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Building Institutional Capacity in the Bureau de Credit Agricole in Haiti

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by

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INTRODUCTION

Banks serving small farmers can be self-supporting. The basic requirement is a genuine commitment -- on the part of the government officials concerned -- to the objective of having such a self-supporting bank. Besides this basic commitment a series of processes needs to be added to strengthen the institutional capacity. It is those processes that are the subject of this paper.

It is this notion of self-sufficiency -- freedom from subsidies -- that distinguishes banking/credit/savings institutions from welfare institutions that are subsidized. A self-supporting institution is one in which revenue exceeds expenses. In a bank, interest earnings are the source of revenue and expenses are broken down into: the cost of capital, the default (loan write-off or loss) rate, and the cost of operation.

This concept is clear and simple, but the implications are profound. In banks where revenues do not exceed expenses, the alternatives for correcting this are one or more of the following:

- Increase interest income by:
  - increasing the rate of interest charged on loans,
  - increasing the size of the loan portfolio.
- Decrease expenses by:

- decreasing the rate of interest paid for the capital being loaned -- i.e., the rate paid on savings or the rate the bank pays for the capital it borrows,
- decreasing the default rate,
- decreasing the cost of administration either absolutely or relatively by spreading a fixed cost over an increasing volume of loan capital.

The implications of the above changes must be understood and accepted by the government officials responsible for the bank. They must be ready to accept one or more of the following:

- raising the interest rates on loans, or
- increasing the loan capital, or
- reducing administrative costs, or
- taking the legal action necessary to improve the repayment rate and to reduce the default (write-off) rate, or
- pay a lower rate on savings deposits.

Most of these are unpopular measures. When government officials nod their heads positively to the question "Do you want your agricultural bank to be self-supporting?" do they really mean it? Are they ready to enforce the difficult measures listed above to bring it about? If they are, then it can be done. If they are not, then they are admitting that they want a subsidized operation which is not a bank in the strict sense of the term. This then becomes a welfare institution which is neither the subject of this paper nor the specialty of this author.

THE BUREAU DE CREDIT AGRICOLE

In Haiti the Bureau de Credit Agricole (BCA) was created in 1959 as a bureau of the Ministry of Agriculture to handle the accounts of fertilizer and seed distribution programs. In effect, farmers were receiving loans in kind with the understanding that they were to repay them in cash after the harvest of their crops. These repayments became the first injections of capital and the beginning of the current BCA. BCA is still a semi-autonomous bureau of the Ministry of Agriculture, Natural Resources, and Rural Development (MARNDR), but behaves very much like a commercial bank -- making loans to small farmers (now in cash) for seasonal crop inputs. Theoretically technical assistance is given to borrowers by MARNDR's agricultural extension service.

In its formative twenty years the following problems evolved for the BCA. Clients waited a long time for loans to be approved while applications -- for even the smallest loans -- went all the way to the central office for approval. Consequently, the character of the central office was one of many employees with many loan application forms stacked on their desks. Each regional office held its unused cash in a safe -- consequently, safes were bulging with cash during the off-season at the same time that other regions were experiencing cash shortages. There was no loan write-off policy; thus, all loans were treated as collectable and budgeted future income was distorted accordingly. As a result, a relatively small number of rural farm families was being served -- for example only about 16000 of Haiti's estimated 600,000 rural farm families received loans in 1981 -- due to the small amount of capital available-- only about 15 million gourdes (the equivalent of 3 million U.S. dollars).

The government of Haiti requested the U.S. Agency for International Development (USAID) to develop a project that would help strengthen the BCA. With the aim of correcting the problems cited above, USAID/Haiti designed an institutional capacity-building project called the **STRENGTHENING RURAL CREDIT SERVICES** (SRCS)

Project Number 521-0121. It began on October 1, 1981, and is due to terminate on September 30, 1987. It was introduced as a three year project and was subsequently extended to six years.

BASIC PURPOSE OF THE PROJECT

The purpose of the SRCS project 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. This is to contribute to the achievement of two important development goals: increased food production and strengthened rural institutions. The purpose may be broken down into two specific goals:

- to increase the number of low-income rural families served by the BCA, and
- to make the BCA a self-supporting institution.

