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EVALUATION OF DCA GUARANTEES TO MICRO-CREDIT CAPITAL AND SOGESOL, HAITI

FINALREPORT – AUGUST 2013

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Cover image: Small loans help women entrepreneurs in Haiti.
Madame Fanfan was able to purchase a stall in a prime location in a Haitian market thanks to receiving a loan and has diversified her wares beyond rice to include flour, coffee, oil and other products. She has also opened a small restaurant and plans to open an even bigger restaurant to serve the visitors who come to her community since a new airport was built nearby.
Photo: USAID

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ACKNOWLEDGEMENTS

Over the days that I have been preparing this report, I have accrued a debt of gratitude to many of my friends and colleagues for their generous support. First, I would like to mention the name of my old-time friend and colleague, Jean-François Tardieu, a statistician, geographer with an expertise in marketing who graciously helped me with data treatment and analysis.

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ACRONYMS

ANIMH	Association Nationale des Institutions de Microfinance d'Haïti
APB	Association des Professionnels de Banque
AS	advisory services
BRH	Banque de la République d'Haïti (Central Bank)
CIA	Central Intelligence Agency
CMS	Credit Management System
CPI	consumer price index
DCA	Development Credit Authority
E3/DC	Bureau for Economic Growth, Education and Environment / Office of Development Credit
FY	fiscal year
GDP	gross domestic product
HIFIVE	Haiti Integrated Financing for Value Chains and Enterprises
IFC	International Finance Corporation
MCC	Micro Credit Capital
MCN	Micro Credit National
MSME	micro small and medium enterprise
SME	small and medium enterprise
SO	Strategic Objective
SOFIHDES	Société Financière Haïtienne de Développement S.A.
SOGEBANK	Société Générale de Banques
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

Haiti has been independent from France since 1804, and political instability has always been a constraint to its economy. As one of the poorest countries in the Americas, a majority of Haitians live on no more than 2 U.S. dollars a day. The country has an unemployment rate of more than 60 percent. Most Haitians work in the agriculture and commerce sectors, as the state employs less than 20 percent of Haiti's active population. As a result, a large portion of this population is struggling to make a living from the informal sector of the economy. This sector, however, is facing an acute lack of cash in spite of its entrepreneurial spirit. Given the high rate of illiteracy in the country and a largely dysfunctional state bureaucratic structure, the informal sector cannot meet the banks' legal paper requirements to have access to credit. Thus, getting credit is and has always been a key problem in Haiti.

By the year 2004, however, the dynamism of Haiti's informal sector had encouraged some local banks, particularly SOGEBANK and Capital Bank, to seek to generate financial profits by developing new financial products adapted to the needs of the micro, small, and medium enterprise (MSME) sector. Thus, in the same year, SOGESOL, a microfinance institution (MFI), was created as a subsidiary of SOGEBANK. Capital Bank created Micro Credit Capital (MCC) at about the same time[1].

- *Project Description*

As described in the Action Package[2], in order to help mitigate critical risks that constrain access to lending to SMEs in Haiti[3], the U.S. Agency for International Development's (USAID's) Bureau for Economic Growth, Education and Environment's Office of Development Credit (E3/DC) signed a $4,000,000 multibank guarantee with Capital Bank and SOGEBANK[4] in 2007 to assist Haitian SMEs in raising the necessary financing for their working capital and capital investment needs for those engaged in productive activities. In accordance with USAID/Haiti's Strategic Objective (SO) II, 'More Employment and Sustainable Livelihoods,' the multibank guarantee was signed with SOGEBANK and Capital Bank (although SOGESOL and MCC would be the entities to implement the guarantees) to extend credit to MSMEs working in various sectors, namely agriculture, handicraft, tourism, garment-related industries, waste management, and construction/infrastructure.

Following the catastrophic earthquake of January 12, 2010, USAID amended the DCA guarantee in September 2010 to extend the geographical areas covered by the multibank guarantee to the five

1 DCA FY07_Haiti SMEs_Action Package
2 This document is the Project Summary and Risk Assessment that needs to be approved by USAID's Credit Review Board before a guarantee can be executed
3 Such as political unrest and violence, conquest of new markets, corruption-ridden commercial environment, lack of credit culture and history of small borrowers
4 Respectively, $1million for Capital Bank; $3million for SOGEBANK

communes of the metropolitan area of Port-au-Prince, and change the definition of a loan to include trade and commerce as a sector, or restructured loan to MSMEs in productive sectors as 'qualifying borrowers.' The amendment also allowed the lenders to restructure a qualifying loan without the written consent of USAID[5].

- *Evaluation Purpose*

As stipulated in USAID/E3/DC's evaluation framework, revised in September 2012, this evaluation focuses on how the lenders implemented the guarantee and how the borrowers were affected. It will analyze results at four levels: inputs, outputs, outcomes, and impact on both lenders and borrowers, using a mix of qualitative and quantitative methods.

- *Evaluation Methodology and Data Limitations*

The evaluation methodology used a mix of qualitative and quantitative methods. It combined a short survey with interviews for the borrowers, in addition to the quantitative loan data provided by both lenders. Lender and Central Bank officials and one SME expert from the Association Nationale d'Institutions de Microfinance Haïti (ANIMH) were also interviewed individually[6], along with other financial sector experts.

Limitations to the data included the following:

- Some of the borrowers did not show up on time, others did not show up at all, and still others had to leave a group interview early.
- There was no time to carry out a pretest of the data collection instruments, and some of the indicators used to formulate questions did not yield useful information. Thus, borrowers could not or refused to estimate how much sale, profit, and/or revenue they realized from their business.
- Limitations were found with the partner lenders' loan data. They provided late and incomplete information on borrowers' revenue, assets, and business size. Data received from MCC was incomplete and unclear, making it impossible to answer some of the output and outcome evaluation questions. Data received from SOGESOL was much clearer, but did not arrive until July 16, leaving little time to analyze them for inclusion into the evaluation report.

5 See amendment letter to Capital Bank Guarantee Agreement No. 521-DCA-07-03A (Haiti). September 28, 2010; amendment letter to SOGEBANK Guarantee Agreement No. 521-DCA-07-03B (Haiti). September 28, 2010

6 With a maximum of two people sitting in an 'official' interview

- *Findings, Conclusions, and Recommendations*

Summary Results at the Input Level. Both lenders wanted to move down market to diversify their clientele. SOGEBANK took the lead by creating SOGESOL, as a subsidiary to deal with micro enterprises. Capital Bank entered the competition by creating MCC as a subsidiary. Both banks realized that they could not import general banking procedures and operations to open up microfinance markets. As a consequence, their strategy included obtaining the necessary technical training in microcredit for key personnel.

However, beginning in 2004, SOGEBANK/SOGESOL recognized a niche opportunity to attract an as-yet underserved market: SMEs. Along with technical assistance financed by USAID/Haiti, the loan portfolio guarantee helped the lender to make this up-market move. Thus, although the DCA guarantee had no effect on the SME orientation of the lender, it certainly facilitated SOGESOL's move into the market.

MCC, however, continued its move down market, providing smaller loans to its borrowers. It, too, had its eyes on the MFI market prior to the DCA guarantee (2003) and reinforced the guarantee with technical assistance from other organizations including IDB and ANIMH.

Summary Results at the Output Level. It is clear that SOGESOL used the DCA to reach out to other markets in the productive sectors, although it mitigated the potential risk involved by limiting the number of loans given to new borrowers. As such, the DCA fit into the partner's strategy to move into new markets in order to satisfy the demand for credit of many clients. MCC did not use the DCA to extend its market but rather as a reserve to cover a set of clients who had problems paying back their loans.

Neither lender seemed to change its loan terms for DCA-guaranteed borrowers. Neither significantly extended its loan tenor for guaranteed borrowers. When considering the average interest rate, SOGESOL made little differentiation between guaranteed and non-guaranteed borrowers. Although MCC's interest rate for DCA-guaranteed borrowers was lower than baseline, the reduction cannot be attributed to the DCA as the average interest rates moved down for the two periods of non-guaranteed loans, as well.

Neither institution made any changes to policies, procedures, or marketing for the DCA guarantees. As both were operating in the target sectors prior to the DCA guarantees, they had also begun operational accommodations for these sectors previously.

Summary Results at the Outcome Level. The quantitative and qualitative findings lead to the conclusion that SOGESOL did, indeed, increase credit to the target sector outside of the guarantee in terms of number of loans, but not loan value. SOGESOL mitigated the risk of providing many more loans to finance new activities by reducing the average loan amount. SOGESOL used the guarantee as a catalyst to lend to more borrowers in a greater variety of productive sectors. The DCA allowed SOGESOL to gain a better knowledge of sectors by taking the risk to explore them. Doing so, according to one of the lender officials, made SOGESOL feel more at ease to move into other sectors.

SOGESOL did not, however, alter its loan terms to attract new borrowers. All financial institutions have to balance the terms, risk, numbers, and values of loans to stay in business. SOGESOL's interest rate is still far lower than MCC's. Yet, as discussed under Outputs, one size does not fit all and SOGESOL may need to develop variations in its loan products to cater to different activities.

MCC did not proceed the same way as SOGESOL. Although there was post-earthquake an increase in the volume of money borrowed and the number of clients that the lender placed under the guarantee, MCC did not extend credit to any new sector outside the guarantee. MCC used the guarantee as a reserve for the lender. Just as all banks are required to reserve a certain amount of capital to cover potential losses, MCC used the DCA guarantee to cover potential losses from loans made to borrowers who were having difficulty repaying their loans. It granted guaranteed loans to borrowers whose businesses were in trouble, in an attempt to restructure the loans. Therefore, the DCA guarantee was not responsible for the growth in MCC's portfolio outside the guarantee.

Motivation also plays a role. SOGESOL was clearly motivated to explore new business activities, whereas MCC primarily stuck with its existing sector.

- *Borrower*

Borrowers from both partner financial institutions used their own money to create their businesses instead of borrowing from friends or family or from other credit sources. Most borrowers remained 'loyal' to these lenders once they obtained their DCA-guaranteed loans, indicating positive relations with the loan officers. Borrowers from SOGESOL and from MCC became more willing to seek credit after they had received their first loan. The fact that borrowers obtained additional loans suggests they likely increased their business sales, since the lenders would not have approved the additional loans if the businesses' financial data could not support approval. The DCA guarantees definitely contributed to improving these borrowers' willingness to seek credit from the partner lenders, although the lack of extensive data does not allow the evaluator to generalize this conclusion to the rest of the DCA-guaranteed borrowers.

Similarly, the borrowers' businesses benefit from the access to credit and adoption of new business procedures to qualify for loans, both of which solidify the existence of the MSMEs. Borrowers benefit from the DCA-guaranteed loan despite not being aware of the added benefit (that their loan is being guaranteed). It is a new experience for most borrowers, who had never gone to a lender. From a business perspective, it is an added benefit for a small enterprise to attempt to formalize, even partially, its business in response to lender requirements (e.g., make timely payments, providing proper financial documentation). All that is taken for granted in a modern business is a new learning experience for MSMEs.

The SOGESOL strategy is more 'aggressive' and targets a lower and more diversified rung of the credit population as opposed to MCC, which targets a higher, less risky and less diversified rung of that population. Because of such a strategy, SOGESOL should be more prone to respond to credit needs of the majority of the Haitian productive sector, given the lack of financial means of this sector.

- *Summary Results at the Impact Level*

Banking in the informal sector is challenging at many levels. For a banker, finding the right mix between profitability and access to credit is a balancing act. Present field data pre- and post-earthquake have clearly demonstrated capital deepening, whereby the banking system has ventured into business sectors that are in a new territory. It has done so in search of profit and equally to fulfill the needs of the largest sector of the economy—MSMEs. Several trends are at work, such as the reversal of the banking system by going to the people rather than waiting for the people to come to the lender, as well as the change of the relationship of the banker in order to adapt to its environment. The evaluation showed that with further incentive—namely, a guarantee mechanism from a major donor such as USAID—banks are more likely to push the barrier of lending.

To reiterate, the DCA has improved access to loans for the targeted sectors, but the guarantee was used differently by the lenders. Whereas SOGESOL used it as a catalyst to open up lending to new sectors, MCC used it more as a reserve fund to protect mainly the trade and commerce sector by offering post-earthquake coverage to borrowers whose businesses were destroyed or severely hampered by natural or socio-political events. Other existing guarantee partners, such as SOFIHDES, claim to have benefitted the MSME sector because of the guarantee, whereas new partner MCN claimed the guarantee has made no difference in its loan practices. Without additional data from these institutions, it is impossible to substantiate their officials' opinions, but it does not appear that the guarantees to SOGESOL and MCC influenced the behavior of other lenders.

Many other factors have contributed to MSMEs' access to credit, including their sector (agriculture is especially difficult), lenders' level of risk tolerance, market and government forces affecting lender and borrower behavior, and assistance from other programs. What seems clear is that in order to bring financial institutions and MSMEs together, in addition to more availability of credit, training is needed to help them meet each other's needs.

- *Influence of exogenous factors*

The combined effect of natural disasters, political inertia, and economic and social instability has hindered the growth of the financial sector. Investors' confidence relies on economic stability.

Whereas SOGESOL appears to have weathered the earthquake and subsequent events relatively unscathed (see Outputs and Outcomes), given the preponderance of factors working against it, the DCA guarantee likely helped the institution to do so. On the other hand, MCC used the guarantee to mitigate damage done especially by recent natural disasters, in an attempt to restructure troubled loans. This strategy does not appear to have succeeded, since most of the borrowers were still unable to repay their loans. One wonders whether the experience will make MCC even more risk averse in the future.

The MSME credit sector in Haiti is an emerging industry. Like any other embryonic sector, time and institutional support are essential for the maturity of the sector. Without DCA guarantees, this infant industry could be short-lived given the many obstacles on its path. The guarantee mechanism removes some of the bankers' risk and equally affords borrowers an opportunity that would not otherwise exist. With this assistance, it permits the sector to live through the three- to five-year incubation period that is so often required for the sector to survive.

The DCA program is in effect raising the volume of investment by providing the added insurance to private lenders to increase their balance sheet, thus facilitating financial deepening. It is clear that much relies on full government participation to achieve a greater impact. For now, the impact is modest, yet important given exogenous constraints.

