides information and analysis useful in finalizing the remaining deliverables under 1a and 1b	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer)	Review of terms of reference and provide general input during implementation	Final SME Finance Market Analysis Report
	Haitian Banking specialist (Chemonics)	1.0	STTA CCN				
Definition of the institution specific SME strategy document	Senior SME development specialist/SME credit specialist (Chemonics)	3.0	Financial Analyst	Suggest format of, provide input into, and make final recommendations for the bank's SME strategy document. Build bank buy-in and catalyze decision making.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer)	Finalize strategy decisions, ensure bank executive and board buy-in, document strategy decisions.	Final Bank SME Strategy Document
	Haitian Banking Specialist (Chemonics)	1.0	STTA CCN				
	Haitian Financial/Market Analyst (DAI)	6.0					
The below follow up technical assistance will either continue directly after the first two elements of the assignment or will be determined at a later date - based on Capital Bank's							
Determination of institutional specific SME loan terms, tenors, and product characteristics	Senior SME development specialist/SME credit specialist (Chemonics)	2.5	Financial Analyst	Provide and document options and recommendations on new product terms, tenors, and characteristics tied to SME market analysis and final bank SME strategy document	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer) and new product/marketing team	Finalize decisions on SME loan terms, tenors, and product characteristics	Final, documented SME loan terms, tenors, and product characteristics
	Haitian Banking Specialist (Chemonics)	1.0					
	Haitian Banking/NPD Expert (DAI)	7.5					
Identify institution specific new product pilot plan	Senior SME development specialist/SME credit specialist (Chemonics)	2.0	Financial Analyst	Provide input into and document implementation plan for new product pilot.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer) and new product/marketing team	Finalize decisions on new product pilot plan and roll-out.	Final new product pilot plan and roll-out
	Haitian Banking Specialist (Chemonics)	1.0					
	Haitian Banking/NPD Expert (DAI)	7.5					
Modify loan terms as necessary	Senior SME development specialist/SME credit specialist (Chemonics)	2.0	Financial Analyst	Based on pilot or initial lending, suggest modifications to loan terms, tenor, or characteristics to incorporate lessons learned and/or provide suggested market/product analysis techniques to ensure continued product relevancy.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer) and new product/marketing team	Review and modify SME loan terms, tenors, and characteristics based on initial pilot or lending and/or institute systems to ensure continued product relevancy	Modification of previously documented and finalized SME loan terms, tenors, and product characteristics and/or institute SME product review system
	Haitian Banking Specialist (Chemonics)	1.0					
	Haitian Banking/NPD Expert (DAI)	5.0					
1b. SME Policy and Procedure Manual development							
Based on best practices of SME lending and strategy and product development work under 1a, - make recommendations for policy and process including credit policy, credit analysis and loan approval procedures and disbursement procedures for term loans (if applicable) in light of new SME customer base, as well as delinquency management.	Senior SME Banker or similar (Chemonics)	6.0	Financial Analyst	Make recommendations and document suggestions for policies and procedures - recommendations should reflect best practice, institution's strategy, and SME loan type.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer)	Finalize decisions on policies and procedures.	Final documentation of policies and procedures to correspond to SME loan type and strategy
	Haitian SME Banker/Financial Analyst (DAI)	8.0					
Finalize credit policies and procedures manuals for SME	Senior SME Banker or similar (Chemonics)	4.0	Financial Analyst	Overview, oversight, and expert guidance during policies and procedures writing.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer)	Create new policies and procedures manuals	Policies and procedures manuals to reflect SME product and strategy
	Haitian SME Banker/Financial Analyst (DAI)	4.5					
2. SME Credit Training							
2a. SME Policies and Procedures Training							
Prepare training materials on new policies and procedures and tools	Senior SME Banker/Trainer (DAI)	7.5		Finalize training materials to correspond to SME loan policies and procedures and that provide practical application of SME credit analysis techniques and tools, as well as inculcate in new forms and paperwork	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer)	Provide input and suggestion into training materials. Provide participant list and background information.	Final training materials
	Haitian SME Banker/Trainer (DAI)	7.5					
