

DEVELOPMENT ALTERNATIVES, INC./ FINNET (DAI/FINNET)
QUARTERLY REPORT (JULY – SEPTEMBER 2000)
Contract No. 521-C-00-00-00019-00

CONTRACT OBJECTIVES

USAID Haiti Economics Group:

- Strategic Objective 1: Sustainable Increased Income for the Poor
- Intermediate Result 1.2: Small and Micro-entrepreneurs Economically Empowered

In the context of USAID Haiti's Strategic Objective 1 and Intermediate Result 1.2, DAI/FINNET's goal is to facilitate the development of a microfinance industry in Haiti to serve the working poor. DAI's three pronged approach is to develop industry infrastructure, to build sustainable microfinance institutions (MFIs), and to identify sources of financing for these institutions.

EXECUTIVE SUMMARY

After having spent the first quarter of its activities focused on start-up and transition operations, DAI/FINNET's second quarter of activities were concentrated on launching the first part of its institution building plan and selected work on its industry building initiatives.

Highlights of the quarter from July through September are:

- Institutional evaluations and training needs assessments were undertaken at five potential non-banking institutions partners. They are: COD/EMH, FINCA Haiti, ACLAM, MEDA, and ACME. By the end of December this work should be finished, DAI/FINNET's key partners chosen, and technical services agreements negotiated.
- BUH, the sole commercial bank key partner for the moment, received training for six new and recently recruited staff in microfinance policies and procedures. Assistance was also given in designing and introducing a "return to school" loan for existing customers.
- In collaboration with Freedom from Hunger, contractors for the UNDP Microstart program, DAI/FINNET organized an evaluation of the internal controls system of ACME and the development of an internal controls tool for use at other MFIs. AGIR (sub-contractor to DAI/FINNET) and CAFEM (sub-contractor to Freedom from Hunger), two local service providers, participated in the development of a checklist to use for an evaluation of a MFI's internal controls system and in preparing an outline for an internal controls manual. It is anticipated that in the future, they will perform the local work on internal controls.

- Progress was made in preparing for the eventual creation of a national credit bureau. DAI/FINNET worked with USAID's MBP program to conduct a review of the evolution of credit bureaus in El Salvador and has coordinated with the IDB to ensure that the BRH includes MFIs in their study regarding the creation of a credit bureau. In the meantime, DAI/FINNET publishes a monthly Bad Debtors List for the nine MFIs participating in the Credit Information Exchange.
- Progress was also made on promoting legal reform. The first undertaking is to encourage the passage of an Associations Law. A working group chaired by the KNFP is taking the lead in this initiative. It was formed at one of the Leadership Forums organized by DAI/FINNET.
- Micro insurance product development took a step forward when DAI/FINNET organized a workshop that brought together MFIs that provide individual loans with health care providers and private insurance companies. They debated the idea, discussed the potential problems, and explored solutions. In the process they got to know each other's requirements and concerns better, which has set the stage for future cooperation. Interest was expressed in a variety of insurance products ranging from portfolio insurance to health insurance.
- DAI/FINNET's formal sub-contract of USD 731,335 was signed with AGIR and related administrative procedures were established. AGIR has been particularly busy in the quarter with institutional evaluations and accounting advisory services. Negotiations were completed with DAI/FINNET's principal sub-contractor, Desjardins (DID). The contract of USD 1,613,627 was signed on 13 October by USAID. Having used the intervening period to write a workplan and hiring and training staff, DID's full scale operations with credit unions are scheduled to begin in November.

GENERAL ACTIVITY REPORT:

The report on our activities, of which highlights are outlined in the Executive Summary, is divided into three parts that correspond to the three principal segments of our work. As outlined in TAMIS Document #1, they are: industry component, institution building component, and financing component. Where possible, documents generated from TAMIS will be used as supporting documents for quarterly reports.

INDUSTRY COMPONENT:

Information and Networking:

- **Resource Center**

DAI/FINNET's resource center was reorganized so that it can be managed through TAMIS. 300 documents are presently available in the center. An activity report for the Center is attached for information. (TAMIS Document # 2) An official inauguration of the Center is planned before the end of 2000. With increased publicity, it is hoped that usage will increase.