- *Recommendations*

After reviewing the lender and borrower data, the evaluation team believes that the DCA guarantee would be more effective at meeting its goals if the changes outlined below were made to the guarantee structure and implementation as well as to the lenders' strategies.

- The lender should use the DCA guarantee as insurance for certain sectors where the risk is higher as well as for new borrowers in order to improve access to credit. Procedures to put borrowers under the guarantee should be dictated by criteria other than their incapacity to repay their loans. Even though the criteria for MCC changed when the DCA agreement was amended post-earthquake to allow for problem loans, neither the borrowers nor MCC appear to have benefitted from this strategy. USAID missions and E3/DC should make this expectation clear or reiterate this expectation to the lenders.

- Lenders' loans should be structured according to the type of MSME activities to accommodate different industries' needs (e.g., seasonal, short-term versus long-term investment).

- Both lenders and USAID (missions and E3/DC) need to be clear on how they can best support the target sector in a given country. USAID missions, especially, should ensure that training in proper financial recordkeeping and other good business practices, and the DCA guarantees are closely coordinated.

- MSMEs need both the understanding and motivation to provide accurate financial data and repay their loans on time, as well as access to credit and market information and other resources available to them. USAID could play a role as a facilitator with training programs that involve both the MSMEs and the banks so that they are not isolated from each other, but rather learn together about each other's needs.

- USAID should also encourage lenders to target needier and more diverse business owners with the guarantees by understanding better how these businesses function and what their needs are. Again, such assistance could be coordinated with other USAID or other donor training programs.

- If not done already, USAID, lenders, and MSMEs, might want to analyze where the most unmet demand for credit exists in Haiti, which of the identified populations offers the best potential for generating economic growth, and how best to meet their credit needs.

- The financial sector in general needs to understand how lending to MSMEs can be profitable. Although the solution will not be the same for every institution, USAID could facilitate this understanding through a study of best practices in pricing, product development, market analysis, and subsequent dissemination seminars or other vehicles.

- In order to increase the financial deepening further, E3/DC and its partner lenders should develop a system whereby the repayments of the borrowers put under the guarantee turn the guarantee into a revolving guarantee.

- Rather than guaranteeing the individual borrower, E3/DC should guarantee the loan portfolio, since it would reduce the administrative cost to the lenders. With this cost reduced, lenders could extend credit at a faster rate and increase the pool of borrowers.

INTRODUCTION

BRIEF HISTORICAL BACKGROUND OF MSMEs[7]

The first microfinance institutions (MFIs) made their appearance in Haiti in the 1940s. They coexisted with the Haitian cooperative movement, which was initiated mainly by international organizations and some sectors of civil society organizations. In spite of their wide presence, these institutions played a rather marginal role in the economic development of the country.

Around the end of the 1980s, Haiti went through much political turmoil as a result of the 'democratic movement.' The social and economic situation of the country worsened, which put it in a deeper dependence on international aid and technical assistance. Following the liberalization of the economy in 1987, formal production structures were replaced by networks of importers of basic primary goods whose distribution covered much of the country's territory. This economy, largely based on commerce and not production of goods, facilitated the emergence of an impoverished informal sector mostly concentrated in the main urban areas of the country (namely, Port-au-Prince, Cap-Haïtien, Cayes, Gonaives, and Jacmel).

Historically, the Haitian banking system was directed toward the formal sector, which generates less than 10 percent of all employment in the export sector and the large corporations. The informal sector had remained on the fringe of the banking system. The majority of private businesses operate in the informal sector. These MSMEs employ about 80 percent of the total work force.[8]With the liberalization of the banking sector in 1995[9] and the licensing of five new banks, the formal banking market was saturated. The informal sector offered great business opportunity for the burgeoning banking sector.

By 2000, the dynamism of Haiti's informal sector encouraged some local banks, particularly Société Générale de Banques (SOGEBANK) and Capital Bank, to seek to generate financial profits by developing new financial products aimed at the micro, small, and medium enterprise (MSME) sector[10]. Thus, in the same year, SOGESOL, an MFI, was created as a subsidiary of SOGEBANK. Capital Bank created Micro Credit Capital (MCC) in 2003.

7 For more details, see Lhermite François. September 2012. Recensement de L'industrie de la Microfinance en Haiti. Année 2010–11. USAID/HAITI, pp 5–7.

8 Ibid

9 Loi sur les coopératives d'épargne et de crédit, 1995

10 Partly because the seasonality of the clients' activities does not affect the 'credit system'

PROJECT BACKGROUND[11]

Given that the Haitian society lacks employment opportunities and assets that can propel its economic growth, in accordance with its Strategic Objective (SO) II, 'More Employment and Sustainable Livelihoods,' the U.S. Agency for International Development's Haiti mission (USAID/Haiti) has been supporting projects that focus on job creating economic growth as a source of wealth creation and poverty alleviation in different target sectors. In Haiti, the productive target sectors of micro, small, and medium enterprises (MSMEs) encompass those working in agriculture, handicrafts, tourism, garment-related industries, waste management, and construction/infrastructure.

Therefore, USAID crafted a multibank guarantee to further its objective of supporting export-oriented, job creating economic growth. The multibank guarantee falls within USAID's development credit guarantee program[12] effort to help alleviate poverty and generate growth in Haiti, by focusing on productive MSMEs. MSMEs were chosen because they lack financial capital in spite of their entrepreneurial spirit.

The first DCA guarantee with SOGEBANK was signed in fiscal year (FY) 2004 for $3 million to support microentrepreneurs in the above sectors; it ended in 2007 with 99-percent utilization. USAID paid $60,864 in claims for 9 percent of the borrowers (134 defaulted borrowers out of a total of 1,411).

In 2007, the second DCA agreement was a two-year multibank guarantee with both Capital ($500K) and SOGEBANK($2 million)to support microlending. This guarantee was utilized 75 percent and 96 percent respectively. Under this guarantee, USAID paid $48,459 in claims for 265 defaulted borrowers out of a total of 1,678 for SOGEBANK, and $52,469 in claims for 71 defaulted borrowers out of a total of 150 for Capital Bank.

ABOUT DCA

USAID's Development Credit Authority (DCA) was created in 1999 to mobilize local private capital through the establishment of real risk sharing relationships with private financial institutions in USAID countries. The tool is available to all USAID overseas missions and can be used as a vehicle for providing much needed credit to an array of enterprises and underserved sectors.

Simultaneously in 2007, a third guarantee was signed with SOGEBANK ($3 million) and Capital Bank ($1 million) to support lending to SMEs and was amended in 2010 post-earthquake to allow microborrowers, trade and commerce sector borrowers, borrowers with restructured loans, and more borrowers in the Port-au-Price metropolitan area to access credit. Currently, both partners

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11 USAID HAITI, Action Memorandum. June 13, 2007. See Attachment II: Activity Description. USAID. Haiti Multibank SME LPG.

12 The Development Credit Guarantee program is authorized under the Development Credit Authority (DCA) and managed by USAID's Economic Growth, Agriculture and Trade Bureau's Office of Development Credit (USAID/E3/DC).

have utilized 98 percent of their facilities and the guarantee expires in September2013. USAID has paid $59,735 in claims to Capital Bank for almost half of the borrowers(64 defaulted borrowers out of 130) and no claims to SOGEBANK out of 1,729 loans. The 2007SME multibank guarantee is the one being evaluated in this report.

Brief Background on the Banks: SOGEBANK and Capital Bank

As indicated in the DCA FY 2007 HAITI SMEs Action Package, USAID/Haiti's lending partners for these guarantees are SOGEBANK and Capital Bank. All of SOGEBANK's lending was to be done by its microfinance subsidiary, Société Générale de Solidarité (SOGESOL), and all of Capital Bank's lending by its microfinance unit, Micro Credit Capital (MCC).

SOGEBANK created SOGESOL in 2000 to serve the microenterprise sector. Currently, SOGEBANK is the majority owner with 50.2 percent, Accion Internacional owns 9.6 percent, and private individuals own 40.2 percent. SOGESOL has been well positioned to benefit from any increase in economic activities in the informal sector because it is structured to take advantage of its parent's (SOGEBANK) depositors (150,000 small savers, of which 51 percent fit the microentrepreneur profile), thus leveraging the deposit relationship into a credit relationship[13]. As of December2012[14],SOGESOL had total assets of $25,736,669 million and a loan portfolio of $19,785.383 million. SOGESOL has served 94,349 clients with $248,138,771 million disbursed since it was established.

Capital Bank started commercial bank operations in 1999. Since November 2003, the bank has had a microfinance service line, called MCC, whose goal is to expand down market. MCC received the SME portfolio in 2007 and positioned itself to take advantage of the informal sector by focusing more on trade and commerce. Capital Bank has received technical assistance from the Inter-American Development Bank. As of December 31, 2012, MCC had a loan portfolio of approximately $6,276,178 million. From January to December 2012, MCC served 1,613 clients and the amount of money lent was $12,144,183 million[15].

Thus, both lenders share interests in microfinance that are aligned with USAID/Haiti's interests. The concern of USAID's mission to facilitate wealth creation and employment opportunities via the development of SMEs meets these lenders' interests in lending down market.

The matrix below presents a summary of the two implementing lenders under the SME Guarantee Agreements.

13 'A Commercial Bank Does Microfinance: SOGESOL in Haiti' By Guy Stuart, Lecturer in Public Policy Kennedy School of Government Harvard University

14 Exchange rate: December 2012=42.55. Data Source: SOGESOL

15 Exchange rate: idem. Data source: MCC

Summary of Haiti Capital Bank and SOGEBANK SME Guarantee Agreements (521-DCA-07-03 September 12, 2007)	
Authority	USAID DCA
Type	Loan portfolio guarantee
Guaranteed parties	SOGEBANK and Capital Bank
Guarantee purpose	To guarantee loans to small and medium enterprises (SMEs) in productive sectors in Haiti while encouraging partner lenders to make qualifying loans to qualifying borrowers.
Maximum portfolio amount	$4,000,000.00
SOGEBANK	$3,000,000.00
Capital Bank	$1,000,000.00
USAID guarantee Percentage	50%
Guarantee Ceiling	$2,000,000
SOGEBANK	$1,500,000.00
Capital Bank	$500,000.00
Term of Guarantee	September 12, 2007–September 30, 2013
Origination fee	0.25% of Guarantee Ceiling for each lender
SOGEBANK	0.25% ($3,750)
Capital Bank	0.25% ($1,500)
Utilization Fee	0.75% per annum of average outstanding principal amount of qualifying loans guaranteed by USAID
Maximum Loan Amount Per Qualifying Borrower	20% of each lender's respective maximum cumulative disbursements sub-amounts for productive small and medium enterprises (SMEs)
Terms	Consistent with those generally prevailing among private commercial lenders in the borrowers' country
Qualifying Borrowers	Small and medium enterprises (SMEs)
Qualifying Loans	A 'qualifying loan' is one made to a 'qualifying borrower' for a 'qualifying project'. A qualifying loan *after the earthquake* shall mean any type of loan to the trade and commerce sector or *restructured loan*, unless limited by USAID in the guarantee term sheet
Qualifying projects	Non-sovereign Haitian small and medium enterprises in the productive sector that include, but are not limited to, agriculture, handicrafts, tourism, textile industries, waste removal, construction/infrastructure, and/or fisheries. Post-earthquake microenterprises and trade and commerce as a sector were permitted, and the geographical location of the qualifying borrowers was concentrated in five communes of Port-au-Prince, that is Port-au-Prince, Pétion-Ville, Tabarre, Delmas, and Carrefour.

EVALUATION PURPOSE AND QUESTIONS

This exercise is an evaluation of a 2007 multibank DCA guarantee with both Capital Bank and SOGEBANK in order to determine the results of the guarantee on both partners' lending practices and on the borrowers' ability to obtain credit and invest in their businesses in Haiti. As stipulated in USAID's Bureau of Economic Growth Education and Environment/Office of Development Credit (E3/DC) evaluation framework, revised in September 2012, this evaluation focuses not only on how the lenders implemented the guarantees but also on how the borrowers were affected. It will analyze results at four levels—inputs, outputs, outcomes, and impact—on both lenders and borrowers. As stated in the Work Order (Work Order No: 012, Contract No: EEM-I-04-07-00001-00), the general evaluation approach will follow a four-fold scheme in order to assess the development results of the DCA loan portfolio guarantee to Capital Bank and SOGEBANK. As stated above, the four results levels are inputs, outputs, outcomes, and impact.[16]

- **Inputs** assess what it takes to get the guarantee up and running and how the guarantee has been designed and structured to achieve stated goals.
- **Outputs** (direct and indirect) explore both economic additionality (e.g., business sales, profits, and jobs) on the borrower side and financial additionality (additional loans extended) on the lender side.
- **Outcomes** examine short- to mid-term changes and behavior and perception as a result of the guarantee output at both the borrower and the lender level.
- **Impact** looks at how the DCA guarantee contributed to long-term changes and market practices or perceptions toward targeted sectors, recognizing that attribution/counterfactual may not be possible.

More specifically, the questions derived from the framework that USAID asked the evaluation team to focus on are the following:

1) Given the high utilization of the guarantee, did the partners increase credit to the target sectors outside the DCA guarantee? Did it move into any new sectors/industries, types of borrowers, types of loans, or loan terms? If so, how and why? To what extent were the DCA guarantees responsible for improving access of partners' customers to credit outside the guarantees? (Outcome- Lender)
2) Did borrowers seek loans before and after the guaranteed loan from the partner financial institution or other financial institution? If so, were the requests successful? To what extent were the DCA guarantees responsible for improving the borrowers' willingness to seek credit? (Outcome- Borrower) *Note: Borrowers do not know their loans were guaranteed.*

[16] The definitions below are from the Development Credit Authority Evaluations Revised Evaluation Framework, September 2012

3) What additional insights can you provide that access for loans improved for the targeted sectors? What role if any did the DCA guarantee play as a demonstration model? (Impact)

4) What exogenous factors affected the financial sector during the agreement period? How? Have these factors also affected the performance of the multibank guarantee? If so, how?

The full list of evaluation questions from the E3/DC evaluation framework is in Annex 2 of this report.