Train on new policies and procedures and tools to ensure policies and procedures are followed (i.e. new forms and paperwork, back-up data, etc), as well as specific calculation techniques for term loan lending (e.g. debt coverage ratio, break even analysis)	Senior SME Banker/Trainer (DAI)	12.5		Present training, final participant analysis, and suggested training follow-on plan	Credit managers, officers, and analysts	Provide uninterrupted support and commitment to SME policies and procedures and SME analysis tools and techniques training	Trained credit managers, officers, and analysts. Final training report and continuity plan
	Haitian SME Banker/Trainer (DAI)	12.5					
2b. Policies and Procedures Awareness Training							
Introduction of new policies and procedures and term loan disbursements, including internal auditing procedures to back office staff	Senior SME Banker/Trainer (DAI)	2.5		Present overview of SME policies and procedures and SME analysis tools and techniques training to back office staff.	Back office staff	Provide uninterrupted support and commitment to SME policies and procedures and SME analysis tools and techniques training	Informed back-office staff on SME policies and procedures and SME analysis tools and techniques
	Haitian SME Banker/Trainer (DAI)	2.5					
3. Market Information, linkages and Credit Officers payment structure							
Institutionalization of market assessment and HR systems							
Ensure institutional systems are in place so the bank is linked to the sectors and remain current on trends, opportunities, and threats, as well as marketing outreach to develop new clients	Senior SME Banker/Marketing Specialist (DAI)	7.5		Provide recommendations, tools, and techniques to ensure continued commitment to and understanding of SME sectors' opportunities and threats	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer) and new product/marketing team	Finalize decisions on institutional systems and responsibilities for SME market outreach, analysis, and development	Final market analysis, outreach, and development systems
	Haitian SME Banker/Marketing Specialist (DAI)	7.5					
Incentives, and payment structures for SME product staff	Senior SME Banker/HR Specialist (DAI)	10.0		Recommendations on incentives and payment structures for SME product/credit staff.	Senior and managerial level working team (e.g. executive/senior level manager, mid-level manager, senior credit officer) and Human Resources Team	Finalize decisions on incentives and payment structures for SME product/credit staff.	Final incentives and payment structures for SME product/credit staff.
	Haitian SME Banker/HR Specialist (DAI)	10.0					
4. Institutional Buy-in							
Provide debriefs and institutional sensitization of new service offering and client type (provided at end of each assignment under 1-3) in order to secure management and governance approval	Expat labor included in individual assignments	0.0		During and/or after each technical assistance component, provide senior-level debrief.	Senior level managers and board members	Executive and board level support of technical assistance.	Senior level buy-in, support, and comprehension of technical assistance.
	Haitian SME Banker/Financial Analyst (DAI)	0.0					

SME Finance Technical Assistance		
TA Theme	Level of Effort (days)	Category
Industry-wide Technical Assistance Seminars/Courses		
1. SME Credit Strategy, Product Design, Policy and Procedure		
1a. SME Credit Strategy and Product design		
<i>SME Banking Seminar Series: Tapping the SME Credit Market: Considerations for Haitian Financial Institutions diversifying into SME lending"</i>	2	Financial Analyst
<i>SME Banking Seminar Series: SME Lending Tools and Techniques: Processes, policies and procedures for SME lending"</i>	2	Financial Analyst
Chemonics LOE	4	
2. Market information, linkages and Credit Officers payment structure		
<i>SME Banking Seminar Series: Keeping Current: The importance of networks, research, marketing and human resource incentives for SME product evolution</i>	2	
3. Institutional buy-in		
<i>SME Banking Seminar Series: Leadership and Moving Forward: The role of Senior Level Management and The Banker's Association: A Round-Table</i>	1	
TOTAL LOE	9	

ANNEX C: OVERVIEW OF PROVIDED TECHNICAL ASSISTANCE

SOFIHDES Consultants	Date	Contract Objectives	Description	Deliverables	Challenges / Successes / Recommendations
Paul Watson, Liliana Pozzo, Jeanlouise Conway	Mar-06	Review and Assessment of Credit Management Systems	Institutional Diagnostic and Action Plan Development. Technical Assistance in Support of the Haiti DCA Program - Performed a bank downscaling assessment of Sogebank, Sogesol, and SOFIHDES, 3 major Haitian banks for a USAID Development Credit Authority (DCA) Loan Portfolio Guarantee facility program. Developed technical assistance action plans for the institutional strengthening of the banks.	<ul style="list-style-type: none"> • A diagnostic report to be submitted within one week after the assessment has been conducted. • A detailed action plan as described in number five above 	The diagnostic and technical assistance work plan was received very positively by the banks and USAID Haiti. There was bank buy in of the TA plan as they all considered it appropriate to their existing needs.