Among the documents available are DAI/FINNET's technical note #1 on credit bureaus and its census of MFIs in Haiti based on data as of December 1999 and March 2000. It was published in July. The next one is expected to be published in December 2000.

- **Leadership Forums:**

After the first round table organized in early July when FINNET joined with CLED and their guest Nancy Berry of Women's World Banking to discuss "integrating MFIs into the financial system", FINNET organized a second one co-sponsored by the KNFP. The topic was the pending legal reform of the associations law and the financial institutions law. An important outcome of the meeting was the creation of a working group to organize an effort by the MFI NGOs to encourage the passage of an associations law that met their needs. A draft of such a law has already been circulated to members of Parliament. It is anticipated that the same working group will proceed on a similar course of action when a draft financial institutions law is presented to Parliament.

- **Sundry:**

Work continues on evaluating the idea and the modalities of sponsoring a radio program on microfinance and creating a DAI/FINNET website. Equally, ideas for the national conference are being investigated. It is hoped that a conference can be organized in March or April 2001. These initiatives will be reported on in greater detail as they evolve.

Industry Infrastructure:

- **Credit Information Exchange & Credit Bureau**

As a stepping stone to the eventual creation of a credit bureau, nine MFIs formed a credit information exchange under the sponsorship of PRET. This work has continued under FINNET. Presently, there are 2,989 borrowers on the "bad debtors"

list. Each institution reports that the list is an effective tool for selecting clients, recovering arrears, and educating clients.

FINNET is working actively with the IDB to ensure that MFIs are included in any undertaking by the Central Bank or the Bankers' Association to create a national credit bureau. The IDB is financing the Central Bank's preliminary review of the subject being conducted by KPMG.

DAI/FINNET paid for 7 days of level of effort for Tom Lenaghan to visit El Salvador and conduct a review of the evolution of credit bureaus there. USAID's MBP project covered all other costs. El Salvador was chosen since they have several private credit bureaus, a Central Bank one, and one dedicated to MFIs. A FINNET Technical Note was prepared on the topic and circulated to the Central Bank, donors, bankers, and MFIs in Haiti to provide them with information to help prepare for upcoming discussions about creating a Haitian Credit Bureau.

New Product Development:

- **Insurance:**

As mentioned in the Executive Summary, on 8 August a round table discussion was arranged to bring together private sector insurers, direct lenders, and health care providers. 15 institutions and companies attended. The main accomplishment was getting the parties to understand the needs, concerns, and problems of each other. Interest was expressed in several types of insurance products including health, life, education fees, portfolio, and funeral. Since the meeting, one private insurance company has already presented us with a draft of a loan portfolio insurance product that they are developing.

On another front, work has continued to prepare for a market study of COD/EMH's clients regarding their interest in a health insurance product. Based on the findings, promotional and training materials will be developed that will allow COD/EMH to proceed to the next level of launching a new product. Presently, that work is scheduled to begin in December after having been postponed from September due to technical problems at the level of the ILO-STEP office in Geneva, who is DAI/FINNET's partner for development of this new product.

- **Housing Loans:**

Following Robert Dressen's attendance of the IDB's Microfinance of Housing workshop in June, presentations were made to Capital Bank and BUH on the potential of a home improvement loan product. In subsequent meetings with Capital Bank, this product was incorporated into a proposal submitted to the IDB to finance a pilot project in preparation of opening a specialized microfinance subsidiary. BUH is interested in testing the new product but is waiting until the pending merger with Socabank is completed.

Policy Environment:

- **Legal/ Regulation & Supervision:**

Having already prepared position papers on legal reform and regulation/supervision as well as a comparative study of solutions other countries have found, no advances were made during the quarter. The drafting of a new financial institutions law has not moved beyond the stage at which it was several months ago. DAI/FINNET has continued to work with KNFP to prepare their own position papers on the subject and to organize themselves to be ready to move when the time comes.