DCA officials will use evaluation findings for different purposes, including to:

1) Demonstrate and communicate to DCA stakeholders (e.g., Office of Management and Budget, Congress, USAID missions) and external partners the contributions of DCA loan guarantees to the achievement of development results[17];

2) Find out how best to engage financial sector institutions as partners in development;

3) Determine the impact of the DCA loan guarantee by assessing, among other things, the borrowers' main goal of increasing investment opportunities and incomes; and

4) Strengthen USAID's future application of the DCA guarantee as a tool for achieving development results.

EVALUATION METHODOLOGY AND LIMITATIONS

Methodology

The evaluation team consisted of Yves-Francois Pierre, sociologist and Lead Evaluator and André Abel, Finance Specialist with expertise in MSMEs.

As expected, the evaluation methodology followed a mix of qualitative and quantitative methods. It combined a short survey, which revealed the profile of the borrowers, with the borrower interview guide, in addition to the quantitative loan data provided by both lenders. The borrower guide was used individually as well as in group interviews in a few cases. Lender and Central Bank officials and one SME expert from the Association Nationale d'Institutions de Microfinance Haïti(ANIMH) were also interviewed individually[18], along with other financial sector experts (see Annex3 for a full list of interviewees).

The evaluation methodology followed several steps. They included pre-field activities from March 4 to March 15, 2013; field activities from March 22 to March 27 in Port-au-Prince and then from April 3 to April 6 in Cap-Haitien, St Marc and Jacmel; and post-field activities.

[17] Development means, according to the Work Order, wealth and job creation; thus, poverty alleviation
[18] With a maximum of two people sitting in an 'official' interview

Pre-field Activities

The pre-field activities were mostly dedicated to customizing the DCA evaluation framework following the desk review of the DCA-related documents provided by E3/DC and MSI in order to adapt them to the SME guarantee with Capital Bank and SOGEBANK.

Next, the team leader customized indicators from the Revised Framework to the Haitian case, as well as the various instruments that the MSI technical director provided for research in the field[19]. The financial expert translated the instruments from English to French so that they could be translated into Haitian Créole (see Annex 2).

Field Activities

Field activities took place in two phases. From March 22 to March 25, one of the E3/DC staff members from Washington joined the two-member evaluation team for an introductory meeting with USAID/Haiti staff from the Economic Growth office, and next, accompanied the team to the introductory meetings with SOGESOL and MCC staff. The rest of the week was dedicated to group interviews with MCC borrowers and individual interviews with SOGESOL borrowers in Port-au-Prince. As according to the MCC director, the guarantee was essentially concentrated in the Port-au-Prince area, the team decided to conduct field interviews in the provinces exclusively with SOGESOL borrowers. Thus, the team conducted field interviews in Cap Haïtien from March 26 to March 28 with SOGESOL borrowers. Following the Easter break, from April 3 to April 6, the two-member team conducted field interviews in St. Marc and Jacmel.

MCC and SOGESOL staff helped plan the interviews with the borrowers after the evaluation team randomly selected a list of the borrowers from E3/DC's database, the Credit Management System (CMS)into which the banks had previously entered the data.

Due to partner lender interview planning time constraints, the team ended up carrying out interviews with borrowers much longer after the 'official' closure date of April 6 for the field interviews. The team used two strategies to adapt to partner lenders' time constraints. MCC interviews were conducted with borrowers at the lender site in Rue des Miracles after the lender secretary invited them to arrive at the branch. Interviews with SOGESOL borrowers were carried out for the most part in the field, at the borrowers' places of business after the loan officers introduced the team to them, except for two interviews that took place at the SOGESOL branch office at Rue Métellus, Pétion Ville.

19 These data collection instruments, which MSI developed, had been used in almost all of the other DCA evaluations under the existing SEGURA-MSI contract

Data Limitations

Most of the interviews were conducted jointly by the team leader and the financial specialist. The field interviews, however, did not go as smoothly as the team expected. First of all, some of the borrowers could not show up on time and others did not respond to partner lenders' requests. In some cases, borrowers had to leave a group interview for business or personal reasons. For each interview, the team used the 'borrower survey form' and then the 'individual interview guide' as the combination effectively collected all the data needed to answer the borrower-oriented evaluation questions.[20] In some cases, the team ended up being able to use only one of the two instruments. Overall, the team conducted a total of 30 individual interviews and four group interviews with the borrowers.

Second, there was no time to carry out a pretest of the instruments, and some of the indicators used to formulate questions did not yield useful information. Thus, borrowers could not or refused to estimate how much sale, profit, and/or revenue they realized from their business. Rather, they indicated the importance and the utilization of the loan, and if their business had grown or not.

Third, limitations were found with the partner lenders' loan data. They provided late and incomplete information on borrowers' revenue, assets, and business size. For MCC, the loan data did not specify the borrowers' business sectors, which go into their only important sector, which is trade/commerce, thereby making the comparison with SOGESOL difficult. Thus, data on target sectors lacked specificity, as they did not describe the corresponding activities; the CMS data stated 'Trade/Commerce' without identifying what kind. The chief MIS operating officer apparently only received the loan data request from MCC staff two weeks after the latter received it. The evaluation team received some loan data from MCC just two days before finishing the first draft report, still with the type of occupations not specified.

Resulting from comments from E3/DC on the draft report, the team leader, with E3/DC's assistance, requested additional loan data from both partner lenders. Unfortunately, the data received from MCC was incomplete and unclear, making it impossible to answer some of the output and outcome evaluation questions. In some cases for example, with no loan data prior to the DCA guarantee, it was impossible to measure change in lending behavior resulting directly from the guarantee. To fill these holes, the team leader met with MCC staff on July 12 and obtained four sets of data: one dating from October 2004 to September 2007 that was used as a baseline; two other sets covering on-guaranteed borrowers dating from October 2007 to September 2010 and October 2010 to September 2012; and the last set of data pertaining to the borrowers that were put under guarantee (CMS from June 2009 to January 2012).

[20] Surveys are used to obtain mainly quantitative data that can be analyzed statistically to show trends. Interview guides, on the other hand, include open-ended questions that allow the interviewer to explore the interviewee's qualitative experiences and knowledge

Data received from SOGESOL was much clearer, but was not received until July 16, leaving little time to analyze them for inclusion in the evaluation report. Some of the data required clarification, which SOGESOL readily provided on July 19.

DATA ANALYSIS

Measuring Change

Change was measured at two levels: at the partner lenders' level and at the borrowers' level. In the two cases, the earthquake was taken as a reference point because it splits the time frame for the evaluation into two relatively equal periods of about three years each: from 2007 to mid-January 2010 and then from there to 2013. 2010 is also when the guarantee was amended to allow for microenterprises, trade and commerce sector and restructured loans.

To measure change in partner lenders' credit behavior, however, another dichotomous criterion was added to the 'pre-earthquake/ post earthquake' frame: DCA-guaranteed versus non-DCA-guaranteed loans to the same sector; that is, a comparison of loan transactions and numbers of clients per sector under the guarantee and not under the guarantee.

Measuring Borrowers' Willingness to seek credit

Given the absence of data collected by financial institutions on creditors' demand for loans, the evaluation used two criteria as a proxy for borrowers' willingness to seek credit: first, the number of loans before and after the earthquake; second, the change in a borrower's credit category (from 1 to 7 in the survey instrument)[21] between a previous loan and current loan. Thus, a borrower whose credit score is 5 (between 500,000 and 1,000, 000 gourdes) on a current loan and 3 (between 100,001 and 200,000 gourdes) on a previous loan would receive two points as a credit behavior change (an increase). One with a current credit score of 1 and a previous score of 2 would receive a score of minus 1 (a decrease). This criterion was also used as a proxy for the lack of information regarding borrowers' benefits from business sales, making the hypothesis that a borrower's credit increase reflects their success in doing business. They were disposed to request more loans, which partner lenders determined they could repay.

[21] The credit categories are as follows:
1. Less than 50,000 gourdes
2. 50,000–100,000
3. 100,001–200,000
4. 200,001–500,000
5. 500,001–1,000,000
6. 1,000,001–2,000,000
7. 2,001,000+

Note on Coding

For analytical purposes, the qualitative data collected from the individual interviews were coded and entered into Excel, together with the pre-coded data obtained from the survey instrument that was administered to each borrower. Next, the evaluation ran frequency tables in SPSS. Questions pertaining to the guarantee impact were framed in a before/ after earthquake scheme. The evaluators used an easy coding system with a limited number of categories. For instance, question 2 on the borrower survey asked, "How many loans have you already obtained from the lender? And what is their value and dates?" Retaining a code of zero (0), one (1), and two (2) or more, depending on the date, the information was classified as number of loans before or after the earthquake. In the same vein, question 7 asks the borrower to compare the loan terms against that of other financial institutions, using four codes: one (1) for better; two (2) for same; three (3) for worse; and nine (9) for don't know.

PROJECT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

INPUT QUESTIONS

Access to credit in Haiti is severely limited for MSMEs. This lack of credit is due to an environment marked by a risk aversion of lending institutions coupled with a general lack of information on the borrowers themselves[22]. The implementation of the guarantee was supposed to ease up financial constraints on the lenders, thereby increasing their capacity to offer credit to many more borrowers in certain qualifying projects, such as: agriculture, tourism, handicrafts, garment, construction, infrastructure, and waste management. Both institutions have had a high utilization of the guarantee (at 98 percent each).

Before MCC entered into the DCA in 2007, SOGESOL had a guarantee agreement in FY 2004 to support microentrepreneurs in sectors such as agriculture, textiles, manufacturing, infrastructure development, and arts and crafts. With the second and third DCA agreements in 2007, both institutions were targeting microentrepreneurs and SMEs in rural and semi-rural areas outside Port-au-Prince and Pétion-Ville.

A response to a general input question leads to a brief presentation of the history of the DCA guarantee for the two lenders' microcredit subsidiaries. This input question asks, how and why the lender decided to enter into the DCA guarantee for SMEs? Was there any technical assistance provided to the partner lender for such purpose?

[22] USAID HAITI, Action Memorandum, June 13, 2007. See Attachment II

How these Questions Were Addressed

Partner lender officials were asked detailed questions pertaining to the issue from Tool A (see Annex 2), in addition to reviewing documentation on this input question, notably the evaluation carried out in 2012 by Management Systems International as a subsidiary of Coffee International Ltd[23].

Findings

- *SOGESOL*

According to SOGESOL management, the DCA implementation occurred at the same moment the lender MFI wanted to grow by moving more up market to meet the needs of the SMEs (graduated micro clients and/or new clients). When one compares the actual clients' portfolio of the Port-au-Prince area with the 3,300 clients of December 2003, there has been a decrease of 75 percent. During 2004–2005, SOGESOL registered a decrease in the number of clients because many micro clients were facing difficulties, were written off, or had decided not to renew their loans. A first reconfiguration of the portfolio occurred in 2004, with a decision by SOGESOL to increase the ceilings of its loans. Thus, SOGESOL started to move more up market before its official entry into the SME markets. The lender MFI needed to diversify its portfolio by integrating SMEs in commerce and services. Between August and October 2013, loans to the school sector, for example, represented 16 percent of the lender's portfolio (i.e., about 4,400 over 28,000 clients).

There is no doubt that the lender went through some restructuring to move into SME lending. As a matter of fact, the lender's work plan of 2009 called for deliverables such as[24]:

- New policies, procedures, forms, and tools to address the SME sectors, which included loan analysis tools and forms and operational SME loan procedures; and
- New human resources inputs, such as job descriptions, training programs, and career plans for SME loan officers and loan administration officers.

The deputy director general of SOGEBANK declared that the lender had thought about such services for some five to six years prior to the work plan. There was a coincidence of interest between SOGEBANK and USAID, according to SOGESOL officials. USAID/Haiti offered technical assistance that allowed the partner lender to pay technical consultants from Accion Internacional—which owns a little less than 10 percent of SOGESOL—to train loan officers. SOGEBANK has been receiving technical assistance and investment from the International Finance Corporation since 2009 to help it implement its own SME lending arm.[25]

23 See Coffee International Development: Evaluation of IFC LAC MSME SOGEBANK and SOGEBANK Mobile banking projects, October 2012

24 Idem page 22

25 Ibid

- *Micro Credit Capital*

MCC's interest in SMEs dates back to November 2003, according to an MCC official. The lender's interest was to diversify its portfolio by expanding down market. Although the lender went into microfinance, its lending activities were concentrated more in small enterprises instead of micro enterprises as such because the latter were considered too risky. Whereas SOGESOL granted loans smaller than 25,000 gourdes ($615.40)[26], MCC loan brackets were between 200,000 ($4,923.20) and 400,000 gourdes ($ 9,846.40)[27]. MCC partner with DCA in 2007, about five years later than its competitor. At that time Capital Bank entered into two DCA agreements, one for microenterprises and the other for SMEs, both implemented by MCC. Both had high utilization, 75 percent and 98 percent respectively. Following a DCA amendment of 2010, MCC was able to restructure loans disbursed before January 12, 2010. Currently, small loans of less than 25,000 ($576.86)[28] are granted to borrowers.

According to an MCC official, as a subsidiary of Capital Bank, MCC received technical assistance from the Inter-American Development Bank and Association Nationale des Institutions de Microfinance (ANIMH). Every other month, it organizes a technical training day for its loan officers and personnel. Training focuses generally on the clients' inventory assessment and product marketing in microfinance.

Although an evaluation of the work of the loan officers is not formally part of this exercise, it might be relevant to note that the information gathered in the field reveals that not everywhere did the flow of communications between borrowers and loan officers go smoothly. Many borrowers, mostly in Port-au-Prince and Cap-Haïtien in the North, complained about the rude treatment they and even their co-signers received from loan officers when they did not make timely monthly payments to the institutions.

Conclusions

Both lenders wanted to move down market to diversify their clientele. SOGEBANK took the lead by creating SOGESOL, as a subsidiary to deal with micro enterprises. Capital Bank entered the competition by creating MCC as a subsidiary. Both banks realized that they could not import general banking procedures and operations to open up markets. As a consequence, their strategy included obtaining the necessary technical training in microcredit for key personnel.

