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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

HAITI

PROJECT PAPER

STRENGTHENING RURAL CREDIT SERVICES

AID/LAC/P-214
(LAC/DR-81-7)

Project Number: 521-0121

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

Amendment Number: 1

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Haiti

3. PROJECT NUMBER: 521-0121

4. BUREAU/OFFICE: LAC 05

5. PROJECT TITLE (maximum 40 characters): Strengthening Rural Credit Services

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 09 30 87

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

A. Initial FY 85 B. Quarter 2 C. Final FY 87

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

A. FUNDING SOURCE	FIRST FY 85 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(500)	(-)	(500)	(1,400)	(3,865)	(5,265)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country					6,629	6,629
Other Donor(s)						
TOTALS	500	-	500	1,400	10,494	11,894

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) FN	243	246		2,650	-	2,615		5,265	
(2)									
(3)									
(4)									
TOTALS				2,650	-	2,615		5,265	

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

040 | 031 | 010 | 810

11. SECONDARY PURPOSE CODE

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

A. Code							
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To strengthen the capability of the BCA to provide credit and other financial services to rural Haitians on a financially viable basis.

14. SCHEDULED EVALUATIONS

Interim MM YY 09 86 | MM YY | Final MM YY 08 87

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☒ 941 ☒ Local ☐ Other (Specify)

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

The purpose of this amendment is to extend the PACD through 9/30/87 and to provide additional funding of $2,615,000.

17. APPROVED BY

Signature: Jerome T. French

Title: Mission Director USAID/Haiti

Date Signed MM DD YY 01 28 85

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

AID 1330-4 (8-79)

PROJECT AUTHORIZATION

AMENDMENT NO. 3

Name of Entity : Government of Haiti

Name of Project : Strengthening Rural Credit Services

Number of Project : 521-0121

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize an increase in the planned obligations for the Strengthening Rural Credit Services Project of not to exceed Two Million Six Hundred Fifteen Thousand United States Dollars (US$2,615,000) in grant funds over the planned life of the project, subject to the availability of funds in accordance with the AID OYB and allotment process, to help in financing foreign exchange and local currency costs for the project. Therefore, planned obligations for this project may be effected in an amount not to exceed Five Million Two Hundred Sixty-Five Thousand US Dollars ($5,265,000).

2. The Project Assistance Completion Date (PACD), which is January 31, 1985, is hereby extended by thirty-two months, to September 30, 1987. Thus, Paragraph 1 of the original authorization of June 26, 1981 is amended as follows:

   (a) The phrase which reads «three years and three months from the date of initial obligation» is replaced by the phrase «six years and two months from the date of original obligation».

3. Pursuant to Paragraph 3, the following is inserted as section 3(h):

   «(h) Conditions Precedent to First Disbursement under Amendment No. 6 to the Grant Agreement for other than Technical Assistance. With the exception of the technical assistance component, prior to the first disbursement, or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

   (1) A plan and timetable committing the Grantee to achieving financial self-sufficiency for the BCA within the period of the amended Project Agreement. The plan will specify what measures the BCA will implement in the pursuit of financial self-sufficiency, including a reduction in central office operating costs to a level of not more than ten per cent of total BCA administrative costs within one year of the signing of this Amendment no. 6 to the Grant Agreement.

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(2) A letter of agreement from the Central Bank of Haiti that a Guarantee Fund is to be established within six (6) months of the signing of the Amendment No. 6 to the Grant Agreement, to be maintained by the Central Bank, and financed solely through Tresor Public monies, which will cover all bad debts incurred by the BCA which can be attributed to client non-repayment of BCA loans due to natural disasters, as declared by the Government of Haiti.

(3) Evidence that the BCA has formally instituted a policy adding an additional two (2) per cent fee to all BCA loans to cover costs of bad debts not attributable to natural disasters.»

4. Pursuant to Article 3, the following is inserted as Paragraph 3(i):

«(i) Conditions Precedent to Training under Amendment No. 6 to the Grant Agreement». Prior to disbursement under the Grant Amendment No. 6, or the issuance by AID of documentation pursuant to which disbursement will be made to finance training activities, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

(1) a detailed, time-phased training plan indicating the nature, location, duration and cost of each training activity.»

5. Except as expressly amended hereby, the terms and conditions of the original Authorization, dated June 26, 1981, remain in full force and effect.

Jerome T. French
Director, USAID/Haiti

Date: JAN 28 1985

Clearance: DRE : B. Burnett
ADO : V. Cusumano
RLA : T. Carter
D/DIR : P. Dichter

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I. BACKGROUND AND RATIONALE

A. Summary of Original Project Rationale and Design

The limited availability of formal credit and financial services in rural Haiti is a constraint to development in the country. No private commercial banking system exists in rural areas, and formal financial services, such as loans and checking and savings accounts, to rural households are offered only through a limited number of public sector institutions. It is estimated that these institutions reach less than 10 percent of Haiti's rural population, the majority of whom still do not have access to credit at market interest rates to inter alia finance productive investments.

The limitations on the availability of credit and other financial services provide the basic rationale behind efforts to develop and expand formal banking institutions in Haiti. Several efforts have been undertaken in the past but have not as yet succeeded in establishing truly self-sustaining institutions. Recognizing the limited capacity of the GOH and donor organizations to continue to mount new efforts, provide new loan capital, and subsidize operating expenses, existing rural credit institutions such as the Ministry of Agriculture's (MARNDR) Bureau de Credit Agricole (BCA) must now take, in some cases, severe measures to develop on a financially sound and self-sustaining basis. Operating costs and loan defaults must be minimized, financial management practices strengthened, and savings and loan terms rationalized.

During the past three years in particular, USAID project interventions have sought to strengthen the capability of the BCA, one of Haiti's principal rural credit institutions to provide credit and other financial services to rural Haitians on a financially viable basis.

BCA replaced a predecessor organization in 1959. It has operated continuously since 1959, but provided only 1.3 million Gourdes* in loans

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* $1.00 = 5 Gourdes

as recently as FY 1976. Expansion since has been rapid, with 23 million Gourdes in loans proferred during FY 1983.

BCA's raison d'être is predicated on several basic principles. First, priority is given to lending to small farmers, generally those possessing from one to five carreaux (equivalent to 3.2 to 15.9 acres) of land. BCA has made a limited number of loans to small farmer cooperatives per se, but provides most of its lending services through Agricultural Credit Societies (SACs), typically consisting of 7 to 15 farmers organized and receiving individual loans for a similar purpose. BCA's mandate is to provide financial services, and particularly credit, in rural areas throughout Haiti; to fulfill this mission there are, in addition to the HQs at MARNDR, seven regional/subregional offices and 46 local offices located in all regions of the country.

Based on the philosophy that the farmer must make his/her own decisions for allocation of resources, and also to keep administrative costs down, BCA credit is largely unsupervised. Loans are made in cash with few exceptions. Decisions to lend are based more on a borrower's ability to repay the loan than on the specific use proposed for the funds. Agricultural credit supplied to the BCA is often perceived as a cash-flow management mechanism for farmers rather than as an agricultural input, per se. Farmers are free to make their own production and credit use decisions. The presumption is that farmers have employed the credit resources well if they can repay the loans.

As mentioned, lending to small farmers is done almost exclusively through Agricultural Credit Societies, formed on a voluntarily basis. All members of the SAC are jointly liable for the loans and no members can get new loans until the SAC has paid off the entire amount outstanding on its previous loans. The use of peer pressure clearly encourages repayment. SAC presidents also undertake the function of determining credit worthiness of prospective members, thereby reducing potential BCA operating costs by mitigating the requirement for checking the credit-worthiness of individual SAC members.

In FY 1981, USAID and the GOH undertook the Strengthening Rural Credit Services Project (SCRS), No. 521-0121. The AID grant provided $2.6 million for technical assistance, training, construction of local BCA branch offices, commodities including a mini-computer system, and special studies. The GOH was to contribute $3.7 million; approximately $2 million in PL-480 generated funds to serve as BCA loan capital, and the remainder as GOH treasury support for BCA salaries and other operating expenses. The original project was designed for a three year life and was scheduled to be completed September 30, 1984. The PACD was extended once, to January 31, 1985.

Through the provision of the above inputs, the project was designed to strengthen the BCA in four principal areas. First, administration and management were to be improved by the appraisal and revamping of BCA's organizational structure, operations and personnel systems, and by additions to its physical infrastructure. Second, the BCA's new banking services were to be developed, and existing ones expanded. Those services were to include the expansion of agricultural production credit and the development of a rural savings mobilization program. Third, the BCA was to make strides toward financial viability. This was to entail adjustments in interest rates and other fees to cover operating and loan transaction costs; improved portfolio selection and management; improved loan collection procedures; and better financial planning and capital development. The fourth component of the project was one for assessment and special studies. The foci for analysis were related to rural financial markets and BCA's role therein.

Indicators or outputs established in the original project paper to measure achievement of the project purpose were: 1) increased portfolio and annual loan volume; 2) increased number of clients; 3) increased recovery rate on lending; 4) decreased relative operating deficits; and 5) a defined rural credit policy.