As reported in the above section of Leadership Forums, efforts are underway to encourage the passage of a new Associations Law. Presently, many MFIs that are NGOs, foundations, or religious groups do not have a legal status. This makes it difficult for them to undertake judicial actions and forces their founders and managers to personally assume legal responsibility. Two years ago a group of 80 NGOs and other concerned parties drafted a law that addresses these issues. It is this draft of the law that the working group is promoting.

INSTITUTION BUILDING COMPONENT:

Non-Bank Technical Assistance:

- **Institutional Assessments:**

To better ensure long term success in institution building, it is essential to choose the right partners. The first step in the process is to conduct an institutional evaluation of each potential partner accompanied by a training needs assessment. AGIR and Alexia Latortue have begun evaluations for COD/EMH, FINCA Haiti, ACLAM, MEDA, and ACME. Ulrick Jean-Claude and Ms. Latortue are conducting the training needs assessments. Presently, the reviews are in varying stages of execution. Provided that the findings are satisfactory, these five will become DAI/FINNET's key partners from the NGO sector. BUH has already been selected as a key partner among the commercial banks.

When final selections are made, a technical service agreement will be signed with each institution. These agreements will outline the services to be provided by DAI/FINNET and the undertakings of the MFI. The agreement will include the core principles to which the MFI agrees and adheres. Reporting requirements following formats internationally accepted by CGAP and MBP will be imposed.

DAI/FINNET will seek to share the information gathered among partners and use it in its effort to establish industry standards. Financial performance, portfolio quality, and outreach will be reported and tracked.

In conducting the evaluations and needs assessments common problems, training needs, and trends are already being identified that are helping DAI/FINNET to refine its work plan.

As DAI/FINNET has met with potential partners, another fact has become more obvious. Once again, it will likely be most effective and efficient to classify partners into different tiers, like in PRET. The six institutions mentioned above are the candidates for Tier One status. (TAMIS Report # 4). Others such as FODEPE and FONKOZE are candidates for Tier Two status whereby they will receive more limited and tailored assistance. For example, FODEPE would not be considered a key partner since it will most likely remain a smaller institution with limited outreach. Nonetheless, it will be a worthy MFI. In the case of FONKOZE, they presently only need help in specific areas although they may evolve into a key partner in the future. Abbreviated evaluations and assessments will be done for the Tier Two partners.

Other MFIs may only receive one-off technical assistance or only participate in DAI/FINNET's general activities such as group training, executive leadership forums, etc. They would be considered Tier Three clients. As original Tier One partners mature and require less intensive technical assistance and as other MFIs evolve more rapidly than expected, DAI/FINNET may elevate partners from one tier to another.

The results of the institutional evaluations and the training needs assessments will be used for a multitude of purposes: 1) the selection of partners; 2) the revision of our workplan and updating of strategy; 3) the development of training programs and tools; 4) the determination of the activities of CARMs; and 5) the formulation of reporting and monitoring and evaluation plans.

- **Individual Institutional Interventions:**

COD/EMH: AGIR has begun work on COD/EMH's accounting system. They have done an evaluation of the existing system, made recommendations for a more complete accounting plan, selected a new accounting package ACCPAC 2000, and begun training of staff in its use. It is anticipated that COD/EMH will submit an application to DAI/FINNET's Small Grants Program to partially defray the cost of the new accounting system.

ACME: DAI/FINNET and Microstart, who both provide funding and technical assistance to ACME, arranged for a review of ACME's internal control system by an international consultant, Graham Perrett. He made several recommendations for improvements in controls as well as the underlying operational procedures.

Microstart paid for his travel and his daily fee, and DAI/FINNET paid for all of his local costs.

FINCA: Milhouse Lubin, FINNET's financial and administrative manager conducted a review of FINCA's administrative systems with a view to make their operations more efficient and to help them adhere to USAID standards. AGIR has helped review FINCA's financial records to identify weaknesses and also to help them prepare for their external audit.