However, beginning in 2004, SOGEBANK/SOGESOL recognized a niche opportunity to attract an as-yet underserved market: SMEs. Along with technical assistance financed by USAID/Haiti, the

26 Using conversion rate from December 31, 2003, available from Oanda Currency Converter, www.oanda.com/currency/converter

27 Ibid

28 Rate from May 9, 2013, using Oanda

guarantee assisted the lender to make this up-market move. Thus, although the DCA had no impact on the SME orientation of the lender, it certainly facilitated SOGESOL's move into the market.

MCC, however, continued its move down market, providing smaller loans to its borrowers. It, too, had its eyes on the MFI market prior to the DCA guarantee (2003) and reinforced the guarantee with technical assistance from other organizations, mainly IDB and ANIMH.

OUTPUT ACHIEVEMENT

Financial Additionality

- *Lender Evaluation Question 1*

What potential market did the DCA guarantee help open for the partner institution? How did the DCA guarantees fit into the partners' ongoing strategies?(Question 3 in the DCA revised evaluation framework)

- *How these questions were addressed*

The DCA revised evaluation framework provides two indicators to assess this question:

1) Partner's number and total value of guaranteed loans to target sector; and
2) Partner's percentage of new borrowers in guaranteed loans to target sectors, relative to all loans to target sector.

Results will be presented on both indicators relative to the pre-guarantee baseline for each partner separately. SOGESOL communicated their responses to the evaluation team directly. The observation period for SOGESOL started from April 2004 and ended in September 2008 for pre-guarantee period; and between October 2008 and September 2012 for the guarantee period.

MCC, however, gave the team four sets of data: one dating from October 2004 to September 2007 that was used as baseline; two other sets covered non-guaranteed borrowers dating from October 2007 to September 2010 and October 2010 to September 2012; the last set of data covers the borrowers that were put under guarantee (CMS from June 2009 to January 2012).

The findings for the outputs questions above answer the question about how the guarantees fit into the partners' ongoing strategies.

Findings

- *SOGESOL*

Table 1: Number of Loans and Total Value in Productive Sectors vs. Number of Loans and Total Value in Rest of Portfolio (SOGESOL)

	Number of Loans in Productive Sectors	Total Loan Value (in Gdes)	Number of Loans in Rest of Portfolio	Total Loan Value in Rest of Portfolio (in Gdes)
Pre-guarantee (Apr. 2004–Sept. 2008)	2,782	138,891,215	50,418	3,088,910,826
During Guarantee (Oct. 2008–Sept. 2012)	7,548	218,726,842	94,863	4,992,235,939
Under DCA Guarantee	1,724	115,504,326	N/A	N/A
Percent Change (during guarantee-pre-guarantee)	171%	57%	88%	62%

*Table 1*above shows that the number of loans to the productive sector increased by more than one and a half-fold (171 percent) and the total loan value by more than half (57 percent). Although the rest of SOGESOL's portfolio also grew, the percentage growth in number of loans was far below that for the target sector, even though the growth in value was not so different (5 percentage points). SOGESOL reached many more borrowers in the target sector than it did in other sectors.

In addition, the borrowers under the DCA guarantee account for 23 percent of the loans to productive sectors and 53 percent of their value during the guarantee period. Similarly, the percentage of new borrowers covered by the guarantee was 19 percent—almost one fifth of all the loans conceded to this sector. However, only 3 percent of the DCA guaranteed loans and 31 percent of their value went to first-time borrowers. Putting these data together, one can see that SOGESOL used the guarantee to facilitate its reach into productive sectors, though the potential risk was mitigated by the fact that most of the guaranteed borrowers had received loans previously.

In addition, the DCA made SOGESOL more audacious at taking risk in different sectors and in different areas of the city, according to a SOGESOL official. For instance, in the agricultural sector there are many risks and a high number of poor people. Because of the DCA, SOGESOL felt more comfortable to move into this sector. The same observation, the SOGESOL official said, could be made for Cité Soleil, a slum area where SOGESOL had moved thanks to the guarantee. Therefore, according to this official, DCA has facilitated the growth of the institution with regard to the number of clients, while allowing it at the same time to diversify the loan portfolio in order to reduce risks. A financial institution in the microcredit sector has to be large in order to be productive and reduce costs while serving the poor. The more it helps the poor, the better the institution will be shielded against politicians and spoilers' malfeasance because its officials can always say, "if you kill us, you are killing the people," declared the president of the administrative council of SOGESOL.

- *MCC*

*Table 2*shows that the number of loans to the Commerce sector fluctuated wildly during the three time periods given. In addition, the DCA guaranteed loans account for a small percentage of MCC's loans to the commerce sector overall (11 percent when compared to the non-guaranteed set, 1 and 4 percent when compared to the non-guaranteed set 2). As compared to baseline, MCC's non-guaranteed portfolio quickly grew in value, but the DCA guaranteed loans contributed only 3 percent to that growth (comparing non-guaranteed set 2 with baseline). The non-guaranteed portfolio did not fluctuate much in terms of percentage of new borrowers, but it remained far higher than the DCA guaranteed portfolio, which contained only 12 percent of new borrowers.

MCC use of the DCA is rather different. According to MCC officers, the lender placed clients under the guarantee after they were unable to make their loan repayments. Clients were generally put under the DCA guarantee after they spend five to six months without being able to make their monthly payments and needed to have their loans restructured.

Table 2: Number of Loans and Total Loan Value to Commerce and Percentage of New Borrowers (MCC)

	Number of Loans to Commerce Sector	Total Loan Value (in Gdes)	Percent of Loans to first-time borrowers
Pre-guarantee (Oct. 2004–Sept. 2007)	1,533	334,032,614	48%
During guarantee1 (Oct. 2007–Sept. 2010)	1,188	695,785,070	41%
During guarantee2 (Oct. 2010–Sept. 2012)	3,017	1,657,679,134	46%
DCA Guaranteed Loans	130	37,936,876	12%
Percent Change (during guarantee-pre-guarantee)	-23% (1) 154% (2)	108% (1) 138% (2)	

Lender Evaluation Question 2

Did the partner use the DCA guarantee to improve access to credit for the target sectors? If so, how much local private capital was mobilized (vs. utilization)? Did characteristics of guaranteed loans differ from other loans in ways that improved access?

How these Questions Were Addressed

The revised DCA evaluation framework provides different indicators to address this question. Besides the partners' number and amount of loans made to the target sector (discussed above), the framework suggests data on collateral requirements, as well as data on loan terms. As collateral requirements did not differ for the guaranteed loans[29], data on loan terms is presented below, that is, average loan tenor and interest rate, using the same pre guarantee/guarantee model.

Findings

Officials from both lenders declared that the guarantee did not make the institutions change the conditions of the loans. One of the fundamental criteria to obtain a loan was the capacity of the client to repay the loan. Quantitative data below support this finding.

Table 3: Average Loan Tenor and Interest Rate per Month in SOGESOL

	Average Loan Tenor (months)	Average Interest Rate (per month)	Average Interest Rate (per year)
Pre-guarantee (Apr. 2004–Sept. 2008)	7	4.4%	52.8%
During Guarantee (Oct. 2008–Sept. 2012)	6	4.5%	54%
Guarantee	7	4.3%	51.6%

As shown in *Table 3* above, the average loan tenor for SOGESOL did not change between baseline and guaranteed loans, while it decreased by a month for non-guaranteed loans during the guarantee period. On average, one month more was conceded to the borrowers for loans covered by the guarantee. Although the monthly interest rates changed little over the entire time period studied, it is noteworthy that the average rate for DCA-guaranteed loans was below baseline and remained below that for non-guaranteed loans.

According to the MCC director, MCC "makes no difference between tenor, interest rate, amount of loan between a guaranteed loan and anon-guaranteed loan. The decision regarding loan disbursement is based solely upon the client's reimbursement capacity. Interest rates vary according to the amount of the loan with a priori reduction of the interest rate for clients whose credit records are satisfactory and a posteriori reduction for clients who reimburse with a minimum of delay. Our loans are granted without any request of formal collateral. Nevertheless, we request co-signers and original land titles for loans that go beyond U.S. 800 dollars (but without any registered mortgage).

[29] SOGESOL said collateral is not required for either DCA guaranteed or non-guaranteed loans. MCC said no cash collateral is required; a guarantor and a property title are required for loans greater than $18,177, regardless of whether a loan is DCA-guaranteed

Clients concede the authorization to MCC to seize their inventory in case of non-payment of the loan."

The quantitative findings from MCC's loan data confirm, for the most part, the director's assertions. As shown in *Table 4* below, the average loan tenor for MCC moved from seven months for the pre-guaranteed period to 10 months for the guaranteed loans. It seems as though three months more were conceded to the borrowers for loans under the guarantee. However, when considering the non-guaranteed loans during the guarantee period, one can see that the average loan tenor was increasing by about one month in any event. Therefore, one cannot attribute such an increase in average loan tenor solely to the DCA.

Annual interest rates steadily decreased during the time period studied, although they remained two percentage points higher for DCA guaranteed loans than non-guaranteed loans during period 2.

Table 4: Average Loan Tenor and Interest Rate in MCC

	Average Loan Tenor (months)	Average Interest Rate (per year)
Pre-guarantee (Oct. 2004–Sept. 2007)	7	50%
During guarantee 1 (Oct. 2007–Sept. 2010)	8	43%
During guarantee 2 (Oct. 2010–Sept. 2012)	9	40%
Guarantee	10	42%

Officials from MCC contended, however, that they favor men over women while implementing the loans. Therefore, one would expect the amount of loan to vary according to assets in both lenders—and specifically according to gender in the case of MCC. The CMS data revealed such was the case.

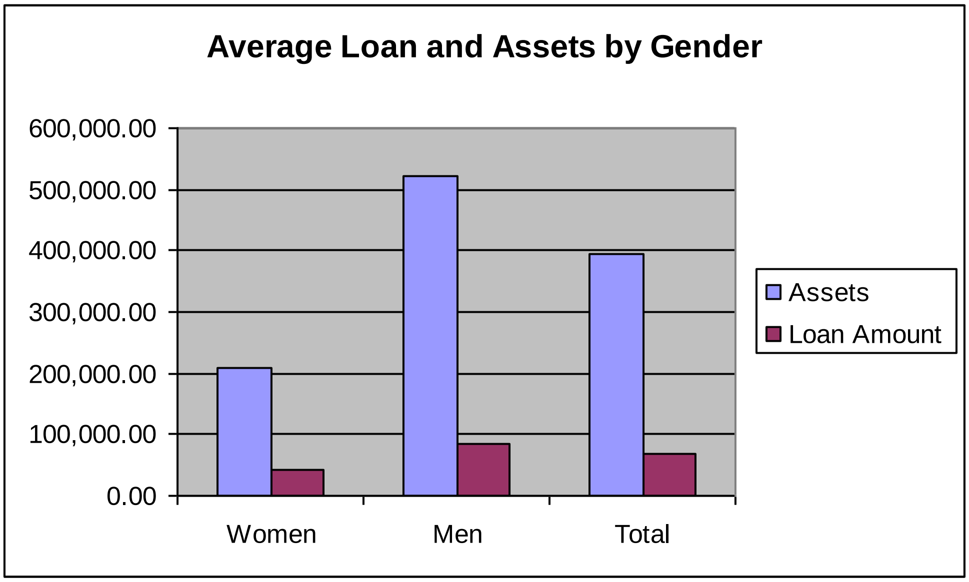
- *SOGESOL*

Table 5: Loan Amount by Gender and Assets (SOGESOL)

Gender	Assets	Loan Amount	Loan Amount as a Percentage of Assets
Women	207,544.48	42,005.74	20%
Men	520,942.75	84,454.56	16%
Total	393,363.08	67,174.29	17%

Source: CMS Data

Figure 1: Average Loan and Assets by Gender, SOGESOL



Source: CMS Data

Figure 1 and *Table 5* above show that for SOGESOL the amount of loan received depended on assets regardless of gender, although it was slightly higher for women as a percentage of assets (20 percent for women versus 16 percent for men).

On the contrary, for MCC, the amount of loan received depended not only on assets but also on gender, as shown by *Table 6*below and corresponding *Figure 2*, one can see that the amount of loan received was much higher (more than twice) for women than men. Although officially, MCC's loan policy is governed by the clients' capacity to repay, there is clearly an orientation more favorable to women. Interviews with SOGESOL officials also reinforced this finding. They believed women were better borrowers than men.

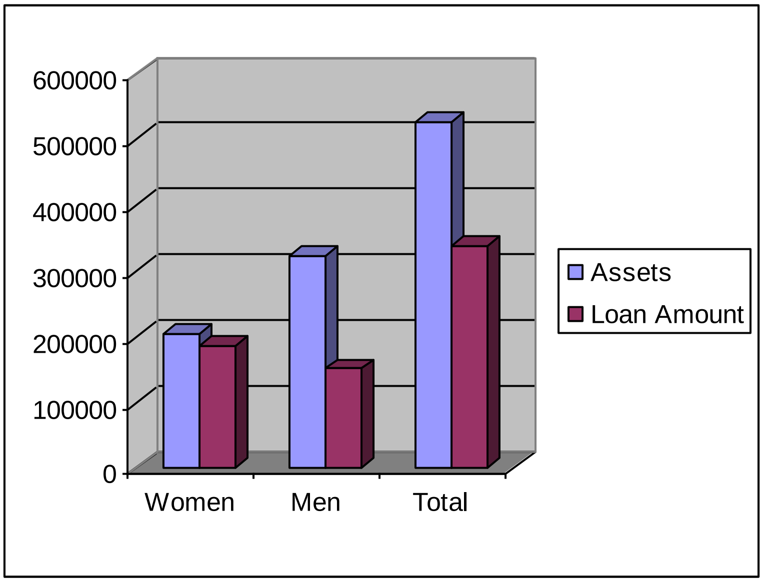
- *MCC*

Table 6: Distribution of Loan Amount by Gender and Assets (MCC)

Gender	Assets	Loan Amount	Loan Amount as a Percentage of Assets
Women	204,208	186,350	91%
Men	322,500	150,976	46%
Total	556,708	337,326	61%

Source: CMS Data

Figure 2: Loan Amount according to Gender and Assets, MCC



Source: CMS Data

Lender Evaluation Question 3

How did partners implement their loan guarantee program (e.g., marketing campaigns, changed terms, training, revised staff structure and responsibilities, improved communication with branch offices)? And why? (Question 5 in the DCA revised evaluation framework).