B. Original Project Implementation and Accomplishments

1. Financial Management and Viability

The original intent of the SRCS project in the area of financial management was to provide one year of technical assistance, through short-term consultancies, to improve the internal accounting and auditing procedures of the BCA. The technical consultant team leader and the financial specialist determined early on that financial management was a more pressing concern than the narrower concern of internal accounting procedures. Judgements on the severity of the financial management problems led to technical expertise being extended to provide over two years of financial advisory services.

As a result, five main areas of progress in financial management can be identified: a) liquidity rates, b) interest rates, c) reporting procedures, d) studies of repayment rates and e) bad debt account. Liquid assets, cash and money in checking accounts, represented 49.4 percent of the loan portfolio outstanding in 1980 and had declined to 14.9 percent by the end of fiscal year 1983. Liquid asset levels have surpassed the project paper (PP) expectations for FY 83 (21.5 percent) and have achieved the PP goal of 15 percent in FY 1984. The likelihood of increased excess liquidity will grow, however, with the savings mobilizations campaign and greater liabilities requiring more cash on hand to be held at the BCA. Cash management, however, will continue to retain high priority in BCA's management practices.

Interest rates for loans to SACs were increased from 9 percent to 12 percent in October 1982. In addition, a 2 percent commission and a 2 percent loan guarantee are included in loan terms. Interest and commissions are discounted from the loan (i.e., paid up front) and the loan guarantee is paid at the loan's termination, yielding an effective rate of 18.6 percent on one year SAC loans to SACs. Individual borrowers (not members of SACs) pay an interest rate of 15 percent and a 2 percent commission, both discounted from the loan, and a loan guarantee of 2 percent paid at the loan termination date. Increased revenues for BCA have resulted, and improved efficiency in the allocation of scarce credit has occurred to the extent that credit demand is interest sensitive.

Preparation of quarterly financial reports has been initiated, including reporting on actual versus expected budget activity, and on BCA progress toward self sufficiency. The most recent budget analyses have been prepared by the BCA staff as opposed to the financial advisor. Clearly, the reporting procedures provide BCA with the opportunity to measure its activities and make adjustments as necessary.

Consistent studies of repayment rates by region, and over time, have provided a basis for evaluating the effectiveness of the organization. Partially as a result of these studies, ineffective regional managers have been replaced, some regions have been consolidated with others and lending has been partly curtailed in low repayment areas. Preliminary evidence indicates that high default rates will decline as a result of improved attention to repayment rates. Loan repayment rates on maturing loans have increased from 68.3 percent in FY 1981 to approximately 80 percent in FY 1983. Repayment rates climbed to levels close to 90% during early FY 1984, however significant numbers of loans had to be rolled over in areas of the north/northwest, and particularly around Gonaives (a heretofore high repayment area), due to severe drought conditions extending from and during the major planting and harvesting seasons.

A bad debt account policy was initiated during FY 1981 and will continue through FY 1984. This constitutes an important step in helping BCA understand the real costs of its lending activity and to focus on reducing delinquency rates. The bad debt allowances are probably insufficient to cover losses, particularly in light of the possible ramifications of the current drought but, nevertheless, the initiation of the policy is an achievement in itself.

Achievements in financial management have strong potential for sustainability. In each area, the approach has been to adjust the procedures and if the new procedures are followed, the benefits will remain when technical assistance is no longer available. Preparation of the current budget analysis by BCA staff is one indication of this ability to sustain the improvements.

Despite improved liquidity rates and better repayment rates, the overall financial position of BCA has not improved in real terms. Operating expenditures, loan volume, and revenues have not improved to expected levels.

Loan volume in FY 1983 ($4.6 million) did not reach the PP estimates ($5 million) because of insufficient capitalization. It appears unlikely that the BCA will reach the FY 1984 loan volume goal of $8.7 million. Operating expenditures increased from $0.575 million FY 1981 to $0.823 million in FY 1983. A 50 percent increase in salaries, beginning in FY 1982 and increased employee levels made the budget item for personnel responsible for most growth in expenditures. Operating deficits were 0.7 million in FY 1983 as opposed to a projected level of $0.57 for the same period. Revenues in FY 1983 were 7.3 percent above PP expectations partly because of improved liquidity rates and increased lending, but revenues still declined relative to expenditures. The financial picture has improved during FY 1984 as there have been few increases in salaries and the staff has remained constant. Furthermore, higher interest rates and greater lending should improve revenues.

2. Expanded Financial Services

Annual loan volume of the BCA has increased from $2.0 million in FY 1981 to approximately $4.6 million in FY 1983. Despite the increase, this level of activity in FY 1983 is 36 percent lower than PP projections for the period. This shortfall is attributed to the deficit in loan capital contributed to the BCA, higher default rates, and a lower loan turnover rate than were expected in the PP. By the original PACD of 9/30/84, approximately $2.0 million in loan capital will have been provided through PL-480 generated counterpart contributions.

Prior to the SRCS project, voluntary savings accounts were virtually non-existent. In response to a project savings mobilization campaign, there has been an overall increase in savings from approximately 200,000 Gourdes (forced savings) to approximately 4.1 million Gourdes as of March 31, 1984. Savings mobilization in rural areas is seen as an important addition to urban and donor provided capital and in the long-term should be a major contributor toward the attainment of financial viability for the BCA.

BCA is beginning to offer some additional banking services, which until now have only been available through commercial banks in major cities. They include cashing checks, selling of certified checks to BCA clients and providing overnight repository to merchants who come to trade in local markets. An appropriate schedule of charges will be developed for all these services. Such services encourage clients to open savings accounts and, in that respect are part of the savings mobilization campaign.

In 1983, the USAID and the BCA made efforts to obtain additional loan capital through commercial banks. These loans were to be guaranteed by AID (PRE). In the case of the Bank of Boston, the institution most interested in participating in the guaranty program, the Bank's analysts found the BCA's operational expenses to be an inordinate drain on resources and the major cause of high operating deficits. The Bank of Boston's position, therefore, was that while the BCA appeared to be a well-run institution providing critical credit services in rural Haiti, the Bank could not participate in the guaranty program and on-lend funds to BCA until significant progress was made to reduce operating deficits. The BCA would have to improve its performance in areas which contribute to high operating deficits--namely, overdue payment and default rates and the high costs of BCA headquarters operations.

3. Construction

BCA offices in most rural towns consist of rented residential or residential/commercial buildings, space in MARNDR offices, and occasionally simply the corner of a room in a private home. None of the original local facilities appeared to have been designed to house a bank or another financial institution. The construction undertaken through the SRCS project planned for a common design to provide solid local office structures built specifically to meet BCA's needs. The benefit/cost ratio for the buildings was not justified purely on a financial basis. Less easily verifiable factors such as the influence of a solid structure on farmers' perceptions on the stability of BCA, were among the principal justifications for new, relatively expensive office buildings, with living quarters for agents and their families. A cinderblock and cement roof, considerable amounts of structural steel, a stone masonry front, and cinderblock walls, all help to project an image of solidity desirable in a bank.

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Construction is near completion at the 18 project construction sites. The local agents at the sites have commented on increased interest in savings which they attribute to the public's perception of the security offered by a solidly constructed building, and the permanence implied by its construction standards. In at least one of the towns (Bahon), borrowers volunteered to provide part of the labor for the construction. One minor problem with the construction activities however is that local labor has generally not been used. Greater economic benefits would occur from construction and increased local interest in BCA could be achieved if more local labor was employed in the building phase.

4. Personnel Management and Organization

During 1983, each BCA staff member was evaluated by their respective superior and each staff member was questioned about working conditions, BCA policies, and other issues. The result is a comprehensive source of data about worker qualifications and attitudes contained in "Management of Human Resources at the BCA". This report is designed to improve internal personnel relationships and to achieve equitable treatment of field and office staffs, e.g. as regards pay scales.

Though the personnel report dealt with an important set of problems for BCA, the more basic issues of organizational structures and size of staff were more specifically addressed by another, "Organization and Structure of BCA". Recommendations were made on how the BCA could reduce its headquarters staff with no sacrifice in efficiency and productivity, and reduce its operating costs accordingly. The BCA Director made several policy changes in the personnel system based on report recommendations. Additional follow-up to report recommendations remains necessary to insure that adjustments in salaries for regional versus central office staff, and other personnel practices, are efficiently structured. No reorganization steps have been taken to date by the BCA administration, but will be required and accomplished in the future.

5. Credit Market Information

Three of the special studies done under the auspices of the project provide information on credit markets: two on general conditions and one on how to evaluate individual clients. The general studies were hampered by a lack of data, but were designed to provide information that could help BCA assess such things as the potential for loan expansion, the alternative credit sources available to small farmers, and the opportunity costs of making rural loans.

The study entitled "Supplies of Credit Among Haitian Peasants" offers information and case study examples on the peasant economy and traditional and non-traditional sources of credit. A follow-up analysis is required on what the real opportunity and transaction costs associated with lending to small farmers are and how much credit is actually being provided by informal lenders.