Commercial Bank Technical Assistance:

BUH – Socabank is the sole commercial bank partner of DAI/FINNET, although some advisory services are given to Capital Bank. Unibank's MCN and Sogebank's Sogesol do not require technical assistance as they have established partnerships with IPC and Accion International, respectively. Both participate, however, in FINNET's more general activities. BPH is presently on hold as they sort out some internal problems. Promobank is the only mainstream local bank to not be actively involved in microfinance.

During the quarter, two principal tasks were completed for BUH. DAI/FINNET advised BUH in the development of a "rentrée scolaire" loan for existing clients with good repayment records. The objectives were threefold: to generate increased revenues from clients most likely to repay; to heighten the loyalty of good clients by offering a needed product at a time when competition is increasing; and to reward/encourage clients for paying on time. The loans of up to HTG 10,000 were offered at all branches to clients with outstanding loans and an excellent repayment record. During the three month campaign, 464 loans were approved for a value of USD 180K. DAI/FINNET also helped organize a training program for six new or recently hired loan officers. The innovative element was that it was structured so that senior MF loan officers did the training. They used role playing and stories of their experiences as a way to reinforce the policies and procedures and lending techniques that had already been presented to the trainees.

Credit Union Technical Assistance:

Due to delays in negotiating the sub-contract with Desjardins-DID and obtaining approval for its signature, work did not officially begin as scheduled. Nonetheless, DID made many of the preparations in the interim for a rapid start. They wrote a workplan, and they hired and trained a supervisor for each of the three provinces in which they will work: Southeast, South, and Northwest. They also completed the list of the first credit unions in each province to be assessed. The new manager in charge of the DID-FINNET contract, Danielle Albert, arrived from DID Quebec and has assumed her full responsibilities. Full scale operations will begin in November. By April 2001 it is expected that the initial delay will have been expunged.

Training and Tools:

Internal Controls: Linked to Mr. Perrett's evaluation of ACME's internal controls, Mr. Perrett prepared a guide for doing a review of an institution's internal controls and an outline for writing an internal controls manual. He worked together with AGIR and CAFEM, the local technical service provider for Microstart, to improve their knowledge and skills in this area so that they can do subsequent reviews of MFIs.

See TAMIS Report #6 for training statistics.

General Advisory Services:

Save the Children: Using tools developed last quarter, FINNET conducted evaluations of eight potential Save partner MFIs in their zones of intervention in Petit Goave, Grand Goave, Maissade, and Mirebalais.

Jacmel: At the invitation of Allison Lee, USAID's representative in Jacmel, DAI/FINNET visited the Southeast to determine the potential for microfinance activities in the province. Presently, DAI/FINNET's strategy is to work with the credit unions through Desjardins, as credit unions are the prevalent form of MFI in the region. The most promising meetings were: Gabase, who plans to submit a financing request to the SOFIHDES MIF, for funds to train some credit unions and CEDAC, a civil society group, who may have some member associations interested in microfinance, particularly the "mutuelles de solidarité" model.

Capital Bank: As stated previously, FINNET has been providing information to Capital Bank on doing microfinance in Haiti to assist them in formulating their request to the IDB for funding for a market study, pilot project, and business plan for a microfinance subsidiary. One of the differentiating features of Capital Bank's project is that housing and home improvement loan products will be offered.

Donor and Technical Service Provider Meetings: Like in most quarters, FINNET staff met with local and foreign parties interested in microfinance in Haiti. In some respects, FINNET has become a clearing house of information on microfinance. Among the more interesting contacts in the past three months are: FAO – integrated development project in Marmelade with a microfinance component; IDB – Stefan Quell – manager in charge of formulating a new strategy for micro and small enterprises; Profund – investor in Sogesol; Concern Worldwide – Ros Boyle – microfinance advisor came to assess Concern Haiti's program and to prepare a financing request to USAID/W. for expansion of financial services in Mirebalais in partnership with Fonkoze.

CARMs:

Linked to the needs assessments of potential partners, DAI/FINNET has been developing the type of services needed in the CARMs. MFIs in each geographic area of existing intervention have been interviewed. A new supervisor has been hired for the South and

together with the two existing ones, they are being retrained. A short term and medium term strategy for the CARMs has been drafted. It will be finalized when the training needs assessments have been completed and discussions with Desjardins (DID) on how the CARMs can also serve credit unions are finished.