ELEMENTS OF THE INSTITUTIONAL-CAPACITY-BUILDING PROJECT

This project is made up of the following key elements to achieve the basic goals in harmony with the project purpose:

- **Working through groups of farmers.** The BCA introduced the Agricultural Credit Society (SAC) structure in 1966. A SAC is composed of a minimum of seven and a maximum of fifteen members. BCA make a loan to each SAC which makes sub-loans to each member. Loan repayment is handled in the same way -- that is, individual members repay to the SAC and the SAC makes a collective repayment to the BCA. If one member is unable to repay, then the other members of the same SAC are responsible for that member's debt. This unlimited liability (moral) guarantee replaces the need for the tangible (real estate or material) guarantee that is required of individual borrowers -- about one-fifth of both the number of BCA loans and and the amount loaned gov to individual borrowers.

By now the number of SAC's with loans outstanding has grown to more than four thousand with an average of 10 members per SAC. The average loan size is 6,750 gourdes (equivalent to 1,350 U.S. dollars) per SAC or 675 gourdes (equivalent to 135 U.S. dollars) per member.

The role of the project here was simply to reinforce the pre-existing structure that was already well installed and working in the BCA. The project also encouraged a BCA policy to shift away from individual loans toward giving loans to SACs exclusively. This policy has not been rigidly enforced.

- **Capitalization of the loan portfolio.** Haitian gourdes received from the sale of PL 480 grain were used by the BCA to increase its loan capital. From this source the BCA was able to double its loan capital in the three years of the first phase of the SRCS 521-0121 project -- going from approximately 17 million gourdes (3.4 million U.S. dollars) to approximately 30 million gourdes (6 million U.S. dollars) -- and is expected to increase to approximately 55 million gourdes (11 million U.S. dollars) over the 3 years of the project's second phase (by Sept. 30, 1987).

- **Training of the BCA staff.** The project sponsored four different types of training for the BCA staff: (1) seminars given in Haiti, (2) an international seminar given in Haiti, (3) short training courses in the USA, and (4) on-the-job training:

(1) Seminars given in Haiti. Three-day seminars are given every six or eight months to all of BCA's field agents. These seminars serve to introduce changes in policy and procedures, to

provide agents with help in dealing with problems, and to communicate an attitude of support for field agents by the administrative staff.

(2) An international seminar given in Haiti. Eighteen administrators of small farmer credit institutions from 8 francophone countries in Africa attended a seminar organized and presented by the BCA staff for one month at the beginning of 1984. The four themes of the seminar were those aspects of BCA that are particularly strong: lending through groups, administering a self-supporting institution, savings mobilization, and computerization of the loan portfolio. This seminar served to reinforce these concepts in the minds of the BCA staff who presented them to the visiting participants.

(3) Training in the U.S.A. Fourteen members of the BCA staff were chosen to receive specialized training in the U.S.A. in such subjects as management of development projects, financial management, accounting, personnel management, principles of agricultural economics, and computer programming.

(4) On-the-job training. The DAI consultants that came to Haiti on the project's technical assistance contract each worked with a counterpart who is a member of BCA's administrative staff. These counterparts received on-the-job training from the technical experts in the areas of bank management, financial management, computerization, personnel management, savings mobilization, organizational structure, loan feasibility studies, and special studies on the supply of credit and the demand for credit.

By now the project has sponsored more than four thousand days of training in Haiti and more than seven hundred days of training in the U.S.A. -- besides the on-the-job training. This

training element of the project -- especially the staff seminars given in Haiti -- has been important in strengthening BCA in two ways: (1) from the technical information acquired, and (2) from the cohesive team spirit among all the BCA staff that was reinforced.

- **Construction of local agency buildings.** BCA has a total of forty seven local agencies. Of these, seventeen new local agency buildings (office/home combination) have been built and another sixteen are planned to be built over the next three years by the project. These new buildings (as compared to the alternative of renting offices) help to strengthen the BCA in two ways: (1) BCA is able to recruit better qualified agents to accept assignments in remote areas of Haiti, and (2) a solid and strong building with strong bars over the windows inspires the confidence required to convince people to open savings deposits at the BCA.

- **Addition of vehicles and equipment.** Transport facilities and office equipment are vital to the efficient functioning of the BCA. The project included a budget for providing four-wheel drive jeeps for all senior staff personnel with field supervisory responsibilities. Also office equipment was upgraded at all levels of the institution. Materialistic and mundane as this element of the project may seem, it is an essential piece of this complicated puzzle.

- **Computerization of the loan portfolio.** The loan portfolio was computerized to meet the following objectives:

    - to provide all borrowers with an up-to-date statement of their loan accounts with BCA.