How these Questions Were Addressed

This question was addressed by talking to various officials from the lenders trying to get from them a depiction of the institutions' ways of implementing their credit activities and at the same time asking them to communicate their perception of the efficacy of the DCA.

Findings (common to both institutions)

Neither lender implemented any marketing campaign in relation to the loan guarantee program, as they wanted to avoid the moral hazard of the borrowers not repaying their loans. As both institutions were already involved in microcredit before the DCA, they did not modify their strategy to accommodate the guarantee. There was no specific training due to the guarantee itself but there was for the microcredit sector in general. There was no change in the terms and conditions of the loans because of the guarantee, and at the heart of the decision to extend credit was the borrower's capacity to repay the loan.

- *SOGESOL*

To make a loan portfolio productive, a SOGESOL loan officer must reach out to 250–300 clients. They are trained in mastering the necessary technical tools to do so. They must focus on two issues: the new clients and the defaulted ones. Thus, they receive two lists everyday: one of new applicants and one of delinquents. The loan officers' calculations in the field bear on the profitability of the business and of the family, as well as the debt coverage ratio based on the monthly payment divided by the amount the family has left at the end of each month and the liquidity of the business. Each loan officer in the branch is responsible for a particular zone, and thus is assigned to an applicant within the closest proximity.

A SOGESOL official contends, however, that the DCA makes the institution more 'systematic' at analyzing the status of the borrowers. Analysis of the data on them had become more continuous. In this sense, there was a new impetus to the administration to analyze carefully and systematically loan applicants' capacity to repay.

As explained under the input questions, SOGESOL received training both from a USAID-funded technical assistance program and from the IFC. Neither was specific to the DCA guarantee.

- *MCC*

At MCC, credit 'marketing' is generally conducted door to door by the loan officers. The institution also uses stickers, calendars, and flyers to inform the public about its loan program. If there is no co-signer, the lender will take cash, inventory, or other goods as collateral. The loan officers are responsible on average for 37 clients each.

The loan officers receive on-site training and also training from ANIMH in loan portfolio management, accounting principles, and evaluation of clients' business. Marketing of financial products and recovery are the two main elements of the training, regardless of the guarantee.

One official thinks that the DCA did not have enough weight in terms of the amount of the facility and number of clients to induce any organizational change in MCC. He suggested that the guarantee increase coverage up to 70 percent with 30 percent covered by the lender in order for the latter to increase the tenor of the loan for the borrower. Next, he thinks the DCA would be more adapted to the microfinance reality if it could come with special incentives for financial partners to take risks they would not have taken otherwise. For instance, whether or not a loan is considered "non-productive" should be set according to the type of activities funded by the financial institution (i.e., some activities, such as agricultural production, depend greatly upon external conditions, such as weather, for making a profit. Those activities should be allowed a longer period of non-repayment than others before being considered "non-productive."[30]).

Conclusions

It is clear that SOGESOL used the DCA to reach out to other markets in the productive sectors, although it mitigated the potential risk involved by limiting the number of loans given to new borrowers. As such, the DCA fits into the partner's strategy to move into new markets in order to satisfy the demand for credit of many clients. MCC did not use the DCA to extend its market but rather as a reserve to cover a set of clients who had problems paying back their loans.

Neither lender seemed to change its loan terms for DCA-guaranteed borrowers. Neither significantly extended its loan tenor for guaranteed borrowers. When considering the average interest rate, SOGESOL made little differentiation between guaranteed and non-guaranteed borrowers. Although MCC's interest rate for DCA-guaranteed borrowers was lower than baseline, the reduction cannot be attributed to the DCA since the average interest rates also moved down for the two periods of non-guaranteed loans.

Neither institution made any changes to policies, procedures, or marketing for the DCA guarantees. As both were operating in the target sectors prior to the DCA guarantees, they had also begun operational accommodations for these sectors previously.

Recommendations

The lender should use the DCA as insurance for certain sectors where the risk is higher, such as agriculture, and for new borrowers, in order to improve access to credit. Procedures to put borrowers under the guarantee should be dictated by criteria other than their incapacity to repay their loans, as was the case in MCC. MCC's experience demonstrated that allowing lenders to place troubled loans under the guarantee helped neither the lender nor the borrower, as most borrowers were still unable to repay their loans, even after restructuring.

According to one of MCC's officials, extension of credit could be achieved by putting the portfolio under guarantee instead of the borrowers and by reducing progressively the 50 percent amount covered by the lender to a lower percentage as loans get repaid.

Economic Additionality

How did borrowers benefit from the loans in terms of business sales, profits, jobs, exports?(DCA Evaluation Framework Question 6)

[30] Typically, a loan in arrears for 90 days or more is considered "non-productive," but sometimes that threshold is set lower, for example, at 60 or even 30 days.

How this Question Was Addressed

Quantitative data for this question was not available as it bears on business sales and profit, two themes for which entrepreneurs from the informal sector generally do not have any valid data. The team decided to use data collected from the field to address this question. The survey instrument and the borrower interview guide provide indicators for the questions.

To address this question, the evaluator used Question 8 of the borrowers' interview guide to ask the borrowers the following questions:

What have you done with your loan(s) from this lender? What impact have they had on your business? Your family? Your overall quality of life?

Table 7: Borrowers' Use of their Loans from Both Lenders[31]

Borrowers' Use of the loan	SOGESOL (N=20)		MCC (N=9)		TOTAL (N=29)	
	#	%	#	%	#	%
Working Capital	8	40%	3	33%	11	38%
Purchase of inventory	15	*75%*	9	*100%*	24	*83%*
Investment capital	11	*55%*	1	11%	12	41%
Domestic Needs	9	45%	3	33%	12	41%
Social Obligations	6	30%	3	33%	9	31%
TOTAL	**20**	**100%**	**9**	**100%**	**29**	**100%**

As one would expect, *Table 7*above shows that most borrowers from both financial institutions used their loans to buy or replenish their inventories. As MCC is heavily concentrated in trade and commerce, all its borrowers (100 percent) had mentioned they used their credit to reinforce their inventory. SOGESOL has also a high tendency for borrowers to reinforce their inventory but at a lower level (75 percent).

Next, SOGESOL borrowers used their inventory as investment capital for their businesses (55 percent of the interviewees) and to cover domestic needs, such as paying for food for the household and school fees for their children (45 percent), closely followed by using loans for working capital (40 percent).

After inventory investment, MCC borrowers used their loans for working capital, domestic needs, and social obligations (all 33 percent). Social obligations included anything to maintain borrowers' social standing in the community, such as weddings or paying back a debt on time so that people do not become aware that they might have financial troubles.

31 As multiple responses were possible, we produced a table where the percentages are calculated by dividing the number of responses by the number of cases (N).

Borrowers' Opinions about Partner Lenders

In focus group interviews, the team asked the borrowers their opinions about the partner lenders and some loan-related themes. *Table 8* below presents ideas that borrowers had regarding credit access improvement.

Table 8: Summary of Borrowers' Group Opinions about MSME Loans Received

GROUP	Sectors	Loan Time Frame (Q 3)	Lender Openness to Credit (Q 5)	Are you Advising Business Peers to Take a Loan from the Lender? (Q 11)	Credit Access Recom-mendations (Q 12)	Observations
G1 SOGESOL/ Jacmel	Bakery (1) Foodstuffs[32](1) Cooked food (1)	Good	Open	No	Reduce interest rate	
G2 SOGESOL/ Cap-Haitien	Meat (2) Cosmetics (1)	Need more time	Open	Yes	Grace period	
G3 SOGESOL/ Cap-Haitien	Foodstuffs (3) Construction (1)	Need more time	Open	Yes	Reduce interest rate and extend period for repayment	
G4 MCC/Port-au-Prince	Foodstuffs (1) School/Auto parts (1) Fuel (1) Construction (1)	No consensus; foodstuffs and construction said 6 months is OK; the two others asked for 12 months	No consensus	No	Loan should depend upon type of activity	Auto parts shop managed by a borrower's brother was destroyed by the earthquake; a private school she owned and managed paid the loan. Construction borrower still in business, but had to pay 3 months of late fees. Fuel borrower got a loan extension to pay late fees; he is out of business. Foodstuffs borrower lost shop to robber with earthquake and had to pay penalty.
G5 MCC/ Port-au-Prince	Beauty shop (1) Autoparts (1) Handicraft (1) Electronic shop (1)	Need more time	No consensus	No consensus	Reduce interest rate and extend period for repayment	They were victims of fire and/or robbery. They were still paying late fees to MCC.

32 Foodstuffs include consumption items such as cooking oil, rice, beans

Time Frame and Interest Rate

From the above, one can see that the borrowers' opinions about the interest rate and the time frame differ widely. Whereas three of the groups asked for more time to repay their loans, one agreed with the less than-a-year duration; the other group was somewhat split in their opinion (Group 4).

Borrower responses indicated that different business lines require different loan considerations. Some products, such as school materials and handicrafts, have a seasonal peak for their sale. For example, school materials reach their peak generally in October; religious merchandise, such as for Holy Communion, are sold in May. In the same vein, one hotel owner in Jacmel told the team that he used his loan to invest in the rehabilitation of the building and had to start repaying the loan before the business could be profitable.

Borrowers who could repay their loan even after paying late fees generally had mixed success in their business. He/she could use money from one business to repay the loan taken for another one. Such was the case of the lady with an autoparts store in Croix des Bouquets[33] managed by her brother, which was destroyed by the earthquake. The school she owned and managed helped her pay back the loan she took in her name, although she had to pay late fees (Group 4).

Lender Openness to Providing Credit

Groups 1, 2, and 3 found SOGESOL fairly open when it comes to giving credit. Although some borrowers complained about the toughness of field loan officers, their general opinion was that the agents were reasonable helpful to them. Groups 4 and 5 of MCC borrowers did not come to consensus on the theme. One may wonder if it is because most of them were victims of the earthquake and did not get a loan extension to refinance their business, even after they had stopped paying late fees. Most of the people in these two groups did not receive a loan to restructure their business.

Social Influence

In general, the matrix shows that borrowers were not at all unanimous when it came to encouraging their business peers to seek credit. Whereas Groups 1 and 4 declared they had not done so, Groups 2 and 3 said they had. The hesitation to recommend a peer came from the fact that the borrowers would not do so unless they were very sure that their peers were reliable. They saw a recommendation as an engagement of their own reputation; they did not want to lose face if others failed to repay their loans. SOGESOL borrowers were more prone to recommend peers than MCC borrowers. In Cap-Haïtien, the team found one interesting case whereby a beverage vendor had encouraged an ice vendor next to her to apply for a loan because their activities were complementary. But, the data does not allow the evaluation to generalize the case.

[33] She and her brother inherited the auto parts store from their father.

Improvement of Credit Conditions

Not surprisingly, most of the groups reached consensus about the reduction of the interest rate as a primary condition to ease borrowers' access to credit. One group insisted on a grace period of at least one month after taking the loan. One of the MCC group members asked to adjust the loan's time frame and interest rate by type of activity supported.

Conclusions

As one can see from the findings above, the borrowers' benefit from the loan is rather multiform. Not only did they use their loans to improve their businesses but they also relied on the credit for various non-financial reasons that have to do with responding to some of their domestic needs and/or reinforcing their social status in their residential communities.

The data suggest that borrowers' satisfaction with a loan timeframe and interest rate is a function of the ease with which borrowers could sell their products. Thus, for the same line of product, one gets different opinions depending upon the 'saleability' of the product.

In addition, the nature of a particular business also dictates when it is most profitable. Thus, it might be important that lenders can offer a loan product that is more in tune with the concrete periodicity of the selling peak of a set of activities.

Recommendations

Loans should reflect the rather heterogeneous composition of the MSME borrowers' population. Loans should be structured according to type of activities: some are more seasonal than others; some are used directly for investment in the long run; and others are for investment on a short-term or inventory reinforcement basis. A borrower's capacity to repay, of course, is a function of the turnover of its business. Lenders are thus facing a challenge to find a multiform product that would fit the informal nature of MSMEs' activities, while respecting the formal frame of banking procedures and operations.

OUTCOME ACHIEVEMENT:EVALUATION QUESTIONS 7–9

Outcome Achievement: Lender Evaluation Question 1

Given the high utilization of the guarantee, did partners increase credit to the target sectors outside the guarantees? Or move into new sectors/industries, types of borrowers, loans, loan terms? If so, how and why? To what extent were the guarantees responsible for improving access of partners' customers to credit outside the guarantees?

How this Question Was Addressed

The DCA Evaluation Framework provides a set of quantitative indicators for this question, which can be answered for SOGESOL, but only partially for MCC, given the data received from the institutions. The indicators are as follows:

- *Loan Portfolio*

1) Number and value of non-guaranteed loans to target sectors relative to pre-guarantee baseline
2) Value of all loans to target sector relative to total loan portfolio
3) Percentage of new borrowers in target sectors relative to pre-guarantee baseline
4) Number of new sectors developed by partner

- *Loan Terms*

1) Average (and median) size and frequency distribution of all loans to target sectors relative to pre-guarantee baseline
2) Average tenor for all loans to target sectors relative to pre-guarantee baseline
3) Average interest rate for all loans to target sectors relative to pre-guarantee baseline

- *Loan Collateral*

1) Average percentage collateral requirement for all loans to target sector relative to pre-guarantee baseline
2) Percentage of collateral assets for loans to target sectors relative to pre-guarantee baseline

In addition, SOGESOL and MCC officials were asked qualitative questions using the lender interview instrument. The evaluators decided to ask the two partners for more specific quantitative information on the volume of money borrowed and the number of clients using a pre-earthquake/post-earthquake timing of three years each[34] to measure change among various sectors in order to answer the Loan Portfolio Question 4. At the same time, these two parameters were compared according to whether they were under the DCA guarantees.

[34] 2007–January 12, 2010, then post-earthquake to 2013

Findings[35]

- *SOGESOL*

Loan Portfolio. As shown in *Table 9* and *Table 10* below, although both SOGESOL's portfolio of loans to the productive sector and the rest of its portfolio grew during the DCA guarantee period relative to baseline, the number of loans to the productive sector grew almost twice as much as the number of loans in the rest of the portfolio, resulting in an increase in the ratio of the number of loans to the target sector, compared to the rest of the portfolio between baseline and during the guarantee. Moreover, even though this ratio fluctuated during baseline and even decreased during 2006–2007, it grew rapidly during the guarantee period.