Tom Shaw	Nov-06	Capacity Strengthening for Management Teams	Back Office Policies, Operational Procedures, and Internal Controls Review. As part of the strategy to strengthen the institutional capacity of SOFIHDES, Chemonics undertook an evaluation of SOFIHDES's back office processes. The back office operations were reviewed and recommendations made to revise them in order to streamline operations and increase operational efficiency. The review included an examination of current organizational and management policies, personnel management procedures, accounting practices and internal controls systems.	<ul style="list-style-type: none"> • Recommendations for revising and finalizing SOFIHDES' personnel and operations manuals • Final comments and suggestions on the final revised manuals. • A summary report on additional recommendations and conclusions of visit. 	Getting senior management's time to focus on the input and then implementation of the recommendations. It was difficult to get them to review the proposed changes to their HR and operating manuals so that they could be completed with their input included. The assignment itself was approximately 6-7 work days less than would have been necessary to complete the assignment. Several specific recommendations were made for the Personnel Manual and the Operations Manual, but unknown if these were updated as discussed.
Liliana Pozzo & Olivier Soulard	Nov-06	Review and Assessment of Credit Management Systems Capacity Strengthening for Management Teams	Credit Policies and Operational Systems Review. Enterprising Solutions Global Consulting (ESGC), undertook an evaluation of the management of the loan cycle at Sofihdes beginning with the monitoring of prospective clients through the delinquency management process. This was to assist in strengthening SOFIHDES' delinquency management capabilities and risk management strategies. Based on the findings of the review, the consultants made recommendations and prepared updates to the current credit manual.	<ul style="list-style-type: none"> • Recommendations for revising and finalizing SOFIHDES' credit manual. • Final comments and suggestions on the final revised credit manual. • A summary report on additional recommendations and conclusions of visit. 	The bank did not take ownership of the technical assistance provided.
Ludmia Gomez Dezemma	March -07 to September -07	Review and Assessment of Credit Management Systems Technical Assistance to Targeted Borrowers	Credit Officer Marketing, Credit Analysis, and Credit Administration. Recruited and hired to help promote credit products offered by Sofihdes to a targeted client base, to analyse credit cases and requests, negotiate the terms and conditions of financing, present potential files to the credit committee, and to effectively manage every aspect of the loan portfolio for which she was responsible.	<ul style="list-style-type: none"> • Monitor credit operations to ensure portfolio quality is maintained. • Provide detailed written activity reports to the Chemonics Project Manager in charge of overseeing the implementation of the USAID program on a monthly basis. • Strengthen credit loan portfolio by focusing on repayment of outstanding loans 	Greatest challenge to find solutions to clean the loan portfolio because the portfolio quality was very low and the institution's recovery policies were very weak. Indeed, I realized that sometimes the client doesn't pay back its loan not because he has got bad will but because the institution didn't follow-up or act effectively. Key successes: Following to my actions, a total amount of HTG 6,551,015.11 the equivalent of US \$178,000.00 from April to August 2007. Very tough clients with delinquent loans became productive again, and the loan portfolio has improved greatly.