    - to provide BCA management with accurate and regular statistical reports on: amounts loaned, amounts repaid, repayment rates, and numbers of clients.

- to reduce the time that local agents spend in preparing statistical reports.

● **Savings mobilization.** Savings is the mechanism by which wealth is transferred through time. The rural families of Haiti, at best, hoard wealth in the form of cash hidden at home or, at worst, do not transfer any wealth through time. Though the need and the will to save is strong among rural Haitians there was no savings institution available -- except for a very few credit unions in isolated areas of the country. To perform this service for rural Haitians and to tap an additional source of capital for BCA to on-lend to farmers, this service was included in the SRCS project. DAI provided technical assistance to design and install the savings plan. This was entirely new for BCA. In the first two years that this savings service was offered to rural Haitians the savings portfolio grew to a modest approximately five million gourdes (equivalent to one million U.S. dollars). Those who have accounts earn 6% interest per year.

● **Decentralization.** The first technical assistance team (1975-79) sponsored by USAID at BCA -- CUNA (the Credit Union National Association) -- designed and implemented a major decentralization scheme. All loan applications that used to go all the way to the central office of BCA for approval are now approved at the regional level -- BCA has five regional offices in (1) Port-au-Prince, (2) Cap Haitian, (3) Les Cayes, (4) Gonaives, and (5) Hinche. This decentralization scheme had two major impacts: the time for loan approval was reduced by weeks and several central office staff were freed to be used elsewhere in the BCA system.

● **Financial Management.** DAI provided technical assistance to BCA to help overcome certain obvious financial management problems, such as:

- excess liquidity in certain regions for short periods of time and shortages in other regions during those same periods,

- lack of a loan write-off policy -- overdue loans had been carried on the books indefinitely as collect-able even though it was well known that most of the loans long overdue for repayment would never be repaid -- the result was that budget planning exercises were meaningless because interest income and repayment of loan capital were budgeted but never received due to the poor quality of the overdue loan portfolio,

- there was no clear definition of "a financially viable institution" -- this is now understood at all levels of the BCA to mean that income must exceed expenses (that is, interest earnings must be enough to cover the expenses of operational expenses, the cost of capital, and the amount of loans written off),

- there was no fund established from which payments could be made to cover losses from the newly established policy to write off uncollectable loans. These problems have now been resolved with the help of the technical assistance provided by the SRCS project.

• **Inspection and control.** Historically, at BCA, inspection and control had been done as the need would arise when problems were discovered. The inspection and control unit based in the central office performed their inspection and control functions very much like detectives building cases against criminals. The SRCS technical assistance team proceeded to transform both the philosophy and the methods of this unit from negative to positive. The emphasis became more on prevention of problems and offering positive support and encouragement to field level agents rather than the former accusative character of visits to field agents by members of the inspection and control unit. This unit has also been decentralized with each region having its own "roving inspector/trainer".

• **Reporting.** Historically, BCA local agents spent much valuable time completing statistical and financial reporting forms. These forms reached the central office late, incomplete, inaccurate and some times not at all. This made it impossible for the central office to answer regularly and accurately the following basic questions for each local agency: (1) amount of loans distributed during a time period; (2) number of clients, and (3) repayment rates. The computerization of the loan portfolio has freed BCA local agents of this reporting task, and provides each agent with these vital statistics rather than asking him to generate them himself. Also these reports come regularly (some monthly, some quarterly, some annually), completely, and accurately.

• **Documentation and filing.** The documents in the BCA that need to be preserved and filed are of the following types: (1) records of each client's loan and savings account, (2) financial management and accounting records, (3) correspondence, (4) official executive orders, and (5) personnel records (personal history, evaluation records, salary records, health insurance, and credit union records). These documents need to be safely filed and easily retreived when needed. Irrelevant and outdated documents need to be thrown away. These simple criteria are very hard to satisfy. The SRCS project has introduced computerization, microfilming, and training in traditional filing systems to handle these documentation and filing needs.

• **Special studies.** Under the DAI technical assistance contract, special studies were conducted: (1) to provide background information for policy decisions and (2) to be used in implementing immediate changes in BCA procedures.

(1) Special studies to provide background information for policy decisions.

- Analysis of the Effective Demand for BCA loans by Roger POULIN, January 1983.

- Supplies of Credit Among Haitian Peasants by Glenn R. SMUCKER, February 1983.