Table 9: Baseline Loan Portfolios (SOGESOL)

Fiscal Year[36]	# of Loans to Target Sectors	# of Loans, Rest of Portfolio	Ratio (Target Sectors/ Rest of Portfolio)	Value of Non-Guaranteed Loans in Target Sectors	Value of Loans in Rest of Portfolio	Ratio (Target Sectors/ Rest of Portfolio)
2004–2005	481	8,584	5.6%	20,459,833	437,492,437	4.7%
2005–2006	643	11,113	5.8%	32,963,953	707,793,959	4.7%
2006–2007	730	14,908	4.9%	37,789,398	943,661,669	4.0%
2007–2008	928	15,813	5.9%	47,678,031	999,962,761	4.8%
TOTAL	**2,782**	**50,418**	***5.5%***	**138,891,215**	**3,088,910,826**	***4.5%***
Average Loan Value			**49,925 (target)**			**61,266 (non-target)**

However, when comparing the values of the portfolios, again, although both grew, loans to the rest of SOGESOL's portfolio grew slightly more than those to the productive sector. Consistent with the output findings above, SOGESOL greatly increased the number of loans to the target sector by reducing their value, compared to the rest of the portfolio both in relative and absolute terms.

35 The database for this section was provided by the lenders
36 October 1-September 30

Table 10: Loan Portfolios during Guarantee (SOGESOL)

Fiscal Year[37]	# of Loans to Target Sectors (Guaranteed and Non-Guaranteed)	# of Loans, Rest of Portfolio	Ratio (Target Sectors/ Rest of Portfolio)	Value of Loans in Target Sectors (Guaranteed and Non-Guaranteed)	Value of Loans in Rest of Portfolio	Ratio (Target Sectors/ Rest of Portfolio)
2008–2009	867	18,316	4.7%	49,752,866	1,092,187,957	4.4%
2009–2010	578	13,500	4.3%	43,344,664	1,108,451,407	3.9%
2010–2011	1,518	25,925	5.9%	48,058,573	1,227,682,238	3.9%
2011–2012	4,572	37,122	12.3%	77,570,740	1,563,914,337	5.0%
TOTAL	**7,535**	**94,863**	**7.9%**	**218,726,842**	**4,992,235,939**	**4.4%**
Average Loan Value			**29,028 (Target)**			**52,626 (non-target)**
Percent Change from Baseline	**171%**	**88%**	**-42%**	**58%**	**62%**	**-14%**

Looking at new borrowers, the percentage of new borrowers in the target sector during the baseline period was 31 percent, compared to 44 percent during the guarantee period—another indication of SOGESOL's increased focus on the target sector during the DCA guarantee.

Although the loan data that SOGESOL provided to the evaluation team indicated that SOGESOL had not developed any new sectors, the section below examines changes in activities within the productive sector during the guarantee period.

According to SOGESOL officials, the DCA did not influence its credit policy but made them more comfortable to explore other small, productive sectors. These assertions will be explored by comparing pre- and post-earthquake credit transactions and borrowers' information both under the DCA guarantee and outside the DCA guarantee (see *Tables 11 A and B*and *Tables 12 A and B* below).

Table 11: Pre/Post-Earthquake Loan Distribution by Activity (SOGESOL)[38]

A -- SOGESOL DCA Guarantee Loan Distribution by Activity Pre- and Post-Earthquake						
	Pre-Earthquake		Post-Earthquake		Increase	
	Value of Loans	# of Loans	Value of Loans	# of Loans	Value of Loans	# of Loans
AGRICULTURE			***717,000***	**33**	New Sector	

[37] October 1-September 30

[38] Loan volumes are in Haitian gourdes

A -- SOGESOL DCA Guarantee Loan Distribution by Activity Pre- and Post-Earthquake						
	Pre-Earthquake		**Post-Earthquake**		**Increase**	
	Value of Loans	**# of Loans**	**Value of Loans**	**# of Loans**	**Value of Loans**	**# of Loans**
Agro-business			388,500	22	New Sector	
Florist			220,000	10	New Sector	
Vegetable producers			108,500	1	New Sector	
FISHING	***350,000***	***2***	***2,086,800***	***86***	***New Sector***	
HANDICRAFT	***2,834,617***	***39***	***5,371,267***	***114***	***90%***	***192%***
Artisanal	2,827,800	38	3,307,767	87	17%	129%
Jewelry maker	6,817	1	2,063,500	27	30172%	2600%
MANUFACTURING	***31,515,185***	***270***	***72,589,256***	***1,172***	***130%***	***334%***
Bakery	9,111,401	81	13,061,003	364	43%	349%
Alcohol producers			13,000	1	n.a.	n.a.
Treated Water	2,796,003	7	3,631,345	74	30%	957%
Carpentry	587,000	21	3,287,497	118	460%	462%
Ironsmith	45,000	3	2,720,300	60	5945%	1900%
Printing press	2,721,481	38	23,137,767	214	750%	463%
Manufacture, unspecified	6,000,000	2	2,115,448	5	-65%	150%
Shoemaker	310,899	14	1,068,807	76	244%	443%
Production of bowl			109,500	21	n.a.	n.a.
Tailoring	1,873,400	58	3,830,587	134	104%	131%
Block Factory	8,070,001	46	18,883,002	102	134%	122%
Ice Factory			731,000	3	n.a.	n.a.
TRADE/COMMERCE	***100,000***	***1***			***-100%***	***-100%***
Wholesale of miscellaneous	100,000	1			-100%	-100%
OTHER SERVICES			***110,000***	***5***	n.a.	n.a.
Dry Cleaning			110,000	5	n.a.	n.a.
TOTAL	**34,799,802**	**312**	**80,874,323**	**1,410**	***132%***	***352%***
Loan amount per client	***111,538***	***/ client***	***57,358***	***/ client***	***-49%***	***/ client***
Number of activities	***12***		***18***		***50%***	

Under the DCA guarantee, a comparison in the volume of money borrowed shows that there was an increase in credit of 132 percent and an increase of 352 percent in the number of clients. For a one and a third-fold increase in the volume of money borrowed, there was almost a three and a half-fold increase in the number of clients under guarantee after the earthquake. The average volume of loan per client decreased by 49 percent from 111,538 gourdes to 57,358 gourdes, while the number of activities financed grew by 50 percent. SOGESOL put more clients managing varied activities under the guarantee by multiplying the number of loans and reducing their volume.

Regarding the non-guaranteed portfolio, comparing the pre-earthquake volume of loan transactions versus the post-earthquake (column 1 versus column 3), one can see from *Table 11 B* that there was a five-fold increase after the earthquake in the volume of money borrowed, whereas there was a much greater increase (about 10 times)[39]in the number of borrowers who received loans when one compares the number of clients for the same period (column 2 versus column 4). Thus, for a five-fold increase in the volume of loan transactions, there was almost a ten-fold increase in the number of clients SOGESOL reached that were not under guarantee after the earthquake. However, similar to the loans under guarantee, the non-guaranteed loan amount per client decreased by 45 percent from about 37,289 gourdes to 20,573 gourdes, whereas the number of activities financed grew by 136 percent. As with the guarantee, SOGESOL made an effort to extend credit to more clients conducting many more activities not under the guarantee by reducing their loans in volume after the earthquake.

Looking at the last two columns, one can see that SOGESOL's post-earthquake strategy was multiform: SOGESOL financed some 26 new activities (i.e., straw products, livestock, animal husbandry, alcohol production, ice factory), and reinforced most of the 11 pre-earthquake activities, except for jewelry, shoemaking, and fishery. Thus, it more than doubled its scope of activities that were not under guarantee. In some cases, such as bakery, SOGESOL reduced the volume of money borrowed but increased the number of borrowers (a reduction of -15 percent for the volume of loan transactions but a one and a half-fold increase in the number of loans).

B -- SOGESOL Non-guaranteed Loan Distribution by Activity Pre- and Post- Quake

	Pre-Earthquake		Post-Earthquake		Percent Increase	
Activity	**Value of Loans**	**# of Loans**	**Value of Loans**	**# of Loans**	**Value of Loans**	**# of Loans**
AGRICULTURE			***33,403,396***	***1,600***	***New Sector***	
Agriculture, general			4,225,336	822	New Sector	
Livestock			1,403,681	168	New Sector	
Animal Husbandry			316,895	10	New Sector	
Florist			130,040	11	New Sector	
Gardening			27,327,444	589	New Sector	

39 [(2,474-226)/226]*100

B -- SOGESOL Non-guaranteed Loan Distribution by Activity Pre- and Post- Quake						
	Pre-Earthquake		**Post-Earthquake**		**Percent Increase**	
Activity	**Value of Loans**	**# of Loans**	**Value of Loans**	**# of Loans**	**Value of Loans**	**# of Loans**
FISHERIES, AQUACULTURE	***1,037,201***	***39***	***637,652***	***30***	***-39%***	***-23%***
HANDICRAFT	***197,096***	***11***	***345,362***	***18***	***75%***	***64%***
Flags for Voodoo Temple			27,808	4	New Sector	
Embroidery			15,932	2	New Sector	
Wooden Plates (Acajou)			35,894	1	New Sector	
Candle Shop			32,415	1	New Sector	
Wood decorations	5,808	1	26,292	4	353%	300%
Ceramic decorations			21,571	1	New Sector	
Jewelry	191,288	10	185,450	5	-3%	-50%
MANUFACTURING	***7,193,029***	***176***	***16,510,824***	***826***	***130%***	***369%***
Straw Products (Chairs and Hats)			16,177	2	New Sector	
Charcoal	376,238	13	3,037,613	383	707%	2,846%
Alcohol and other beverages production			725,602	45	New Sector	
Shoemaker	132,078	11	86,540	6	-34%	-45%
Treated water	399,583	13	1,282,445	42	221%	223%
Carpentry	560,749	23	1,549,540	55	176%	139%
Ironsmith	199,400	6	419,967	19	111%	217%
Printing	1,418,571	40	2,668,542	58	88%	45%
Mahogany			38,257	7	New Sector	
Bakery	2,993,496	47	2,546,348	120	-15%	155%
Bowl production[40]			14,899	6	New Sector	
Tailor	346,818	20	684,383	46	97%	130%
Block Factory	766,096	3	2,768,477	29	261%	867%
Ice Factory			672,034	8	New Sector	
TOTAL	**8,427,326**	**226**	**50,897,232**	**2,474**	**504%**	**995%**
Loan amount per client	***37,289***	***/ client***	***20,573***	***/ client***	***-45%***	***/ client***
Number of sectors	***11***		***26***		***136%***	

[40] Owl can be in aluminum, ceramic, or wood

Although SOGESOL's post-earthquake strategy was the same for both the DCA-guaranteed and the non-guaranteed portfolio (i.e., to extend more loans to fund more activities by reducing loan amounts), the average concentration of loans per client under the guarantee was higher both for the pre-earthquake and the post-earthquake period. SOGESOL definitely took a higher risk with clients under the guarantee than with the others.

Loan Terms. As shown above, the average loan size to the target sector changed by -42%, from 49,925 gourdes to 29,028 gourdes. SOGESOL reduced the average loan amount, while increasing the number of loans made to the target sector. Unfortunately, SOGESOL was not able to provide the team with the median loan sizes or the frequency distribution of loan sizes.

Examining loan tenors, one finds that the average tenor for loans in the target sector changed from 7 months during the baseline period to six months for non-guaranteed loans and seven months for guaranteed loans during the guarantee period. As presented under outputs, SOGESOL made little to no change in loan tenors for the target sector.

The average interest rate pre-guarantee for loans to the target sector was 4.4 percent, compared with 4.3 percent for DCA-guaranteed loans and 4.5 percent for all other loans to the target sector during the guarantee period. Again, little to no accommodation was made to draw new clients with lower interest rates.

According to SOGESOL data, collateral is not required.

- *MCC*

Loan Portfolio and Terms. The data MCC provided to the evaluation team did not differentiate between loans to a target sector versus the rest of its portfolio. However, loans to sectors outside trade and commerce made up only 0.06 percent of all loans granted during the guarantee period. In fact, as shown in *Table 12 A and B,* MCC provided only three loans to new sectors, all under the DCA guarantee. Therefore, although one can compare the change in number and value of loans during the baseline period with later periods, and between pre- and post-earthquake, no target sector versus non-target sector data are available.

Table 12: Pre-/Post-Earthquake Loan Distribution by Sector (MCC)

A: MCC Guaranteed Loan Distribution by Sector Pre- and Post-Earthquake						
	Pre-Earthquake		Post-Earthquake		Increase	
Activity	Value of Loans	# of Loans	Value of Loans	# of Loans	Value of Loans	# of Loans
Agriculture			1,085,546	2	New Sector	
Construction			289,104	1	New Sector	
Commerce	3,846,892	18	32,715,334	109	750%	506%
Total	***3,846,892***	***18***	***34,089,984***	***112***	***786%***	***522%***
Loan amount per client	***213,716***	***/client***	***304,375***	***/client***	***42%***	***/client***

The MCC data for the guaranteed loan distribution show that for trade and commerce both the volume of money borrowed increased as well as the number of clients, respectively seven times and five times. Thus, there was a seven and a half-fold increase for the first and a five-fold increase for the second[41]. Both pre- and post-earthquake loans focused more on clients with average loans higher than SOGESOL client loans, even for clients under the DCA. Agriculture and construction were put under the guarantee after the earthquake, although they represented only 3 percent of the total post-earthquake volume and number of loans.

B: MCC Non-guaranteed Portfolio Loan Distribution by Sector Pre- and Post- Earthquake						
	Pre-Earthquake		Post-Earthquake		Increase	
Activity	Value of Loans	# of Loans	Value of Loans	# of Loans	Value of Loans	# of Loans
Commerce	423,735,987	3417	354,800,821	1,176	-16%	-66%
Loan amount per client	***124,008***	***/client***	***301,701***	***/client***	***143%***	***/client***

The data for the non-guaranteed loan distribution for MCC show that MCC was concentrated in one sector before the earthquake—trade and commerce. After the earthquake, the volume of money borrowed and the number of clients declined respectively by -16 percent and -66 percent. The non-guaranteed loan amount per client rose from about 124,000 gourdes to 300,000 gourdes when one looks at the average loan per client. Unlike SOGESOL, both MCC portfolios increased the average amount of money loaned per client, although the increase was much greater for the non-guaranteed loans.