A second general study entitled "Analysis of the Effective Demand for BCA Loans" conservatively estimates loan expansion potential and concludes that BCA loan volume could be doubled to 85 million Gourdes (from a present level of 23 million) over the next three years. Limitations on the ability to expand credit can potentially come as farmers begin to compete for productive resources or as increasing farm supply begins to depress prices. Other than small regional price effects that could occur with intensive one crop lending, neither of the constraints would appear with a doubling of BCA loans. This study like others, however, lacks a feasible plan for implementing policy recommendations.

The final study, entitled "BCA Loan Analysis Manual", provided questionnaires that can be used to collect information on the credit worthiness of potential borrowers. Questionnaires are generally not very extensive, but the limited time available to local agents would preclude in-depth analysis of every farmer's capacities. Further, the agents do not at present try to examine each farmer carefully because they rely on the SACs to determine what farmers are sufficiently credit worthy to deserve joint liability. Detailed feasibility studies are to be done therefore only for

SACs as a whole. In addition, agents currently do not have the skills to implement the questionnaires effectively. The training program to be offered in September 1984 will be a first step to this end.

6. Training

By the current PACD, a total of 4305 person days of in-country training and 741 person days of US-based training will have been obtained by the BCA. In-country seminars have been well received by the BCA staff and, overall, positive reactions on the practical benefits of the seminars have been expressed. Responses to questions posed by the mid-term Project evaluation team to BCA staff were, in general, uniform on issues such as reduction of operating costs, repayment rates, self-sufficiency and savings mobilization. The consistency of the feedback during the evaluation indicated that the staff was well acquainted with and supportive of the plans and purposes of the project. Thus, the training activities generally appear to be having the desired results.

BCA will continue the training and planning seminars. The benefits to the organization of proceeding in a coordinated and systematic manner are clear and warrant continuation of the seminars on a scheduled, periodic basis.

7. Automated Data Processing System

The data processing section in the project paper focussed on increasing the efficiency of processing the loan portfolio. The latter continues to be the principal focus in the implementation of the system. A formal computer needs assessment was carried out by Price Waterhouse, Inc., and concluded that given BCA's needs and its effective degree of regionalization, a central computer to handle all data processing at the main office would be sufficient for at least five, and probably ten years. This system was adopted. The current system will serve the needs of the central office adequately. The system purchased (for approximately $125,000) is a WICAT-100 (512K) with two disk drives, one tape drive, six CRT data-entry terminals and a high-speed (160 lines per minute) printer. The installation in regional offices of micro-computers compatible with the central computer will be necessary in the future to support the decentralized loan and savings operations, as most decisions on them are made at the regional office level.

Computer hardware problems delayed the early development of software appropriate to BCA's loan system. Very early on, the choice was made to design a more efficient system for BCA's specific lending procedures rather than to adopt a general "off-the-shelf" package and force BCA to modify its system to conform to available software.

Three staff members were sent to the United States for training in programming. Two returned to upper-level management positions in BCA. The person who showed the greatest ability in programming was named head of the automatic data processing unit where he is responsible for its overall operation, in addition to his major role in writing the application programs for the system. Additional employees are being trained locally, but are currently unable to do programming on their own. Several data entry operators have been hired on a trial basis and the most qualified will be hired on a permanent basis.

Of the approximately 65 programs written, not all are running because of delays in obtaining the computer systems, delays in getting the hardware operating correctly, changes in BCA's loan conditions, and diversion of computer trainees to other activities. Delays have also resulted because of several extended power outages. The entire system is expected to be operating by the end of calendar year 1984.

The Director has proposed using the computer system to increase revenues for BCA and to make fuller use of central office staff by processing data for other institutions on a fee basis. The primary objective would remain the management of BCA's loan portfolio and any other tasks that can appropriately be handled for BCA. However, excess capacity in the system would be provided first to MARNDR and subsequently to other institutions for such activities as payroll, accounting, and processing of agricultural and other types of surveys.

C. Issues For Project Extension

On the basis of the above narrative on project implementation and developments, it is clear that the project has made considerable progress towards its original objectives. Still, much work remains to be done in order to make the BCA a financially sound and self-sustaining institution, primarily in the areas of financial management, capital development, personnel and organization management, with secondary emphasis on training, and automated data processing.

With respect to financial management, the BCA must address several interrelated factors. The operating deficits which block BCA's progress towards viability primarily are the result of high operating expenses. Initiatives that were undertaken in the original project with respect to these financial management issues, and which have produced positive results, can be continued or even accelerated. For instance, further studies and analysis of repayment rates can lead to the identification of problem regions and or factors which cause repayment rates to be lower than desirable. These studies can be produced with the help of computerized financial management programs. Specific management actions can then be taken in accordance with a strategy to increase the repayment rates.

Another factor contributing to achievement of financial viability for the BCA is the level of capitalization. A broader base of revenue generating capital would assist the BCA in reducing its operating deficits. BCA will seek further capital funds through donor contributions, commercial banks, or government grants. Initiatives have been taken in this regard and can continue but they must be made with a recognition of the hesitancy of organizations to accord new capital to the BCA without an improvement in the area of operating deficits which would indicate a stronger financial position. In short, the BCA needs new capital to improve its record on operating deficits, but those in a position to provide the BCA new capital want first to see improvements in operating deficits before new capital is provided. Capital development and financial management are clearly linked.

Capital development can also continue through rural savings mobilization campaigns. Here again, rural savers need to have greater confidence in the BCA before they are willing to make deposits. Interest rate (currently 6%) rationalization, improvements in financial and organizational management, and demonstrations of institutional and financial strength and security can lead to greater levels of confidence on the part of rural people. Expansion and or enhancement of financial services beyond the mere provision of loans also can affect the perceptions of BCA's utility for the target group.

Financial and institutional viability of the BCA also are dependent upon appropriate organizational and personnel management systems. The high operating expenses of the institution which in turn have lead to operating deficits and poor financial ratings, have been directly influenced by current organizational and personnel management practices. While the two studies have addressed the issues, BCA management has been slow to adopt practices which would effectively reduce operational expenses, such as a streamlined workforce and lower ratios of headquarters to field staff. A strategic organizational and personnel management plan is being developed which specifies actions to be taken in these areas to reduce operating expenditures and increase operational efficiencies.

Concommitant with improvements in the aforementioned areas are the increased capacities and abilities of BCA management and staff. Conceptual and practical training activities have been important contributing factors to the BCA's progress toward project objectives to date. They will continue to be the basis for further improvements toward financial and institutional viability. In addition to training, automated systems and other equipment can contribute to stronger personnel and organizational capacity. While much work has been done in computer and commodity procurement, further training and additions to the BCA's own capital stock will be needed to improve its staff's productivity and contributions to institutional viability.

GOH policies with respect to rural development banking have strong bearing on the future viability of an institution like the BCA. For the BCA to achieve financial viability, the long-standing policies of government (U.S. and GOH) subvention of operating expenses and interest rates will have to be redressed. In depth studies of rural financial markets, BCA's role therein, and the BCA's performance indicators under current policies can contribute to a better understanding among policy makers of the need for policy changes and the direction they should take. As the BCA's role as the premier small farmer financial institution becomes more apparent through the progress indicators of the ongoing project, the issue of BCA's role vis à vis the GOH, and other rural financial institutions and development organizations involved in small farmer credit also needs to be addressed. Of particular relevance are BCA's institutional autonomy, and capital development requirements, in light of GOH budget constraints.

D. Basis for the Proposed Amendment

The progress towards the original project objectives and the work that remains to be done to lead the BCA toward financial and institutional viability lay the basis for the proposed project amendment. In the three year period since original project authorization (a relatively short period of time for such an institutional strengthening project) the BCA has demonstrated a capacity and strong potential for continued institutional development.

There has been substantial progress toward the achievement of the project purpose. As stated in the mid-term evaluation (9/83), financial management is the primary area of improvement. The BCA has reduced excess liquidity, and has made more of its capital available for loans to small farmers. Lending rates have been raised to a level where they come closer to covering the actual costs of lending (approximately 18 percent). Consideration must be given to raising rates even further. Improved reporting procedures, aided by the new mini-computer system, have made BCA management more efficient. Reserves have been set-aside for bad debts and a procedure has been established for writing-off uncollectable loans. The studies on credit markets, BCA personnel and organization, savings mobilization, and loan analysis have been completed, and certain recommendations of the studies have been implemented. Various short courses and conferences have effectively project paper cited a bad debt rate of 4.5 percent and relative operating deficits of 15 percent to be achieved by FY 84. BCA experienced a 12.0 percent bad debt rate and 21.8 percent deficit in FY 83, and will not achieve the project paper objectives in FY 84. The continuing concern over these factors stems from their negative effect on the BCA's capital base and the attainment of financial viability.

Bad debts in addition to administrative expenses in any one given year comprise the overall expenses faced by the BCA. The Bureau continuously has experienced overall expenses in excess of revenues over the past several years. This means that its base of capital for loans to farmers has been eroded, and will continue to erode unless overall expenses are reduced by reducing default rates and administrative expenses.