(2) Special studies to be used in implementing immediate changes in BCA procedures.

- BCA Loan Analysis Manual by Pascal T. FOTZO (Farm Enterprise Budgets), Susan G. GOLDMARK (Individually Managed Small- and Medium-Scale Enterprise Budgets), and Jay K. ROSENGARD (Group-Managed Enterprise Budgets), April 1983.

- Management of Human Resources at the BCA by William A. RUTHERFORD, June 1983.

- La Gestion Financiere du Bureau de Credit Agricole Dans l'Optique de l'Auto-Suffisance by Jean-Jacques DESCHAMPS, November 1983.

- Report on Savings Mobilization in the Bureau de Credit Agricole by Kenneth E. KOEHN, September 1983.

- Structures et Organisation du BCA by Boureima SAWADOGO, November 1983.

These studies were conducted to meet specific SRCS project objectives. They were also conducted to provide training to the BCA administrative staff on how to do rapid reconaissance studies.

• **Technical Assistance** The technical assistance component of the SRCS project was provided by DEVELOPMENT ALTERNATIVES, INC. The technical assistance team consisted of three long-term technicians: (1) the chief of party (Thomas STICKLEY), (2) a systems analysis/computer programmer (Oumarou TIEMTORE), and a financial management consultant (Jean-Jacques DESCHAMPS). Short-term consultants were used to do the special studies listed above. The philosophy of this technical assistance team was to introduce changes through counterparts who are permanent employees of the BCA, and to leave these counterparts with an improved technical competence that will continue to serve the BCA after the end of the SRCS project.

RESULTS OF THE INSTITUTIONAL-CAPACITY-BUILDING PROJECT

Thanks to a genuine commitment on the part of the Haitian government officials concerned, the BCA is moving steadily toward becoming a self-supporting bank. The hard decisions have been made and are being implemented. BCA expects to reach a breakeven point in FY 1987 at which time interest income is expected to exceed expenses (operating expenses plus cost of loan capital plus the amount of bad debts written off). The main conditions that have changed over the life of the SRCS project to allow BCA to approach this viable state are summarized in the following paragraphs.

• **Growth of the loan portfolio.** BCA's loan portfolio of approximately 17 million Gourdes (equivalent to 3.4 million U.S. dollars) at the beginning of FY 1983 will have grown to approximately 55 million Gourdes (equivalent to 11 million U.S. dollars) by the end of FY 1987. Directly from this loan capital, the 12% interest plus the 2% service charge plus the 2% loan guarantee charge -- a nominal 16% but an effective 19% because these charges are all collected at the time the loans are given --

produced income of only approximately 4 million Gourdes (equivalent to 0.8 million U.S. dollars) in FY 1983. This is expected to increase to approximately 8 million Gourdes (equivalent to 1.6 million U.S. dollars) in FY 1987.

- **Repayment rates.** Loans are all eventually: (1) repaid on time, (2) repaid late, or (3) written off as uncollectable. In FY 1983 11% of BCA's loan portfolio was written off as uncollectable and 89% was either repaid or to be collected. In FY 1984 the loan portfolio written off was down to 6%, 50% was repaid and 44% was to be collected. This trend is expected to continue due to a multifaceted campaign BCA is conducting. The most effective facet of this campaign is the newly created policy of making bonus payments to local agents based on loan repayment rates. Based on the FY 1984 loan repayment rates, 21 of BCA's 46 local credit agents received bonuses ranging from 10,000 Gourdes (equivalent to 2,000 U.S. dollars or 50% of that local agent's annual salary) to 500 Gourdes (equivalent to 100 U.S. dollars). The ultimate effect of this bonus plan is to make local agents more careful about selecting and preparing clients before loans are given in order to assure good repayment rates in the belief that **"loans are collected before they are given"**.

- **Uncollectable loans written off.** Uncollectable loans are of two kinds: (1) those which are uncollectable because the client does not want to repay (the client either refuses to repay or does not repay for personal reasons), and (2) those who cannot repay due to natural disasters which cause crop failure or reduce the borrower's capacity to repay. These two different kinds of uncollectable loans need to be handled in two different ways. At BCA two separate loan guarantee funds have been created to handle these two kinds of uncollectable loans: (1) The loans that are written off because the clients do not want to repay (and legal action failed to force them to repay) are covered by the loan guarantee fund. This fund is nourished by a collection of a 2%

loan guarantee charge collected at the time each loan is given -- 2% is the target loan write-off rate for 1987 and beyond. (2) The loans that are written off because the clients cannot repay due to natural disasters are covered by a transfer from the Haiti's central bank (BRH) to BCA after every effort has been made by BCA to collect these loans and after an area has been declared officially a "disaster area" by the Government of Haiti.