41 This confirms the guarantee was used post-earthquake for MCC

As shown in *Table 13*below*,* MCC's portfolio of non-guaranteed loans grew in number, value, and average value between baseline and the two periods for which there is data. MCC also gradually increased loan tenors by one month each period and decreased interest rates by 10 percentage points between baseline and the second period observed. Without any other data, it is difficult to say to what extent this portfolio expansion and easing of loan terms are attributable to the DCA guarantee, but given that the guaranteed loans represented only 1 to 2 percent of MCC's loan portfolio during 2007–2012, it appears that the guarantee had little influence on the portfolio growth. In addition, the growth seems to have been fueled primarily by additional and higher loans given to existing customers rather than by increasing the proportion of new borrowers—a finding consistent with the post-earthquake non-guaranteed data presented in *Table 12 B* above.[42]

In addition, as discussed under outputs, according to MCC officials, the lender granted guaranteed loans to borrowers who were on the verge of losing their businesses because of fire or robbery, in an attempt to restructure. Many of those borrowers still could not use their loans to restart their business[43]. This strategy is obviously not consistent with growing a portfolio.

Table 13: MCC Loan Portfolio

Loan Period	# of Loans to Target Sector	Value of Non-Guaranteed Loans to Target Sector	Average Loan Value	% New Borrowers	Average Tenor	Average Interest Rate
Baseline (2004–2007)	4,599	344,032,614	74,806	48	7	50
2007–2010	3,563	695,785,070	195,281	41	8	43
2010–2012	6,034	1,657,679,134	274,723	46	9	40

As for collateral requirements, MCC officials said it does not distinguish between borrowers or sectors, only by the amount of the loan. As E3/DC representative Ana Luisa Pinto found during an August 2012 monitoring visit, MCC requires a land title only for loans of 800,000 gourdes and up. Julio Larosiliere, MCC's director, explained:"while the institution cannot seize the borrower's land in case of default as it is not registered, it does put moral pressure on the borrowers to repay their loan. The majority of the loans are unsecured and they usually have a co-signer. Although MCC could take a borrower's assets such as their inventory, it ends up being very expensive for them to collect, store, and sell."[44]

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42 We cannot account for the discrepancy between the figures presented in Table 13 for 2012–2013 and those presented in Table 12b for post-earthquake. One would assume these numbers would be the same, but they came from two different data sets obtained at different times from MCC

43 The qualitative data collected from MCC borrowers reveal that eight of the nine were victims of fire and the other one of robbery. The eight were still paying late fees and obviously could not get another loan from MCC. Clients of SOGESOL did not face the same tragedy: two were victims of robbery and one was paying a penalty. Out of the nine merchants of MCC, four had loans whose amount was at least 200 thousand gourdes. Basically, none of SOGESOL's clients who were victims had this level of loan

44 Pinto, A.L., *DCA Guarantee Progress Report Memo*, USAID/E3/DC, September 21, 2012

Conclusions

The quantitative and qualitative findings lead to the conclusion that SOGESOL did, indeed, increase credit to the target sector outside of the guarantee in terms of number of loans, but not loan value. SOGESOL mitigated the risk of providing many more loans to finance new activities by reducing the average loan amount. SOGESOL used the guarantee as a catalyst to lend to more borrowers in a greater variety of productive sectors. The DCA allowed SOGESOL to gain a better knowledge of sectors by taking the risk to explore them. Doing so, according to one of the lender officials, made SOGESOL feel more at ease to move into other sectors.

SOGESOL did not alter its loan terms to attract new borrowers, however. Every financial institution has to balance loan terms, risk, numbers, and values of loans to stay in business. Yet, as discussed under outputs, one size does not fit all and SOGESOL may need to develop variations in its loan products to cater to different activities.

MCC did not proceed the same way as SOGESOL. Although there was a post-earthquake increase in the volume of money borrowed and the number of clients that it put under guarantee, the lender did not extend credit to any new sectors outside the guarantee. MCC used the guarantee as a reserve for the lender. It granted guaranteed loans to borrowers whose businesses were in trouble, in an attempt to restructure the loans. Therefore, the DCA guarantee was not responsible for the growth in MCC's portfolio outside the guarantee.

Motivation also plays a role. SOGESOL was clearly motivated to explore new business activities, whereas MCC primarily stuck with its existing sector.

Recommendations

USAID missions and E3/DC, in particular, should make it clear to lenders that the guarantee is to be used to mitigate the risk of increasing the supply of credit to target sectors and/or new sectors or to pilot a new loan product, rather than as a reserve against losses from existing borrowers whose businesses are in trouble. Although supporting such clients is a form of increasing credit, it does not increase credit to a sector or population as a whole, but only to a small set of existing clients. Even those clients realized little benefit from their restructured loans from MCC, as they were still unable to repay. In addition, in USAID's initial assessment of a potential partner financial institution should include a detailed assessment of its strategy and motivation to use the guarantee to increase credit supply to target sectors.

USAID should also encourage lenders to consider how best to increase credit to a target sector, whether it be through improving loan terms, developing new loan products, or simply extending credit to one or more sectors new to the lender.

Given the positive outcome of the guarantee with SOGESOL, USAID may find it worthwhile to explore additional guarantees with other Haitian lenders (SOGESOL has a new guarantee signed in September 2012 to support housing microfinance.)

Outcome Achievement Borrower: Evaluation Question 1

1.1. Did borrowers seek loans before and after the guaranteed loan from the partner financial institution or other financial institution? If so, were the requests successful? To what extent were the DCA guarantees responsible for improving the borrowers' willingness to seek credit?

1.2. What factors were critical in obtaining the results?

How these Questions Were Addressed

The DCA revised evaluation framework does not provide any indicators for these questions. The team decided to use data collected from the field to address this question. The survey instrument and the borrower interview guide provide indicators for the questions.

To describe the borrowers' situation before they started taking credit, the evaluator used Question 7 in the survey instrument. The question is formulated as below with seven alternative responses.

7	Prior to receiving your first business loan from a lender, how did you finance your business?	1 = I used my own money 2 = I borrowed from my family or friends 3 = I used a money lender 4 = I used a government program or NGO 5 = I used a cooperative 6 = I used a microfinance institution 7 = OTHER (please explain) 99 = No response/ not applicable

Second, to find out whether borrowers had taken loans from other institutions before or after they obtained credit from SOGESOL or MCC, the evaluator used the borrower interview guide by asking the following questions:

- Prior to obtaining a loan from this lender, did you seek credit previously [from another institution]either with this lender or another? Please describe the experience (Question 9).
- Have you attempted to obtain any additional loans [from another institution] since you received your first loan from this lender? Please describe the experience (Question 10).

On the lender side, we have previously seen that the DCA liberated SOGESOL and created an impetus to extend credit to additional sectors by reducing the amount of loans per client. This is on the supply side. This change occurred when one compares pre- and post-earthquake guarantee and non-guarantee data. If on the borrowers' side there was a 'demand' for more loans, ceteris paribus, one can then talk about credit willingness, because the borrowers were taking advantage of that credit availability.

Thus, to assess the borrowers' willingness to seek credit, the evaluator made the hypothesis that those who had taken more loans after the earthquake than before were more credit-prone than those who had taken fewer. If the majority of borrowers had taken more loans, that movement should indicate an increased willingness to seek credit. Therefore, the evaluation compared first the number of loans they had taken before the earthquake and after the earthquake using the dates of the loans to classify them chronologically. The following question from the guide allows the evaluator to provide a response to the issue:

- How many loans have you already obtained from the lender? And, what is their value? What date(s)? Why did you look for the loan(s)? Are there changes in the terms of the loans (interest rate, tenor, size, collateral requirements)? (Question 2).

The responses given to the number of loans were classified into three categories:

0. None
1. One loan
2. More than one loan

Findings

Borrowers' First Source of Financing their 'Business'. The data reveal that most borrowers had financed their business with their own money before taking credit from one of the partners (95 percent). Most borrowers declared they had not taken loans prior to gaining access to credit from SOGESOL or MCC. Only one out of five respondents had taken a prior loan from another lender. The qualitative data revealed some exceptional occupational moves of borrowers from being security guards in a private home to selling food products or from being a mason to selling clothes and shoes. This pattern can be seen as being indicative of their entrepreneurial spirit. It is not surprising that no one declared having taken a loan from a friend or a family to start a business, given the quasi-cashless nature of the country's economy and the secrecy that surrounds the implementation or the management of a 'business'. Generally, entrepreneurs believe that other peers can take away their luck via magic or 'voodoo' through money lending or borrowing[45].

Borrowers' Loan Search. In spite of the borrowers' complaints about the interest rate of their loans, most remained loyal to the institutions that gave them credit. A whole network of relations exists that persuade borrowers to make the move to a credit institution and to stay there. Their choice and loyalty depend very much on the treatment they receive from the partner lenders' loan officers and the network of friends who encouraged them to seek loans, according to the declarations of some of them during the evaluation's fieldwork. Once they became clients of a partner lender, they tended to stay with this institution. The data show that only two borrowers out of 29 searched for credit from other lenders after they had received a loan from DCA partner lenders.

45 Taking away someone's luck is part of the Haitian folklore, especially very common among business folks. For some details about voodoo dynamics, see Yves-François Pierre. 2007. book review: *Migration and Vodou* by Karen E. Richman. Gainesville, University Press of Forida: Westview Press in *transforming anthropology*.Journal of the Association of Black Anthropologists (forthcoming in: ta 15 (2)[Fall 2007]

Borrowers' Willingness to seek Credit as indicated by the number of loans taken before and after the earthquake. As mentioned earlier, the number of loans before and after the earthquake was taken as a proxy for willingness to seek credit. *Table 14* shows the findings.

Table 14: SOGESOL Borrowers' Number of Loans Pre-Earthquake by Number of Loans Post-Earthquake

Number of loans pre-earthquake	Number of loans post-earthquake			
	None	One	Two or more	Total
None	0	6 (67%)	3 (33%)	9
One	1 (25%)	0	3 (75%)	4
Two or more	0	0	8 (100%)	8
Total	1 (5%)	6 (29%)	14 (66%)	21

Percentages are the number of borrowers post-earthquake divided by the total number of borrowers pre-earthquake in each loan category.

The data above show that almost all the SOGESOL borrowers interviewed took additional loans after the earthquake. Overall, there is only one SOGESOL client in the whole sample who had taken one loan before the earthquake and who had not taken any after the earthquake (column 1). All of the other 20 borrowers obtained additional loans. As shown in *Table 15*below, out of nine who did not have a loan before the earthquake, six received one loan afterwards and three obtained at least two loans afterwards. Out of four borrowers who had one loan before the earthquake, three got two loans afterwards. The eight who had at least two loans before still obtained two after.

Table 15: MCC Borrowers' Number of Loans Pre-Earthquake by Number of Loans Post-Earthquake

Number of loans before earthquake	Number of loans after earthquake			
	None	One	Two and more	Total
None	0	4 (67%)	2 (33%)	6
One	0	1 (100%)	0	1
Two or more	1 (50%)	1 (50%)	0	2
Total	1 (11%)	6 (67%)	2 (22%)	9

Percentages are the number of borrowers post-earthquake divided by the total number of borrowers pre-earthquake in each loan category.

Some MCC borrowers obtained additional loans after the earthquake, but not to the extent of the SOGESOL borrowers. Out of six who had no loan prior to the earthquake, four got one and two got two afterwards. However, the two borrowers who had at least two loans pre-earthquake obtained one or no loan afterwards. One borrower did not make any move because he had one loan before the earthquake and one after.

Borrowers' Willingness to seek Credit as indicated by the change in credit score[46]**.**Comparing borrowers' credit scores on the scale for previous loans versus what they obtained for current loans[47], the following is observed. Among SOGESOL borrowers, only three had experienced no change from their previous level of credit score and one a decline. In other words, the great majority of clients (69 percent) had benefited at least one point from their previous loan and 46 percent at least two points (see *Table 16*below).

Table 16: Change in Credit Score, SOGESOL Borrowers

Scores*	Frequency	Percentage	Valid percentage	Cumulative Percentage
5	1	4.8	7.7	7.7
4	1	4.8	7.7	15.4
3	1	4.8	7.7	23.1
2	3	14.3	23.1	46.2
1	3	14.3	23.1	69.2
0	3	14.3	23.1	92.3
-1	1	4.8	7.7	100
.	8	38.1	(Missing value)	
Total	**21**	**100**	**100**	

* Current score on the credit scale minus previous score on the credit scale.

As shown in *Table 17*below, MCC borrowers show a similar tendency to jump class from previous to actual loan amount. Most of them (five out of eight respondents, or 63 percent) had made at least one jump over the credit ladder and 38 percent gained at least two points. None of the borrowers experienced a decline. Here again, there is a positive spread on the scale.

Table 17: Change in Credit Score, MCC Borrowers

Scores*	Frequency	Percentage	Valid percentage	Cumulate Percentage
5	1	11.1	12.5	12.5
3	1	11.1	12.5	25.0
2	1	11.1	12.5	37.5
1	2	22.2	25.0	62.5
0	3	33.3	37.5	100.0
.	1	11.1	Missing	
Total	**9**	**100**	**100**	

* Current score on the credit scale minus previous score on the credit scale.

46 See methodology section on page 9 for more details.
47 Current score on the credit scale minus previous score on the credit scale

Conclusions

The above analysis shows that borrowers from both partner lenders used their own money to start a business instead of borrowing from friends or family or from other credit sources. Most borrowers remained 'loyal' to these lenders once they obtained their DCA-guaranteed loans, indicating positive relations with the loan officers. Borrowers from SOGESOL and from MCC became more willing to seek credit after they received their first loan. The fact that borrowers obtained additional loans suggests they likely increased their business sales, since the lenders would not have approved the additional loans if the businesses' financial data could not support approval. The DCA guarantees definitely contributed to improving these borrowers' willingness to seek credit from the partner lenders, although the lack of extensive data does not allow the evaluator to generalize this conclusion to the rest of the DCA-guaranteed borrowers.