To achieve project objectives, further attention needs to be given to the default rates and administrative expenses. This will be accomplished by proposed inputs of technical assistance, training, and computer-aided information analysis. As the factors contributing to defaults and administrative expenses are identified, and the capabilities of BCA management and staff to deal with them are further improved under the extended project, it is expected that they will be reduced at least to those levels projected in the original project paper. The proposed three year project extension will address all of these areas.

II. DESCRIPTION OF PROJECT AMENDMENT

A. Goals and Purpose

The purpose of the project will remain the same as the purpose of the original project, that is to strengthen the capability of the BCA to provide credit, savings and other related financial services to rural Haitians on a financially viable basis. As such, the project will contribute to the achievement of important development goals and objectives: institutional development, increased agricultural production, development of the rural private sector and policy dialogue.

With respect to institutional development, the BCA will continue to make progress towards financial viability through improvements in its management and operational systems, its infrastructure, and perhaps most importantly, its ability to offer expanded and enhanced financial services to rural Haitians. The end result of the continued project activities and inputs will be a Haitian public institution which truly satisfies the needs of its rural constituency and at the same time relies on that constituency for its support through financial service fees, savings accounts and replenishment of its capital base.

With respect to agricultural production, the expanded and enhanced financial services will enable Haitian farmers to increase their food and commercial crop production. Basically, more loan capital will help to relieve a widespread and important constraint, the inability to finance agricultural investments. With the expansion of available credit, the large rural private sector can be expected to take greater advantage of investment opportunities which currently exist or will exist in Haiti. Finally, the project will contribute to improvements in rural credit and agricultural policy. Over the initial three years of the USAID and BCA project, unquestionable improvements in policies have been effected and the basis for continued improvements has been laid. Several studies will be commissioned over the extended life of project to bring additional and critical policy making information to light for USAID and BCA management. USAID will use the leverage of capital infusions and other inputs to effect policy changes.

B. Project Components and Outputs

The project will continue to provide grant funds for technical assistance, training, commodities, and construction to allow the BCA to improve its administration and management, and to expand its financial services. The project will also provide GOH counterpart contributions; working capital will be provided through PL-480 contributions, and operating expenses will be covered by GOH contributions. The project will be implemented over an additional three-year period equivalent to the original LOP, extending the project activity completion date (PACD) to 9/30/87. The four integral components of the project and specific outputs to be generated are discussed below:

1. Administration and Management

The project will continue to concentrate on improving the effectiveness and efficiency of BCA credit operations, through the provision of advisory services, training, construction and commodities. Improvements and reforms in four areas of BCA administration and management are planned for simultaneous execution. They are organizational structure, operating systems, personnel system and physical infrastructure.

(a) Organizational Structure - A functional analysis of the BCA's organizational structure was completed during the initial phase of the project. The analysis will be carried further early during the project extension with the development of a pragmatic reorganizational plan which takes into consideration the BCA's policy orientation, management and personnel requirements, financial viability objectives and budgetary constraints. The plan will entail a redefinition of management and personnel roles in light of the BCA's improved infrastructure and personnel capacity, the additions of automated office systems and communication networks, and an appropriate ordering of functional responsibilites under expanded savings and loan portfolios. The planned result will be a streamlined and efficient BCA HQs operation with little or no duplication of functions between tiers, sub-divisions or staff positions, and expanded field operations.

(b) Operating Systems - The improvement of operating systems will continue to be sought over the next two years. Advisory services and training already have improved accounting and audit procedures, loan processing, monitoring and collection procedures and financial management. During the extended project these improvements will be given further depth. Internal auditing, loan and collection procedures, financial control, and operating system automation will receive primary attention with specific recommendations for improvements to be developed by the T.A. team and AID.

(c) Personnel System - Training at all levels of BCA operations will continue to be provided to upgrade the capability of professional and administrative support staff. Particular attention will be given to improvement of skills that will take on greater importance in light of reorganization, and infrastructural and automation changes, including retraining of HQs staff being transferred to the field. New personnel incentive and evaluation procedures, which were instituted during the initial phase of the project, will be evaluated and modified as necessary.

(d) Physical Infrastructure - Increases in the effectiveness of BCA's field operations have been achieved over the initial three years of the project. The project will continue to provide funds for construction of (16) local offices and procurement of equipment which will improve the physical infrastructure of the BCA at the local level.

2. Expansion of Services

The project will continue to strengthen the BCA by expanding its services in two principal ways: first expansion and enhancement of production credit operations; second, expansion of banking services.

(a) Expansion of Production Credit - Over the past thee years of the project the BCA has experienced a two-fold increase in its annual volume of lending and the number of small farmer clients served; loan volume has increased dramatically. Much of this expansion has been due to reduced liquidity, higher loan turnover rates, and capitalization from GOH and other

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donor accounts. The BCA is still below the volume of loans for 1984 projected in the original project paper at $8.7 million. With the further improvement of financial management and operating systems, and capital infusions over the next three years, the BCA is expected to surpass this original project objective.

(b) Banking Services Expansion - Over the first three years the BCA has explored the possibilities of expanding its portfolio to include other banking services for rural Haiti. Services that were considered included voluntary savings, non-agricultural production credit, money transfers, and accounting services. Under the project extension efforts will be concentrated on the expansion of voluntary savings for a number of reasons. First, the experiences over the past three years have proved some previously untested assumptions that savings can be generated in rural areas of Haiti, and that the level of savings is dependent upon incentive structures including interest rate levels. Second, rural savings represent the most feasible long-term source of loan capital available to rural credit institutions because of the inability of foreign donor and urban based capital to satisfy demands in the rural areas. Rural savings also represent the way for rural populations to participate in local development efforts that impact upon them. The savings mobilization campaign developed under the project will be expanded during the project extension.

3. Strengthening of BCA Financial Structure

Prior to the Strengthening Rural Credit Services project the BCA was incurring increasingly greater operating deficits due to rapid expansion, inefficient management and operating procedures, and high default rates. GOH subsidies to cover these deficits were irregular and this resulted in an erosion of BCA's own capital, as it was required to cover costs.

Over the past three years the project has strengthened the BCA in ways that the disturbing trends of the past have been slowed, and in some cases even reversed. It has done this by identifying the problems, convincing the BCA staff and management of their seriousness, and then implementing measures to correct them. Through the use of additional grant and counterpart funds and through new administrative policies the improvements obtained over the first three years will be consolidated and further improvement will be sought.

On the revenue side, further work will be done to rationalize the structure of rates and fees and financial asset management procedures. Additional capital will be made available to expand the revenue generating base of BCA loans. Furthermore, savings mobilization will be emphasized to provide a viable long-term solution to the BCA's capitalization requirements.

On the expense side, the project will continue to emphasize rational and cost minimization strategies for personnel, logistical and infrastructural support. Special studies of the BCA organization and personnel system done in the initial project phase will be the basis of administrative cost reduction strategies to be developed early in the project extension period which will serve the purposes of BCA planning for the next five years. The other major factor contributing to operating expenses, the default rates, will be attacked by continued analyses of the causes of default and by staff training in loan procedures and analysis. Employee incentive mechanisms to improve their performance with respect to loan management and repayment will be fully implemented.

4. Special Studies

In the first three years of the project, several special studies were undertaken to obtain information pertaining to BCA's performance, role in financial markets, and institutional development. The value of these studies in relating important information to the BCA staff and management is significant. Under the project extension, additional studies representing logical follow-up on previous study implications and previously ungathered and unanalyzed information will be undertaken. Two studies proposed are to analyze 1) the Impact of Credit and 2) Factors Influencing Reimbursement Rates, to further address issues concerning BCA-client relationships, with the purpose of developing new strategies for reducing loan defaults, making the appropriate choice of loan recipients, and protecting the BCA from further capital erosion.

III. PROJECT ANALYSES

A. Financial Analysis

1. Revised Financial Objectives

A key feature of this amendment to the original project paper design is the establishment of revised and strengthened performance benchmarks for the BCA. The original project design, and the proposed amendment are aimed at reducing the BCA's operating deficit over the course of the project. Among the objectives set in the original project paper were the following:

a decrease in administrative expenses (excluding the cost of capital and bad debts) from 24% of the portfolio in 1981 to 15% in 1984;

an improvement in the bad debt rate from 7.2% to 4.5% over the same period;

a tightening of loan conditions, resulting from

an increase in the interest rate charged from 9% to 11%, and

an increase in the loan fees from 1.5% to 4%; and

the offsetting of operating deficits by yearly subsidies from the GOH.

Some of these objectives were proven valid over the course of project implementation: for example, interest rates and fees were increased to a real level of 16.6% in FY 1983. Such improvements notwithstanding, it is now necessary to set new financial objectives to reflect the BCA's changing environment particularly as administrative expenses have not decreased, and to propel the institution further down the road to complete financial self-sufficiency. Benchmarks are therefore proposed in four areas: in loan conditions, the loan turnover rate, administrative costs, and the percentage of bad debts. Each is discussed below.