Martine Bouchereau	March -07 to September -07	Review and Assessment of Credit Management Systems Capacity Strengthening for Management Teams	Senior Credit Advisor Credit Capacity Building and Delinquency Management. Recruited and hired a credit consultant, Martine Bouchereau, who was responsible for building the capacity of the credit unit by assisting with underperforming loans in their portfolio, developing a credit manual, and helping train/provide guidance to Sofihdes' credit department.	<ul style="list-style-type: none"> • Monitor credit operations to ensure portfolio quality is maintained. • Assist Sofihdes management in measuring performance of individual staff within the credit department. • Provide detailed written activity reports to the Chemonics Project Manager in charge of overseeing the implementation of the USAID program on a monthly basis. Liaise closely with Chemonics Project Manager on an on-going basis. • Ensure that Sofihdes is meeting targets as outlined in the Chemonics Action Plan for Sofihdes including meeting reporting requirements and deadlines. 	Successfully strengthened the technical capacity of Sofihdes staff in credit risk management and portfolio quality assurance. Ensured that credit officers understand and abide by all lending policies and procedures. Trained staff on the job in areas where they encounter difficulties. Worked closely with the senior credit officer to build his skills in supervisory and overall portfolio management. [Worked with Sofihdes senior management and outside consultants to assure credit policies are fully documented and the process is streamlined and upgraded in order to assess, analyze, book and monitor borrowers and their credits quickly and accurately. Assisted Sofihdes in the training of newly recruited credit department staff. Monitored credit operations to ensure portfolio quality is maintained. Special attention paid to the existing portfolio and the implementation of improved approaches to loan portfolio management, client records, data collection and other credit practices will be implemented as agreed with the Sofihdes director general. Assisted Sofihdes management in measuring performance of individual staff within the credit department.
Andrew Tulchin	Sep-07	Review and Assessment of Credit Management Systems Capacity Strengthening for Management Teams	Credit Assessment and Delinquency Management Review. Reviewed existing policies and practices of credit appraisal and monitoring within SOFIHDES. Worked with SOFIHDES staff to develop credit assessment model/scoring tool that will be used by the credit unit and other appropriate staff and to develop plans for its implementation, including guidance on structuring loan covenants for each credit to maximize repayments.	<ul style="list-style-type: none"> • A trip report detailing the existing risk credit analysis and monitoring practices and policies of SOFIHDES and the recommended credit assessment model. • A credit assessment model and accompanying instructions/guidance, including an overview of training required for staff on utilizing the new model both for initial risk assessment and monitoring through the life of the loan. 	Little communication before time in-country. Many staff were on vacation. Initial trip was postponed due to hurricane. Reviewed organization and it is doing great things in a difficult environment. The institution with which I was working was not quite ready to implement all aspects of the SOW. Therefore, we worked on some foundational elements to move towards that goal. More communication with the bank before the engagement in country would have brought this to light easier.
Jean Robert Estime	Sep-07	Technical Assistance to Targeted Borrowers	Soficonseil SME BDS Training. Conducted a training in SME market BDS needs in Haiti to Soficonseil, the consulting arm of SOFIHDES. The SME market BDS needs training included the following topics: business assessments, market analysis, business planning, and financial modeling. The trainer was also asked to cover the potential issues within the SOFIHDES (lender) and Soficonseil (consultant) relationship, particularly the potential for firms to assume participating in a Soficonseil support program will automatically make them eligible for a loan.	<ul style="list-style-type: none"> • A detailed and thorough assignment report – including recommendations on specific future trainings needs of Soficonseil and other BDS providers for meeting the SME market BDS needs. • The training materials produced for the Soficonseil SME market BDS needs training. 	Extremely challenging; not much energy from bank directed toward this SOW. Buy-in is necessary in order to create effective results.

Sogebank (and Sogesol) Consultants	Date	Contract Objectives	Description	Deliverables	Challenges / Successes / Recommendations
Paul Watson, Liliana Pozzo, Jeanlouise Conway	Mar-06	Review and Assessment of Credit Management Systems	Institutional Diagnostic and Action Plan Development. Technical Assistance in Support of the Haiti DCA Program - Performed a bank downscaling assessment of Sogebank Sogesol and SOFIHDES 3 major Haitian banks for a USAID Development Credit Authority (DCA) Loan Portfolio Guarantee facility program. Developed technical assistance action plans for the institutional strengthening of the banks.	<ul style="list-style-type: none"> A diagnostic report to be submitted within one week after the assessment has been conducted A detailed action plan as described in number five above 	The diagnostic and technical assistance work plan was received very positively by the banks and USAID Haiti. There was bank buy in of the TA plan as they all considered it appropriate to their existing needs.