- **Cost of operation.** This element of the cost of lending includes salaries, rental value of buildings and equipment, transport, supplies, and utilities. In FY 1985 this item is expected to be 4.8 million Gourdes (equivalent to 0.96 million U.S. dollars) of which 29% is expected to be spent on the central office and 71% in the field (regional, sub-regional, and local) offices. Steps are now being taken to shift these portions to 10% for the central office and 90% for the field offices by the beginning of FY 1986. This is being accomplished principally (1) by transferring personnel from the central office to the field offices, where they are badly needed and (2) by breaking the computer unit off as an independent "profit center". Though the total cost of operation is expected to increase each year, the cost per gourde loaned will decrease due to the even greater increase in the amount loaned each year.

- **Decentralization.** The earlier function of the central office to approve all loans has been completely shifted to the field offices. This decentralization policy reduced the time for loan approval and reduced the need for a large number of the employees at the central office.

- **Savings mobilization.** The savings mobilization scheme started as a new service of BCA during the SRCS project. By the end of FY 1984 -- after two years of operation -- the total amount in the savings portfolio was approximately only five million Gourdes (equivalent to 1 million U.S. dollars). Since BCA is unable to satisfy all requests for loans, one of the criteria that it is using to screen loan applications is whether or not the client already holds a savings account at BCA. All BCA clients opening savings accounts were required to accept an identification card with a photograph to be used when withdrawing money from their accounts. These cards eventually became a requirement for all clients receiving new loans, too. Interest is paid on savings accounts at the rate of 6% per year. The inflation rate has also been estimated to be 6% and therefore it is 6% that is used as the cost-of-capital component of the cost of lending. Cost of capital is either the amount that a bank pays for the capital it borrows -- in this case 6% is paid on savings accounts -- or the amount the bank could earn on its own capital if it were invested elsewhere -- in no case could this be less than the inflation rate (estimated to be 6%, also).

SUMMARY AND CONCLUSIONS

The above described elements and results of the SRCS project have been directly in line with the two specific goals of this project:

- to increase the number of low-income rural families served by the BCA, and
- to make the BCA a self-supporting institution.

These goals are in themselves compatible and mutually reinforcing. That is, if the number of credit-worthy clients is increased, the institution moves toward its self-supporting goal; and if a credit and savings institution is self-supporting, the number of low-income rural families served can be increased without need for government subsidies.

At BCA many elements were introduced through the SRCS project and carefully harmonized to meet these two goals. The genuine commitment of MARNDR, BCA, and USAID to the "self-supporting-institution" goal was clear and substantive. This is being implemented by:

- Increasing interest income by both:
  - increasing the rate of interest charged on loans from a nominal 11% (effective 11%) to a nominal 16% (effective 19%), and
  - increasing the size of the loan portfolio from approximately 17 million gourdes (equivalent to 3.4 million U.S. dollars) in FY 1982 to an expected 55 million gourdes (equivalent to 11 million U.S. dollars by FY 1988).
- Decreasing expenses by:
  - decreasing the default rate from 11% in FY 1983 to 6% in FY 1984 and an expected 2% in FY 1987.
  - decreasing operating costs -- though absolute costs of operation increased, the cost per gourde loaned is expected to decrease from 0.29 Gourde in FY 1982 to an expected 0.14 Gourde in FY 1987.

The result of these changes will be to bring BCA from a position of losing more than 2 million gourdes (equivalent to 0.4 million U.S. dollars) in FY 1983 to breaking even sometime in FY 1987 to an expected net profit of more than 1 million gourdes (equivalent to 0.2 million U.S. dollars) in FY 1988. Also, the number of rural families served by BCA increased from 16,000 in 1981 to 44,000 in 1985.

Important in bringing about these changes were all the elements discussed above: working through groups of farmers, capitalization of the loan portfolio, training of the BCA staff, construction of local agency buildings, addition of vehicles and equipment, computerization of the loan portfolio, savings mobilization, decentralization, financial management, inspection and control, reporting, documentation and filing, special studies, and technical assistance. But the most important element was the genuine commitment of MARNDR, BCA, and USAID/Haiti to the self-supporting-institution goal.