Loan conditions. The current 12% interest rate and 2% loan fee schedule should be supplemented by a 2% contribution to a guarantee fund. This will increase the cost of capital to the borrower to 18.6% for a one-year loan, since the lending interest rate is discounted. The real, or inflation-adjusted cost to the borrower will thus be 13.6%. With the current dollar-based inflation rates at around 5% worldwide (the Haitian economy being dollar-based, with the Gourde pegged to the US dollar), this is an adequate and reasonable rate. However, the BCA should move promptly to adjust loan conditions in the coming years, if inflation heats up again.

Loan turnover rate. This rate, which was around .84 (meaning that 84% of capital is "working" on average) in FY 1983, should not vary dramatically over the coming years, unless severe drought conditions persist or a natural disaster occurs. An improvement in the use of available funds may be offset by the gradual lengthening of average loan terms with the increased incidence of medium-term loans.

Administrative costs. Rising administrative costs, due to an increase in the number of field agents required to administer an expanded loan portfolio, will be largely offset by staff reductions at the head office. Central office operating expenses will be reduced to a level of not more than 10 per cent of total BCA administrative costs by the end of the first year of the project extension. The costs of managing expanded portfolio are calculated to increase by 10 per cent per year in the base cast (Table 1) and decrease in real terms in an alternative scenario (Table 2).

Bad debts. A bad-debt write-off policy was instituted at BCA during FY 1983. This is an area still open to major improvements. It was expected that the bad-debt rate, which was 8.4% in FY 1983, would fall to 7.5% in FY 1984 and 1% per year thereafter, and would reach the 2.5% level in FY 1989. This assumed reasonably favorable weather and other conditions for the farmer, because of adverse weather and other conditions including the devastating drought in the Gonaives region, however, the bad debt rate increased to 12% in FY 84. Therefore, BCA has proposed and the Central Bank has agreed, that a GOH and client financed guarantee fund be

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established, in FY 1985, to mitigate effects of such "acts of God". A loan guarantee fund equal to the amount of bad debts written off is essential to long-term viability. This loan guarantee fund can be nourished by payments from borrowers or the Government of Haiti or both. The scheme proposed for BCA will require that borrowers pay an additional 2% on their loans and the GOH will make up the difference to cover the bad debt rate.

2. Capitalization strategy

The level of capitalization has a direct bearing on the BCA's financial viability, as economies of scale can be realized through the infusion of substantial amounts of fresh capital. The shortfall in new capital contributed to the BCA was, in fact, the major factor impeding achievement of project goals during the first phase, as the GOH did not provide the public treasury subsidies intended in FY 1982, primarily because of the IMF Agreement and resulting fiscal austerity measures.

The projections for the next five years are based upon injections of up to G9,000,000 in fresh loan capital each year thereafter from a combination of PL 480 and other capital contributions. The BCA has and continue to actively pursue obtaining additional loan capital from other international donors such as the IBRD and commercial banks. Peat, Marwick, Mitchell & Co. have just completed an audit of BCA for the World Bank. This is expected to open the door for new World Bank injections of capital into the BCA in addition to that expected from ODN Phase II. Also, BNDAI is expected to continue transferring capital to BCA for small farmer credit. IFAD will have BCA handle the credit part of its project at Mirebalais. It is not unreasonable to expect the total of these and other outside sources of capital for BCA to add up to a minimum of $500,000 per year.

New loan capital will also result from the savings mobilization campaign, estimated to yield G800,000 in additional deposits each year. Of these, approximately G72,000 will be available for direct lending, the remainder being added to liquidity.

3. Financial projections

True viability will not be achieved within the coming years, unless severe (and politically difficult) cuts are made in HQs administrative costs, particularly because of increases required in field staff to manage the growing portfolio, despite a dramatic improvement in the bad debt level. In any case, important strides will be made in the right direction. Based upon the assumptions in the above paragraphs, the BCA's overall financial viability will improve from a G2.4 million loss in FY 1983 to a G1.5 million profit in FY 1988. The cost per gourde lent would improve from G .25 in FY 83 to G. 12 in FY 88 (Table 1). In the alternative scenario where administration costs decrease in real terms, a cost of G. 09 is experienced in FY 1988 (Table 2).

Sensitivity analysis shows that the net profitability of the institution depends upon four critical variables: the level of fresh loan capital injected, the level of administrative expenses, the bad-debt rate, and the interest rate charged on loans. Table 1 on the next page shows the projected net income for the BCA under the following conditions: a) A net capital injection of G9,000,000 in FY 85 and G10,000,000 per year thereafter, b) administrative expenses increasing at the rate of approximately 10% per year; c) the bad debt rate jumping to 12% in FY 1984 and falling to 5%, 4%, 3% and 2% in FY 85, 86, 87 and 88 respectively and d) a loan guarantee fund equal to the bad debt rate, the interest rate charged on loans remaining steady at an effective rate of 16.6% per year. (Table 2 alters condition b and tests a real reduction in administrative expenses).

Table 1. BCA Financial Analysis
Supporting Tables

Projected Loan Portfolio	1983	1984	1985	1986	1987	1988
Beginning of year (net)	16,929	23,146	25,179	35,048	45,506	56,881
(of which own capital)	13,929	18,783	20,016	29,085	38,743	49,318
(of which savings deposits)	3,000	4,363	5,163	5,963	6,763	7,563
Capital Infusions	7,206	5,000	9,000	10,000	10,000	10,000
Increase in savings	1,363	800	800	800	800	800
End of Year	25,498	28,946	34,979	45,848	56,306	67,681
Income Statement						
(% of portfolio loaned)		90	90	90	90	90
Income						
Interest Income	3,559	3,126	3,778	4,952	6,081	7,310
Fees (commission)	388	417	453	631	819	1,024
Guarantee fund			2,719	1,577	1,638	1,536
Total income	3,947	3,543	6,950	7,160	8,538	9,869
Expenses						
Administrative expenses *		4,500	4,950	5,445	5,990	6,588
Interest on savings deposits		310	358	406	454	502
Reserve for bad debts		2,500	1,574	1,651	1,520	1,218
Total expenses	6,299	7,310	6,882	7,501	7,964	8,308
Net profit (loss)	(2,352)	(3,767)	68	(342)	575	1,561

IRR for Period 1983 - 1988 = -24.22%

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Table 2. BCA Financial Analysis Under Assumption of Decreasing Real Administrative Costs
Supporting Tables

Projected Loan Portfolio	1983	1984	1985	1986	1987	1988
Beginning of year (net)	16,929	23,146	25,179	35,498	46,962	60,025
(of which own capital)	13,929	18,783	20,016	29,535	40,199	52,460
(of which savings deposits)	3,000	4,363	5,163	5,963	6,763	7,563
Capital Infusions	7,206	5,000	9,000	10,000	10,000	10,000
Increase in savings	1,363	800	800	800	800	800
End of Year	25,498	28,946	34,979	46,298	57,762	70,623
Income Statement						
(% of portfolio loaned)		90	90	90	90	90
Income						
Interest Income	3,559	3,126	3,778	5,000	6,238	7,649
Fees (commission)	388	417	453	639	845	1,080
Guarantee fund			2,719	1,597	1,691	1,621
Total income	3,947	3,543	6,950	7,237	8,774	10,350
Expenses						
Administrative expenses *		4,500	4,500	4,500	4,500	4,500
Interest on savings deposits		310	358	406	454	502
Reserve for bad debts		2,500	1,574	1,667	1,560	1,275
Total expenses	6,299	7,310	6,432	6,572	6,513	6,277
Net profit (loss)	(2,352)	(3,767)	518	664	2,261	4,073

IRR for Period 1983 - 1988 = 5.74%

* Administrative Expenses are assumed to remain nominally the same.
In real terms, administrative expenses decrease at the rate of inflation over life of project.

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B. Administrative Analysis

As when the original PP was developed, the BCA remains a semi-autonomous financial institution. The Board of Directors of the BCA is chaired by the Minister of Agriculture and is composed of representatives of other GOH departments, banks and the BCA Director. The Board acts on policy issues regarding the BCA and approves large loans that are beyond the authority of the Director (currently limited to $5,000 for individual loans, $7,500 for SAC loans, and $20,000 for cooperative loans).

At the central office, the BCA employs 30 persons who are organized into: a Direction of Regional Offices, three services (finance, administrative services, and research and studies), and a computer unit. BCA's five regional and two sub-regional offices have overall responsibility for planning and executing activities in their areas. The typical regional and sub-regional office is headed by a regional or sub-regional director, overseeing an accountant, cashier, secretary and messenger. At present, individual loans of up to $1,000 and SAC loans of up to $4,500 can be approved at the regional level. The number of local offices under each regional and sub-regional office varies between four (in Port-de-Paix and Port-au-Prince) and eleven (in Cap Haitian). The 46 local agencies have one agent each. Local offices are primarily responsible for direct contact with borrowers (and savers), assistance to SAC's and analysis of BCA loans. As of May 15, 1984, there were 84 regional and local BCA employees and 30 headquarters employees. The recently stated pledge of the BCA director to reduce the Headquarters staff by five each year -- by breaking off the employee health insurance unit and the computer unit as independent profit centers and by transferring staff to the field -- the number on the headquarters payroll should be down to 15 or fewer employees by the end of a three-year extension.