Juliette Chateaufeu	Nov-06	Review and Assessment of Credit Management Systems Capacity Strengthening for Management Teams	Review of Existing Policies, Procedures and Internal Controls for Sogesol. Reviewed back office operations and revised as necessary to streamline operations and increase operational efficiency. The review included an examination of current organizational and management policies, personnel management procedures, accounting practices and internal controls systems.	<ul style="list-style-type: none"> Recommendations and a road map for Sogesol staff to prepare a fully developed internal controls manual Recommendations and guidance for Sogesol to prepare fully revised and finalized policies and procedures, human resources, accounting and information technology manuals A summary report on additional recommendations and conclusions of visit 	Completed -70% of the drafting process of a Manual of Administrative & Financial Procedures with integrated internal controls for Sogesol. Great accomplishment, but primarily done due to lack of initiative on the part of the bank. Recommend creating incentive for buy-in.
Brian Kuwik	July-Sept 2007	Capacity Strengthening of Management Training Courses and Seminars	Sogesol SME Credit Strategy, Product Design, and Policies and Procedures. SME Credit Strategy, Product Design and Policies and Procedures SME Credit Training Market Information, Linkages, and Personnel Compensation Structure Institutional Buy-in	<ul style="list-style-type: none"> Definition of institution-specific SME strategy document Final credit policies and procedures manuals for SME 	Successful buy-in from bank ACCION is obviously invested in Sogebank's work and has had long experience assisting the bank technically. The continuity created a positive relationship and Sogebank felt comfortable releasing proprietary information to ACCION. There was sufficient time to conclude the technical assistance, and splitting the work provided an evaluation of follow-up from the banks once the consultant returned to the field.
Jean-Robert Estime	Aug-07	Review and Assessment of Credit Management Systems	SME Market and Product Development. Conducted SME market analysis and determined institutional specific SME loan terms, tenors, and product characteristics. Identified institution specific new product pilot plan (for Sogesol).	<ul style="list-style-type: none"> Mid-assignment report Final SME market analysis on financial demands study Final and complete assignment report - Training materials for industry-wide workshop Note as the specific strategy documents are proprietary for Capital Bank and Sogesol we did not require submission of these as deliverables. We required an evaluation report from the bank on the benefit of the assignment. 	Although the information is proprietary, it is recommended "lessons learned" can be provided industry-wide. Also, without follow-up or M&E, it is uncertain if the bank is going to move forward with the recommendations and information.
Jack Jessen	Sep-07	Review and Assessment of Credit Management Systems Capacity Strengthening for Management Teams	Delinquency Management and Risk Management. Developed a risk assessment tool for Sogebank. Reviewed current delinquency management procedures of Sogebank, both through a desk audit of policies, procedures and previous assessments/evaluations as well as an on-site evaluation through interviews. Evaluated the delinquency management systems in relation to local, regional, and international best practices and made recommendations of strategic improvements that will strengthen Sogebank's effectiveness in delinquency management. Worked with Sogebank staff to put in place recommended improvements and also developed a road map to implement any remaining recommendations (including a training plan for credit officers, credit managers, and other supporting activities).	<ul style="list-style-type: none"> A report on the re-evaluation of Sogebank's delinquency management procedures, including recommendations on specific ways to strengthen the current policies and practices A road map to guide Sogebank staff on implementing the recommendations for improving the delinquency management systems 	Reviewed Banks' overall written credit policies and procedures, with special attention to SME delinquency manual, also reviewed Bank's credit training program and delinquency (problem loan) resolution activities. The writer was impressed with the level of experience and competence of the staff in the various departments.
Capital Bank Consultants	Date	Contract Objectives	Description	Deliverables	Challenges / Successes / Recommendations
Jean-Robert Estime	Aug-07	Review and Assessment of Credit Management Systems	SME Market and Product Development. Conducted SME market analysis and determined institutional specific SME loan terms, tenors, and product characteristics. Identified institution specific new product pilot plan (for Capital Bank).	<ul style="list-style-type: none"> Mid-assignment report Final SME market analysis on financial demands Study Final and complete assignment report - Training materials for industry-wide workshop Note as the specific strategy documents are proprietary for Capital Bank and Sogesol we do not require submission of these as deliverables. We will require an evaluation report from the bank on the benefit of the assignment. 	Although the information is proprietary, it is recommended "lessons learned" can be provided industry-wide. Also, without follow-up or M&E, it is uncertain if the bank is going to move forward with the recommendations and information.