SIFWIN:

Throughout the quarter, testing of the underlying programming and capacity of the software continued. A part of this included improvements in the functionality of the user end of the software. December 31, 2000 has been established as the date by which a decision will have to be made about further investment in SIFWin.

Insurance:

See new product development.

FINANCING COMPONENT:

SOFIHDES Technical Assistance:

Throughout the quarter, FINNET and SOFIHDES have worked closely on organizing the institutional evaluations for pre-selected institutions for capitalization awards. Since SOFIHDES' own contract with AGIR was not signed, much of the work has been done through AGIR's sub-contract with DAI/FINNET. The evaluations for COD/EMH and CODE are complete. CODE has received its first disbursement. The evaluation for GTIH is nearly completed. GRAIFSI was also assessed to determine their capacity to manage a special projects grant of USD 50,000.

DAI/FINNET has also worked with SOFIHDES to process guarantee claims from BUH under the PRET/USAID SME Fund and to investigate ways to link micro credit to the Agricultural Guarantee Fund.

Financing Instruments:

No specific work was done in this area. Each donor to whom DAI/FINNET speaks is reminded of the need for equity of the MFIs and the need for some kind of venture capital fund.

Small Grants Program:

Nothing has been done since the policies and procedures submitted to USAID approval on 8 June 2000 have not yet been approved.

FINCA Special Grants:

Three disbursements totalling USD 48,000 have been made by DAI under a special grant to FINCA of USD 80,000. It is expected that the remaining amount will be disbursed before the end of December.

Nothing has been disbursed from the USD 270,000 in monies that were taken from DAI's USD 300,000 Small Grants program at the specific request of USAID Haiti for downstreaming to FINCA. A grant agreement has not even been written since FINCA has some issues concerning the potential grant.

PROJECT MANAGEMENT:**TAMIS:**

Realizing that the initial format of TAMIS didn't reflect the way in which daily work was organized and managed, the workplan section of TAMIS was reorganized. There are now four main components: industry, institution building, financing, and project management. A detailed outline of these components and their composition is attached. See TAMIS Reports # 1 & 5.

The Resource Center has also been organized so that it can be managed through TAMIS. A card catalog of all documents has been registered and a system for checking out the documents has been implemented. Tracking reports on use of the Center have also been programmed.

TAMIS will continually be updated to reflect the reality of DAI/FINNET's work, and gradually its reports will be incorporated into its quarterly and annual reports.

Personnel:

DAI/FINNET presently has 15 staff; five senior, five junior, and five support. Of these, only one was hired during the quarter, a new supervisor for the CARM in Les Cayes, Josué Desrosiers.

A key issue regarding personnel has been the nefarious effect that the depreciation of the gourde and the consequent increase in the cost of living has had on the value of the ir pay. With the exception of three people, all were former employees of PRET and didn't have a revision of their salaries when they transferred to FINNET. According to the personnel policies, they are entitled to annual merit raises of up to 10%. The average raise is 5-7 %. Cost of living increases are to be treated as exceptions with the approval of USAID.

A solution is urgently needed to address this situation that is in conformity with USAID regulations.

Non-Expendable Equipment:

Renovations of existing PRET offices and the procurement of additional equipment were completed in late August. The key purchases were a new Jeep Cherokee and a new generator. The electrical system was also updated to make it safer. The renovations involved moving the entrance to an underused area and converting the former entrance and reception area into a training room and adding an office by enclosing a terrace.

Results Reporting – Monitoring & Evaluation:

A critical outstanding issue for FINNET is a decision on the results that are to be reported to USAID and the supporting monitoring and evaluation systems that need to be put in place. USAID's guidance has been requested especially since discussions that had begun with Mr. Brun of USAID were terminated.

Within the next quarter, this subject must be resolved. It is during that time that DAI/FINNET will be signing TSAs with its partners and will be in a position to impose reporting requirements.