The BCA designed a system for evaluating performance of the BCA staff and payment of premiums based on this performance. This program was in effect for FY 1983 and revised for FY 1984. It provides increased incentives to BCA personnel to increase operational efficiency, improve loan repayment rates (thus increasing loan turnover), improve profitability (by decreasing the bad debt rate), and encourage voluntary savings. Analysis of the effect of the incentives program, the relative success BCA has had in attracting and retaining high calibre personnel and the effect of the comprehensive training component of the project has convinced the Mission that the BCA will continue to be fully competitive in the hiring, training and retention of quality professional staff.

The original Project Paper discussed the respective roles and operations of the IDAI (Institut de Developpement Agricole et Industriel) recently renamed the BNDAI (Banque Nationale de Developpement Agricole et Industriel). There was also discussion of a proposal for the BCA to absorb the small farmer credit portfolio of the IDAI (BNDAI), subsequent to an indepth analysis of the two credit portfolios, the administrative structure of both institutions, and the various possible ramifications of the proposed transfer. The full proposed study never took place, due to the reluctance of the BNDAI to participate. BCA was allowed to analyze the other institution's small farmer portfolio, however, and based on this analysis, the SRCS financial adviser could not recommend a transfer of but a small portion of the portfolio to BCA. To date, approximately 5% of the BNDAI small farmer portfolio has been transferred to BCA, i.e. Gourdes 1 million for lending in the Jeremie region. Further, there is emerging a more clearly defined role for BCA and BNDAI vis-a-vis the respective clientele they serve. As regards, for example, such loan purposes as swine production, sugar cane production and animal traction, BNDAI will serve the needs of large borrowers and industries, urban and rural, and the BCA the needs of its traditional small farm clientele. The image of BCA as the credit savings institution serving small farmers with thus be further reinforced.

C. REVISED ECONOMIC ANALYSIS

This economic analysis is divided into two general parts: first, a discussion of various issues which have arisen over the course of the implementation of the first phase of the project, and second, an examination of the potential impact of the project upon the Haitian macroeconomy.

Voluntary savings. One issue raised in the original Project Paper was that of the capitalization of the BCA through voluntary savings, and the PP design team urged that this source of funds be utilized to as large an extent as feasible. The voluntary savings program is not inflationary, and it has a positive effect upon rural income redistribution. Following the spirit of this recommendation, a savings mobilization campaign was designed and implemented under the first phase of the project. As a result, the total savings reached approximately G4.1 million as of March 31, 1984.

Savings mobilization of this sort can serve as an important contribution toward the eventual attainment of financial self-sufficiency for the BCA. At present, it is not possible to estimate the total demand for savings services in the rural areas, but the program should be expanded and monitored over the course of this project phase.

Subsidization of credit. One measure adopted during the first project phase was the increase in the interest rate, loans and fees for borrowers. The rationale for this measure was the gradual shifting of the costs of capital from the GOH to the borrowers themselves. In this context, the interest rate for SACs was increased from 9% to 12% in October, 1982, and the rate for individual borrowers was set at 15% with a 2% commission. Further, the individual borrower pays a 2% loan guarantee at the time of loan termination.

The goal of the BCA's operating policies should eventually be to absorb all costs of operations in these rates.

BNDAI and the BCA. The IDAI discussed in the original project paper has been replaced by the BNDAI under the Ministry of Commerce. Inasmuch as the goal of both institutions is to develop agricultural production through the provision of rural agricultural credit, does the argument still hold that the two institutions should be merged?

A close comparison of the two institutions reveals that the BCA offers certain services that the BNDAI does not, including check cashing, the sale of certified checks to clients, and providing overnight depository services to merchants who come to trade on the local market. These services, in addition to facilitating commercial operations in rural areas, encourage clients to open savings accounts.

Another difference between the two is to be found in the strategy adopted for capital use. The BCA has followed a policy of capital spreading rather than capital deepening; this policy has been supported by an outreach structure appropriate to the goals of the BCA. In a larger sense, the strategy of capital spreading is more consonant with the goals of AID as well, and provides a sufficient rationale for AID's continued support of the BCA's autonomy.

Macroeconomic impact. The economic soundness of the project, at the macroeconomic level, will be examined from four points of view: the impact of the project on investment, on employment and earnings, on the GDP, and on the balance of payments. In most cases, reliable estimates of the project's impact can only be estimated, although the informal research done upon the first phase's activities give a rather clear picture of the nature of these effects.

Impact on investment. The BCA provides financial services, and most particularly credit, to small farmers in rural areas throughout Haiti. The capital funds provided by USAID are used to stimulate agricultural production through an extension of the land area farmed, and through an intensification of farming practices on the existing land area.

No private commercial banking system exists in rural areas in Haiti, and services such as loans and checking and savings accounts for rural households are offered only through a limited number of public-sector institutions. The majority of the rural population has no access to credit at market interest rates. The project has been designed to aid the principal institution providing credit to small farmers in Haiti, through the expansion of agricultural production credit and the development of a rural savings mobilization program. While the related investments are small, they are significant on a micro-basis.

Based upon the initial availability of BCA capital plus additional capital infusions and the increase in deposits, BCA will be able to accommodate projected loan demand over a four year period as follows:

Projected Loan Volume

	U.S. $ 000 (Current or Inflated)	U.S. 1984 000's
FY 1985	6,476	5,887
FY 1986	8,435	6,968
FY 1987	10,332	7,760
FY 1988	12,404	8,472

Equity financing depends on the crop and the quantity of hired farm workers. It varies, according to a BCA source, between 20% and 50%. According to the same source, it is technically impossible to establish an average. New investment in constant dollars is projected to be as follows over the period 1984-1988:

Investment Attributable to the BCA
(1984 US$000's)

	1. Case (Equity Financing 20%)	2. Case (Equity Financing 50%)
FY 1985	7,359	11,774
FY 1986	8,710	13,936
FY 1987	9,700	15,520
FY 1988	10,590	16,944

Employment and earnings. Rural unemployment and underemployment in Haiti were estimated (by Zuvekas, 1978) at around 50%. The employment and earnings opportunities provided by the project are especially important to the poor, and a significant amount of the funds lent by BCA are used to hire day laborers. The average wage paid for agricultural work in 1981 was $1.40 for an eight-hour day (Capital Consult, 1981). A summary report of field trips to all seven regional and subregional bureaus of the BCA (see Stickley, DAI) found that an average of 37% of the funds lent were used by the farmers to pay labor costs.

Based upon these figures, and upon the assumption that the work-year consists of 230 days, we can estimate the impact of the project amendment upon employment and earnings for the period 1985-1988:

BCA-induced Employment/Earnings

Employment (Seasonal Jobs)

	1. Case (Equity Financing 20%)	2. Case (Equity Financing 50%)
FY 1985	8,456	13,529
FY 1986	10,008	16,013
FY 1987	11,146	17,833
FY 1988	12,168	19,470

Earnings
($000)

	Equity financing at 20%	Equity financing at 50%
1985	2,723	4,356
1986	3,223	5,156
1987	3,589	5,742
1988	3,918	6,269

In both cases, the employment generated by the BCA operating and technical assistance budgets are excluded.

Impact on GDP. Measures designed to increase the gross domestic product are especially important in Haiti. The per capita income level, although estimated at $300/year in the 1984 IBRD World Development Report, is likely to be as low as $100 in the rural area. Programs such as the BCA's are urgently needed to address this situation.

Due to a shortage of reliable data, the project's impact upon GDP, although undoubtedly favorable, can only be guessed at. According to the summary of the field trips cited above (Stickley, DAI), the local agents of the BCA interviewed are unanimous in their opinion that BCA loans do increase the amount of agricultural production. The same sources stated that expenses such as seeds, fertilizer, pesticides, farm equipment, veterinary expenses, transportation of farm products to market, fishing boats and nets, irrigation water and coffee-drying beds accounted for 40% of the lending. In some areas, the increase in production came from an extension in the area of land farmed, and in other areas, from the intensification of farm practices in the existing land area.

Balance of payments. The import component "effect" of the BCA grant, which applies to items such as seed, fertiliser, pesticides, farm equipment and transport costs, has been estimated at 25% to 30%. This estimate is not definitive, and certainly varies considerably with the crop cultivated. Nevertheless, the increase in imports attributable to BCA loans does not appear to be of such magnitude as to imperil Haiti's balance of payments position. In particular, the impact is likely to be lessened by the

Caribbean Basin Initiative. Moreover, the project may contribute to reduced food imports.

D. Revised Social Soundness Analysis

The basic premises on significant social benefits to be accrued under this project have been borne out and remain valid. The project design is, indeed, viable in terms of positive social impact. A major indicator is the growth in the BCA's clientele over the life of the project, i.e. from fewer than 15,000 rural families in 1981 to more than 37,000 families in 1984, the latter figure borne out by an intensive field survey. Much of this quantitative expansion can be attributed to increased efficiencies in financial management, as well as increased levels of loan capital provided from PL 480, Title I generations.