Kate Naughton	Sep-07	Review and Assessment of Credit Management Systems Capacity Strengthening of Management Training Courses and/or Seminars	SME Market Strategy. Worked directly with Capital Bank and USA D/Haiti to improve Capital Bank's business assessment and analysis in order to increase business opportunities, particularly in the SME Market. Worked to improve understanding of the SME Market in relation to Capital Bank's portfolio and train Credit Officers, as possible, with effective tools to build and improve their capacity to analyze the sector for future investment.	<ul style="list-style-type: none"> Outline a training program for credit officers in relation to the SME Market and create training materials as possible during the assignment Provide written recommendations for effective handling of the SME Market and how to implement within Capital Bank's policies and procedures A full assignment report, discussing the process and outcomes of the trip 	Challenge included working during a limited LOE given the timeframe of Chemonics' contract. Through this work, however, innovative ideas and approaches to Capital Bank's management were recommended and will most likely develop under another contractor's scope ("resident advisor"). Capital Bank is still at a very preliminary stage in developing a program for lending to SMEs. They have not yet formulated a strategy for lending to SMEs, and due to a combination of being a relatively small bank, senior management being very busy, and a natural caution when considering unknown risks, they do not seem available to develop one in the short term.
Industrywide TA	Date	Contract Objectives	Description	Deliverables	Overall Challenges and/or Successes
Pierre Inchauspe (Chemonics support: Kathy Wachala, Rob Teitelbaum)	Feb-May 2007	Technical Assistance to Targeted Borrowers	SME Market Sector Assessment. Worked with USAID and banking sector partners (SOF HDES, Sogebank, and Sogesol, among others) to assess the current supply of financial services to the SME sector from existing financial institutions, including the suitability of those products. Assessed the financial services demand of SMEs, both the met and unmet demand. Prepared a report setting forth findings and recommendations.	<ul style="list-style-type: none"> SME market assessment and development of a new SME loan product for SOF HDES 	No quantifiable information in Haiti regarding the SMEs in-country. In fact, the very definition of an SME is not clear. Seeking approval for consultant. Formulating the Intel in a presentable, useful tool for future reference.
Jean Robert Estime and Greta Greathouse	Sep-07	Training Courses and/or Seminars Review and Assessment of Credit Management Systems	Seminar 1: SME Market and Credit Demand. Seminar 1 "Tapping the SME Credit Market: Considerations for Haitian Financial Institutions diversifying into SME lending." Provided an overview of the SME market and credit demand in Haiti - based on recent studies, introduced general concepts and considerations for the development of an institutional SME credit strategy, and presented best practice information on SME credit products, policies, and procedures and their development.	<ul style="list-style-type: none"> Outline of Seminar 1 before its commencement A detailed and thorough assignment report - including highlights and lessons learned with the seminar The training materials used and produced for the tools and techniques, as well as backup examples and documents related to the processes, policies, and procedures information discussed for SME lending 	Successful contribution to a seminar on SME financing. Recommendation includes involving banks more in the development of SOW and require full counterparts during assignments.
Kate Naughton	Sep-07	Training Courses and/or Seminars Capacity Strengthening of Management	Seminar 2: SME Lending Tools and Techniques. Seminar 2 "SME Lending Tools and Techniques: Processes, Policies and Procedures for SME Lending." Introduced best practice tools for SME loan analysis and disbursement techniques, key bank policies and procedures for SME lending, and monitoring and evaluation of bank performance.	<ul style="list-style-type: none"> Outline of Seminar 2 before its commencement A detailed and thorough assignment report - including highlights and lessons learned with the seminar The training materials used and produced for the tools and techniques, as well as backup examples and documents related to the processes, policies, and procedures information discussed for SME lending 	Great contribution by the participants, who were very interested in learning how to lend to SMEs. They recognize the development and political stability benefits of supporting this market, as well as the business benefits. The primary recommendation is that Haitian banks receive more practical, hands-on technical assistance on how to lend to SMEs. This can be done in a seminar format through case studies and role plays, and should be done individually with each bank.