Key factors pertaining primarily to the perceived project beneficiaries, analyzed in the original project paper, are reexamined below.

The Agricultural Credit Society (SAC) remains the foundation and primary vehicle of BCA's credit delivery system. SAC repayment performance has continued to improve beyond already high levels and BCA follow-on loans through the SAC mechanism continue to be the rule. Technical assistance and studies completed under the current project have confirmed that improvements are required in the SAC administrative structure and capability to best serve farmers' needs, however. Specific, implementable recommendations for doing so are lacking and must be addressed during the project extension. The Credit Systems Adviser (Team Leader) will continue to gather information through extensive field visits and interviews, and, also with the benefit of information gathered by the follow-on studies of BCA's clientele, will recommend to the BCA specific measures for strengthening the SAC's administrative and related capabilities.

One of the greatest successes achieved under the current project is that pertaining to motivation, through training, performance incentives and general quality of life/work improvements of BCA's local agents and regional staff, and the interaction between agents and their clients. Specific measures taken include:

1) establishment of a salary bonus system for outstanding performers: 2) provision of training, through formal courses (e.g. financial management/ accounting procedures and computer operations) and regular seminars (2 per annum) for all BCA staff; 3) provision of off-road vehicles or motorcycles to all BCA local agents - most of whom are stationed in remote, difficult access areas; and 4) construction of 17 solid, functional local branch office buildings with modest living quarters. The positive effects of all of the above on the morale and performance of field staff, despite continued perceived inequities in the BCA/MARNDR personnel system, have been easily discernable. Under the project extension 1) the salary bonus system will be improved; 2) additional training provided; 3) more clearly defined and equitable personnel procedures implemented; 4) additional local and regional office buildings (at existing branches) constructed; and 5) additional vehicles procured and better maintenance procedures established for all vehicles.

Particular attention will also be given under the project extension to the involvement of BCA's clientele in project activities, and perhaps eventually the BCA's operations. A feasibility study for an equity capital scheme may be commissioned, for instance, to examine the advisability of client share, ownership and participation in policy decisions at the local and, perhaps, regional level. As mentioned earlier (Project Background), construction activities under the current project did not make sufficient use of available local labor. This approach will be rectified under the next phase(s) of construction.

E. Revised Technical Analysis

This section will update factors pertaining to construction and commodity procurement insofar as they differ from the original project design.

1. Construction

Seventeen local branch offices have been constructed under the project thus far, one less than was originally planned for. This discrepancy was due primarily to rapidly increasing costs, delays in commencement of construction and a BCA decision not to build a new office in an area previously planned for. The average cost of facilities constructed was $38,000. The psychological and business-related factors cited in the original PP as evidence that the new structures would be cost effective remain valid. That is, surveys and interviews in local areas with new office buildings have concluded that their solid, modern structure has helped substantiate the legitimacy/permanency of BCA as an institution, in the eyes of the community, and that they have attracted new business.

The construction of sixteen new local office structures will be financed, therefore, under the project extension. The number of new buildings to be constructed is based on the proposed budget line item of $720,000 (see financial plan). It is estimated that, including a 10% inflation factor, each of the local structures will cost an average of $4,000 to construct. The design of the local structures will remain essentially the same as that in the original Project Paper (Annex F-4, with any minor modifications to be agreed upon prior to the letting of the construction contract. Further, greater use of local labor, than under the original project, should have a positive influence on costs.

2. Operating Systems

a. Automatic Data Processing System

An ADP system of 1024K capacity was installed at BCA in May 1983. A systems analyst recommended the system (endorsed by Price-Waterhouse) and oversaw its installation. Forty-two major programs were created to manage the loan and savings portfolio and to produce the statistical reports summarizing the portfolio. Specific objectives for improvement in BCA's operations included: production of regular and accurate statistical reports on the number and amount of loans and loan repayments, improvement of loan repayment rates, increase in productivity of BCA employees, increase in the productivity of investments made with capital distributed through the rural credit system and achievement of a viable credit system in which revenue exceeds the costs of operation.

Statistical reports have already been computerized, showing number of loans made, amount of money loaned, amount of loan repayments received as a percentage of loan repayments due, and number of delinquent borrowers as a percentage of all borrowers with loan repayments due. These reports are broken down by fiscal year, geographical region and loan purpose. Systematized outputs functioning as work aids for field agents include bills to borrowers and lists of these bills, lists of outstanding loans, list of past due loans, lists of repaid loans, loan repayment control sheets, monthly reports of loan repayments received, and lists of individual borrower identification numbers.

In addition to the savings and loan account statement and statistical reports produced under the loan portfolio analysis program, the project extension will provide material (software and ADP supplies) support for introducing programs to manage the personnel files, payroll, calculate commissions to be paid under the incentives program, personnel health insurance, equipment inventory management, employee credit union account, and general accounting of the BCA. Finally, up to three micro computers, compatible with the central office system, will be procured for installation in the most active regional offices to assist in management of their portfolios.

b. Radio Communication System

A feasibility study undertaken during the second year of the project concluded that regional-local office communication linkages, or radio nets are necessary to inter alia, allow more efficient field transactions and better decentralization of BCA operations. Telephone links between HQs and the regions are improving, albeit slowly, thus additional communications between HQs and the field are not required. The project extension will therefore fund procurement of mobile, low-cost, low-maintenance radio systems to allow significantly better communications between the region and the respective field offices.

IV. REVISED IMPLEMENTATION ARRANGEMENTS

A. Project Inputs and Financial Plan

The costs of project inputs will continue to be supported by an AID grant and GOH counterpart funds.

1. AID Grant

The original three-year period ($2.65 million) and the three-year extension ($2.615 million) will provide a combined total of $5,265,000 in foreign exchange and local cost financing over a six-year period to cover: technical assistance; training of personnel; construction; commodities and vehicles for the BCA local offices. A description of these inputs is summarized in Table IV.A that follows.

(1) Technical Assistance: Long-term credit systems and computer systems advisors (48 person months) will be financed. Supplementing the long-term personnel will be 24 person months of short-term advisory services in specific areas. Short-term services will include: financial management (12 pm); savings mobilization (5 pm); and special studies (6 pm). Table IV B. identifies the technical assistance provided during the first three years of project implementation and assistance proposed under the extension. Total cost of technical assistance over a two year period is estimated at $800,000, based on projected costs of the 72 person months of technical assistance to be provided.

(2) Training: As under the original project, training during the extension will be provided both at U.S. and other foreign institutions and in-country. In view of the successes and economies of scale achieved thus far through in-country seminars, involving all BCA staff, and other local training, approximately 60% of all additional training (costs) will be provided for in Haiti. BCA staff and consultants will continue to arrange for and manage all in-country training activities. Also as under the original

Project, training in general will be concentrated in financial management, accounting, principles of banking, programming and computer key punching. $575,000 have been allocated for training under the project extension (see table below).

Training

	Local	U.S. & Third Country	Total
1st Year	$165,000	$ 90,000	$255,000
2nd Year	110,000	140,000	250,000
3rd Year	70,000	-	70,000
	$345,000	$230,000	$575,000

(3) Commodities: Commodity procurement under the extension will be concentrated in areas where certain identifiable needs still exist. The BCA's vehicle fleet will be enchanced through procurement of 11 new four-wheel drive vehicles and up to 24 additional motorcyles for field agents. Seven new vehicles will be purchased during the first year of the extension and four during the second. Further, obsolete vehicles in the present fleet will be auctioned off with the proceeds alloc.ed for additional vehicles and/or other critically needed commodities. The capability of the central computer will be upgraded by acquisition of additional software and supplies. A mobile radio communications system will also be procured; however, given the difficulties encountered in keeping such systems functioning on a long-term basis in rural Haiti, their acquisition will be phased-in slowly to allow for early experimentation with a few units. Additional office equipment and supplies will also be procured, for the BCA field offices, under the extension. $500,000 have been allocated for procurement of commodities, to be supplemented by Title I/III funds for motorcycles. See Table IV C. for a summary of dollar-funded commodity inputs and costs.

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Table IV A - Costing of Project Inputs
($000)

Project Inputs	Budget for Project Period 7/81-1/85		Project Period 2/85-9/87		Total	
	AID	GOH*	AID	GOH*	AID	GOH*
Technical Assistance	$1,187	$ 20	$800	-	$1,987	$ 20
Training	239	-	575	-	814	-
Commodities	401	116	500	100	901	216
Construction	793	-	720	-	1,513	-
Evaluation	30	-	20	-	50	-
Operating Deficit	-	93	-	-	-	93
Capital	-	2,200	-	4,100	-	6,300
Total	$2,650	$2,429	$2,615	$4,200	$5,265	$6,629

* $ equivalent in Gourdes

Alk

Table IV. B Comparison of Technical Assistance Inputs For Strengthening Rural Credit Services Project

Technical Assistance under Original Project Period (7/81-01/85)	Person Months	Extension (2/85-9/87)	Person Months
1. Credit System Manager & Senior Advisor	32	1. Credit Systems Manager and Senior Advisor	24.0
2. Computer Systems Analyst	24.0	2. Computer Systems Analyst	24.0
3. Financial Mgmnt Advisor	25.5	3. Financial Mgmnt Advisor	12.0
4. Savings Mobilization	1.5	4. Savings Mobilization	5.0
5. Supply of Credit	1.0	5. Impacts of BCA Loans Study	3.0
6. Personnel Administration	1.5	6. Repayment Rate Factors "	3.0
7. Loan Analysis	3.0	7. Administrative Visits	1.0
8. Bank Organization	4.5		
9. Demand for Credit	1.0		
10. Administrative Visits	1.0		
Total	95.0		72.0

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Table IV. C. Summary of Commodity Inputs for Project Extension

Commodity	Estimated Total Cost
1. Vehicles	
11 vehicles x $15,727	$173,000
2. ADP Systems Equipment & Supplies	114,000
3. Office Equipment & Supplies	133,000
- Typewriters	
- Photocopiers	
- Safes	
- Microfilm Reader	
- Duplicating Machine	
- Conference Tables & Chairs	
- File cabinets	
- Miscellaneous supplies	
4. Communications Systems	80,000
Regional to local office nets pilot program	
Total Commodities	$500,000

(4) Construction: As discussed in the Technical Analysis, sixteen additional local office buildings will be constructed during the project extension, in areas already served. These will be built to existing standards established in the original Project Paper construction plan. Factoring in inflation and related construction cost increases expected over the next three years, it is estimated that the average cost per building will be $45,000, bringing total estimated construction costs during the extension period to $720,000. However, an attempt will be made to reduce the average cost per building, prior to the signing of the construction contract, by slightly modifying the typical design, e.g. by reducing the size of the

agent's living quarters and eliminating certain "frills". Also, the construction contract will include a specific requirement for hiring unskilled labor in the locale where an office is being built, providing for additional cost savings.

BCA has proposed a list of sites for new offices to be built under the extension, and has tentatively prioritized them (see Table IV D.). However, it will be required to submit an expanded list, prior to disbursement of funds for construction, which will prioritize sites by expected expansion of portfolio during the next ten years. This will be a detailed analysis to be carried out by BCA, AID and members of the consultant team.

Table IV D - Proposed New Building Construction
or Renovation for Existing Local Offices.
List of Potential Sites.

1. Montagne La Voute
2. Petit Goave
3. Jeremie
4. Anse d'Ainault
5. St. Louis du Nord
6. Pignon
7. St. Raphael
8. Hinche
9. Cayes-Jacmel
10. St Marc
11. Plaine du Nord
12. Croix des Bouquets
13. Jacmel
14. Port à Piment
15. Le Borgne
16. Quartier Morin

(5) Evaluation and Audit: The project has been evaluated once, at the midpoint of the original LOP, and will be evaluated again at the end of CY 1986. The evaluation methodology will be similar to that of the first evaluation and as described in the original project paper. An independent audit will also be carried out at the time of the evaluation. $20,000 have been allocated for these activities.

2. Counterpart contribution

The Government of Haiti will contribute the equivalent of $4.2 million to the Project and the BCA during the period of the extension, primarily from PL 480, Title I/III accounts. This contribution will be targeted primarily to provide loan capital for credit to existing and new BCA small farmer clientele. A small portion of the contribution will be utilized for procurement of motorcycles and other equipment (See TAble IV A).

B. Mission Management and Monitoring

USAID Project management will continue to be primarily the responsibility of the Agriculture and Rural Development Office (A&RDO). The Office of Development Resources and Evaluation (DRE) will continue to provide support to A&RDO for most implementation activities and will coordinate the project evaluations. The Office of Engineering will continue to have primary responsibility for project construction activities.

V. CONDITIONS AND NEGOTIATING STATUS

The original Project Covenants and Conditions Precedent to Disbursement, as applicable, remain in force. Additional Conditions Precedent to disbursement under the Project extension and a revised covenant are as follows:

1. Conditions Precedent to Initial Disbursement

Prior to any disbursement or the issuance of any commitment document under the amended Grant Agreement for loan capital, commodities, training or construction, the Grantee, except as A.I.D. may otherwise agree in writing, shall furnish in form and substance satisfactory to A.I.D.:

(a) A fixed plan and timetable committing the Government of Haiti to achieving financial self-sufficiency for the Bureau de Credit Agricole (BCA) within the period of the amended Project Agreement. The plan will specify what measures the BCA will implement in the pursuit of financial self-sufficiency, including a reduction in central office operating costs to a level of not more than ten percent of total BCA administrative costs, within one year of the signing of the amended Grant Agreement.

(b) A letter of agreement from the Central Bank of Haiti that a Guarantee Fund is to be established within six (6) months of the signing of the amended Project Agreement, to be maintained by the Central Bank, and financed solely through Tresor Publique monies, which will cover all bad debts incurred by BCA which can be attributed to client non-repayment of BCA loans due to natural disasters, as declared by the Government of Haiti.

(c) Evidence that the BCA has formally instituted a policy for adding an additional two (2) percent fee to all BCA loans to cover costs of bad debts not attributable to natural disasters.

2. Conditions Precedent to Training

Prior to any disbursement or the issuance of any commitment document under the amended Grant Agreement to finance training activities, the Grantee should, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D. a detailed time-phased training plan indicating the nature, location, duration and cost of each training activity.

AID 1020-28 (1-78)

ANNEX

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 85 to FY 87
Total U.S. Funding $2,615,000
Date Prepared: 12/13/84

Project Title & Number: Strengthening Rural Credit Services 521-0121

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: Increase the standard of living of the Rural Haitian poor through increased food production and strengthened rural institutions.	**Measures of Goal Achievement:** 1. Increased employment and earnings of about $39 million. 2. Increased consumption (food, consumer durables and non-durables) and services. 3. Increased Savings. 4. Increased private investment (e.g. education) of about $26 million.	1. Household consumption survey of participants and non-participants. 2. Case studies combined with analysis of secondary data.	**Assumptions for achieving goal targets:** 1. Financially sound productive opportunities leading to increased per capita outputs. 2. Constant relative prices (producer - consumer) 3. No non-productive loans.
Project Purpose: 1. To strengthen the capability of the bank to provide credit and related banking services to rural Haiti.	**Conditions that will indicate purpose has been achieved: End of project status.** 1. Increased portfolio (126%) and loan volume (58%) 2. Increased number of clients. 3. Increased recovery rate on lending. 4. Decreased relative operating deficit, (Approximately 13% to 6%). 5. Defined rural-credit policy.	1. BCA records. 2. GOH 5-yer plan. 3. USAID/CDSS	**Assumptions for achieving purpose:** 1. BCA will continue as an autonomous rural credit entity of the GOH. 2. Gradual increase in interest rates dossier fee.
Outputs: 1. Reorganization of the BCA Central/Regional/Local/SAC system. 2. Improved operations systems. 3. Better trained staff & upgraded staff levels 4. Upgraded and expanded physical infrastructure 5. Expanded Agricultural Credit 6. New Banking services 7. Financial viability 8. Analysis of BCA Operations and Impact.	**Magnitude of Outputs:** 1. Revised organizational structure plan. 2. ADP for accounting and record keeping, Radio nets for communications and a new planning & budgeting system. 3. Increased staff numbers and better performance at field level. 4. 24 new office buildings. 5. Thirty percent real annual growth rate. 6. Savings, credit lines, and consumption credit. 7. Fully subsidized deficit. 8. 2 or more studies. 9. Cost of loans increased to 18.6%, loan guarantee fund established.	1. Review legislation and organization chart 2. Audit records and review of BCA operating directives. 3. Field level observations & review personnel records. 4. Field level observation & review of incentory records. 5. Accounts & Records. 6. Review BCA policy directives and portfolio. 7. Accounts & Financial Statements. 8. Review completed study-reports.	**Assumptions for achieving outputs:** For no. 4 output it is assumed that construction contractor/contractors can perform in alloted period.

BEST AVAILABLE DOCUMENT

AID 1020-28 (11-73)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 85 to FY 87
Total U.S. Funding 2,615,000
Date Prepared: 12/13/84

Project Title & Number:

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Inputs: (D-1)	Implementation Target (Type and Quantity) (D-2)	(D-3)	Assumptions for providing inputs: (D-4)
1. Advisory assistance	1. 72 pm for $800,000	1. Audit contractor records	
2. Training Assistance	2. 3 Academic US, 10 non-academic US, 100 non-academic local, for $575,000	2. Review PIO/Ps and PIO/Ts.	
3. Commodities	3. Equipment and supplies for the central, regional and local offices for $500,000	3. Review procurement data and invoices.	
4. Construction	4. $720,000 for local construction contracts and engineering oversight.	4. Review contracts	
5. Capital	5. 20,500,000 gdes for ordinary lending	5. Audit records and financial statements.	5. and 6. PL-480 resources will be made available.
6. GOH Budget for equipment, supplies	6. 500,000 gourdes in administrative cost during LOP (85-87.)	6. Financial Statements	
7. Contract for studies	7. Several at 150,000	7. Review contracts	
8. Evaluation	8. $20,000 - 3 p.m.	8. Interviews and review all records.	

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