By the same token, the borrowers' businesses benefit from the extension of credit and adoption of new business procedures to qualify for loans, both of which solidify the existence of the MSMEs. Borrowers benefit from the DCA-guaranteed loan despite not being aware of the added benefit (that their loan is being guaranteed). It is a new experience for most borrowers, who had never gone to a lender. From a business perspective, it is an added benefit for a small enterprise to attempt to formalize, even partially, its business in response to lender requirements (e.g., make timely payments, providing proper financial documentation). All that is taken for granted in a modern business is a new learning experience for MSMEs.

As discussed under outputs and outcomes, the SOGESOL credit system is more 'aggressive' and targets a lower and more diversified rung of the credit population as opposed to MCC, which targets a higher, less risky and less diversified rung of that population. Because of such a strategy, SOGESOL should be more prone to respond to the credit needs of the majority of the Haitian productive sector, given the lack of financial means of this sector.

Recommendations

Both lenders and USAID (missions and E3/DC) need to be clear on how they can best support the target sector in a given country. In addition to recognizing the importance of the relationship between loan officers and borrowers in Haiti, MSME borrowers in general benefit from training in proper financial recordkeeping and other good business practices, as demonstrated both under the impact section below and in other DCA evaluations. USAID missions, especially, should ensure that such training and the DCA are closely coordinated. The more lenders can help their MSME clients, the more both would benefit.

USAID should also encourage lenders to target needier and more diverse business owners with the guarantees by understanding better how these businesses function and what their needs are. Again, such assistance could be coordinated with other USAID or other donor training programs.

IMPACT ACHIEVEMENT: EVALUATION QUESTIONS 10 AND 11

What additional insights can you provide that access for loans improved for the targeted sectors? What role did the DCA play as demonstration model?

Did non-partner banks/financial institutions initiate or increase lending to the target sectors? If so, to what extent was the DCA guarantee to partner responsible? How and why?

How this Question Was Addressed

The question is best addressed by looking at the following: 1) loan application process; 2) the relationship of the creditor with the lender; and 3) the perspectives of other financial institutions.

The ease of applying for a loan is a manifestation of the willingness to lend. Inversely, the more complex the application process, the harder it will be to obtain a loan. The loan approval process can reflect the level of credit accommodation, especially to the MSMEs, provided that the process is easy and straightforward. On the contrary, the same application process can impede the growth and the smooth functioning of the microcredit sector. The borrower's sole concern is a user-friendly experience. A lengthy and complicated application can only increase the fear and the agony of many borrowers, thus decrease the availability and the absolute demand for the credit.

The second approach examines the interrelationship between the parties, which indicates credit worthiness. Haitian bankers are risk adverse as they have traditionally invested in the export and foreign exchange sector. The banking industry has historically minimized risk with a personal approach, believing that familiarity is the best insurance policy[48]. Following the same procedure in the informal sector would broaden the pool of lenders and facilitate economic growth. The DCA multibank guarantee is an added incentive for partners to venture into risky territory. The data presented on lender outcomes revealed that credit has been extended to new sectors, specifically by SOGESOL.

Findings—Application Process and Credit Relationships

The field observations reveal that the application process is relatively easy, as declared by lender loan officers and borrowers. The applicant attends a seminar, which walks the applicant through the requirements for obtaining a loan. After meeting the requirements, a loan officer proceeds to further evaluate the credit worthiness of the applicant[49]. These processes are the same for both SOGESOL and MCC.

[48] IMF Country Report No. 13/90: Haiti: 2012, Article IV Consultation and Fifth Review Under the Extended Credit Facility

[49] Individual's requirement
The loan must be for a business
The applicant must be between 21 and 55 years old
The individual must be in business for over one year in a permanent location

The SOGESOL loan officer's obligation to link borrowers by associating them with three other vendors at the location has many advantages. It provides greater assurance for the loan repayment due to cultural pressure[50], and engenders a closer tie between lender and borrower, while increasing the pool of possible borrowers. Post-earthquake, partner lenders relaxed their policy to a single co-signer rather than using personal collateral, such as a refrigerator or other object of value, in order to respond to the borrowers' urgent need of assistance. As shown in the above chapters, this modification has proven to be an efficient way of extending credit.

Lenders traditionally use a top-down approach, whereby management would dictate new credit directions. In the particular case of SOGESOL, the institutional arrangement is a bi-directional flow rather than unidirectional flow. From a supply side, the role of the loan officer is vital to the system[51]. He or she plays many roles in facilitating: a) the application, b) the loan default rate, and c) the execution of management's vision. The time for adjustment to new lending practices was therefore easier and facilitated the implementation process to attain the desired result of extending credit to new sectors.

In a loan officer's daily routine, there are sometimes late payment notices, given that SOGESOL has an aggressive collection policy. It is the loan officer's obligation to notify the borrower of his availability at the office in order for the account to be brought up to date, and the late fee is applied accordingly. Consequently, two objectives are achieved. One is the recovery agent recovers as much of the loan as possible while protecting the borrower from falling further behind. The borrower feels indebted to the loan officer in spite of the delinquency. The loan structure and credit evaluation is fairly rigid. It is tailored to meet the revenue stream of the business and focused on the way in which existing and new working capital generate income, thus focusing on the borrower's ability to repay the loan, rather than the assets they can use as collateral[52], thus the emphasis is on loan performance even at this level.

Using the loan performance data, the loan officer can set the maximum loan limit that can be obtained, thus reducing the delinquency rate. From the borrower's point of view, he or she has

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While the first two requirements are easier to verify, the last can pose a problem given that the location of the creditor as vender is mobile.

50 Haitians culturally are very sensitive to being associated with bad credit

51 1- Each loan officer in the branch is responsible for a particular zone, thus is assigned to an applicant with the closest proximity
2- Each day, the loan officerreceives a list of new loan applicants and that of delinquents by one day- (the date of the last payment, and whether that payment was a full payment or a partial one)
3-The lists determine the daily itinerary of the officer, fixed from 9 am–2 pm. The itinerary is submitted to the branch officer for approval

52 The loan officer calculations in the field are:
The profitability of the business, and of the family;
The debt coverage ratio based on the proposed monthly payment divided by the amount the family has left at the end of each month;
The liquidity of the business;
The ratio of the requested loan amount to the amount of working capital already in the business is calculated by subtracting the short-term liabilities of the business from its short-term assets

access to credit limited by his or her ability to increase revenue, not by his or her request or loan application for funds.

The equilibrium between supply and demand for loans is not determined by the rate of interest, but rather by the flow of revenue from the demand side. The MSME borrowers still benefit from a rate of interest that is less than the usurer rate, yet greater than for the formal sector. On average, the nominal loan interest rate (as stated in the loan agreement) offered by MFIs in Haiti varies between 2 percent and 5 percent per month. However, projected portfolio fees, loan tenor (six months on average) and savings obligations[53] sometimes not met put the effective interest rate paid by the borrower at between 71 and 74 percent, depending upon the institution. The effective interest rate for bank loans to MSME borrowers has been, on average, 83 percent; 85 percent for NGO loans; 71 percent for cooperative loans; and 55 percent for foundation loans.[54]It is important to note that NGOs and associations borrow from banks under market conditions for 'loans to formal enterprises,'[55] thereby pushing the interest rates they charge their borrowers higher than those from MFIs.

Findings--Perspectives of other Institutions

For a broader understanding of the impact of the DCA on credit to SMEs, it is worth examining the views of other institutions aiming at extending or supporting credit to SMEs, including SOFIHDES and MCN, as well as the Technical Assistance project HIFIVE, and the Central Bank of Haiti.

- *SOFIHDES*

Although, it does not provide microcredit, SOFIHDES was created in the 1980s by the Haitian private sector to serve as a credit institution to SMEs with the financial and technical help of USAID. The private sector was asked to come up with $1 million in order to receive a $4-million preferential loan from USAID[56].

In 2011, the institution had a portfolio of 465 million gourdes and 110 clients; in 2013, its portfolio rose to 750 million for a total of 200 clients. Eighty percent of SOFIHDES's lending goes to SMEs and 20 percent to large businesses. It generally grants 50 new loans per year and the average size of the loans is about $100,000.

According to SOFIHDES officials, its portfolio growth is attributed to the full use of a $5-million 2010 DCA guarantee facility (SOFIHDES also benefited from the 2008 DCA guarantee for $4 million.)They declared having taken more risk with the industrial and housing sector, while at the

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53 Borrower's obligation to leave a fraction or percentage of the amount of the loan in a locked account with the lender or to accumulate a fraction of the amount of the loan sought in a savings account. (Lhermite François, September 2012. Recensement de L'industrie de la Microfinance en Haiti. Année 2010-11.USAID/HAITI)

54 Lhermite François,September 2012. Recensement de L'industrie de la Microfinance en Haiti. Année 2010-11.USAID/HAITI, pp. 18-19. Figures from this document are from a sample of lenders surveyed that included MCN and SOGESOL

55 *Ibid,* p. 21

56 At a fixed interest rate of 4 percent for 10 years with a fixed rate of 5 gourdes for a dollar

same time they financed start-ups. The institution was able to use equipment as collateral and the DCA to extend credit to enterprises that did not have access to commercial bank credit.

SOFIHDES has received a$9.5-million guarantee for the period 2012-2018. Sixty percent will be used for construction, 25 percent for SMEs, and 15 percent for agro business.

SOFIHDES officials think that the DCA guarantee could have a three-fold use:1) to extend credit to entrepreneurs who cannot apply for a loan because they lack the initial deposit; 2) as a reserve for an advance they receive; and 3) more importantly, that it could be used as a revolving fund.

- *Micro Credit National*

Micro Credit National (MCN)was created in 1999 because its parent, Unibank, which was founded in 1993, wanted to make credit accessible to Haitian microentrepreneurs. Credit to SMEs started around 2006-07. According to MCN officials, the institution is the leader in microfinance matters and has the largest and the most diversified portfolio in Haiti. MCN has about five products in its portfolio: it operates traditional microcredit, consumption lending, SME lending, agricultural credit (since July 2011), and just started providing housing loans in May 2013. MCN has made credit facilities available for its clientele, such as line of credit and letter of credit. The portfolio for these five products stands at one billion and 40 million gourdes for a total of 19,300 clients. Credit to the SME sector absorbs 46 percent of the total value of the loans with only 2 percent being granted to large clients (about 360 borrowers). Agricultural credit has a portfolio of 56 million gourdes and 2,000 clients, with consumption loans totaling 25 million gourdes for about 1,000 clients. Thus, microcredit has a portfolio of about 479 million gourdes for 15,839 clients.

MCN used to have an interest rate lying between 2 percent and 5 percent. Now the rate is down to between 1.5 percent (the smallest rate) and 4 percent (the highest rate) due to a decrease of interest rates in the market caused by an oversupply of cash.

According to these officials, risk and vulnerability represent some of the major constraints faced by the MSME sector. Every political, social, and environmental event in the country has an impact on the microfinance sector. For instance, any subsidy promised by the government after a catastrophic event instills in borrowers the feeling that they do not have to pay back their loans; and very often, they act upon it.

In September 2012, MCN signed an agreement with USAID for a guarantee of$5 million to support agricultural credit, which started in July 2011. This guarantee will allow MCN to cover risk in agricultural activities at 50 percent in the Northern Corridor as defined by USAID (Cul-de-Sac, St Marc, and the Northern Department). This agreement excludes the financing of certain activities such as the transformation of sugar cane into *clairin* (a local alcoholic beverage) and certain pesticides.

In MCN officials' view, the DCA does not encourage the institution to take more risk in the agricultural sector as MCN is continuing its operations as usual, that is, with no change at all in its methodology. The creation of a harvest insurance would have been much more efficient than the DCA for supporting agricultural credit.

With respect to SOGESOL and MCC, MCN officials they think there is no DCA demonstration effect as they did not lose any clients to them. Quite the contrary, the MCN portfolio has increased in spite of the presence of such competitors. This may be due to the decrease in the interest rate, given that the DCA guarantee is not advertised.

- *HIFIVE (Haiti Integrated Financing for Value Chains and Enterprises)*

One of the important problems in the microcredit sector has to do with the conservative nature of the banks and the informality of the MSMEs. In order to facilitate their juncture, one needs to lower the banks' perception of risk while increasing the qualifications of the MSMEs because their informal nature makes them unbankable.

HIFIVE supports, via a system of grants, the diversification of products in microenterprises. It aims at expanding product services to agricultural producers in order to facilitate their financial inclusion. It gives agricultural credit to financial institutions and provides grant support to the local technical sector of financial institutions such as Fonkoze[57], SOGESOL, and MCC. HIFIVE also works with cooperatives ('CaissesPopulaires') as they are in a better position to provide agricultural credit to microentrepreneurs. HIFIVE, however, believes that the cost of doing agricultural credit is too high. Consequently, there is a need to reduce this cost by training agricultural experts in global positioning system (GPS) so that they can map the field for agricultural loan officers, as well as by mastering software that can allow them to carry out small risk analysis.

HIFIVE also believes that any kind of catastrophic risk insurance is also important to facilitate the extension of credit to the agricultural sector. Thus, the DCA guarantee mechanism could be used in partnership with the Haitian government as a provider of such insurance.

Conclusions

Banking in the informal sector is challenging at many levels. For a banker, finding the right mix between profitability and access to credit is a balancing act. Present field data pre- and post-earthquake have clearly demonstrated capital deepening, whereby the banking system has ventured into business sectors that are new territory. It has done so in search of profit in addition to fulfilling the needs of the largest sector of the economy—MSMEs. Several trends are at work, such as the reversal of the banking system by going to the people rather than waiting for the people to come to the lender, as well as the change of the relationship of the banker in order to adapt to its environment. The evaluation showed that with further incentive—namely, a guarantee mechanism from a major donor such as USAID—banks are more likely to push the barrier of lending.

[57] Haiti's Alternative Bank for the Organized Poor. Fonkoze claims to be, "the largest micro-finance institution offering a full range of financial services to the rural-based poor in Haiti." (fonkoze.org)

To reiterate, the DCA has improved access to loans for the targeted sectors, but the guarantee was used differently by the lenders. Whereas SOGESOL used it as a catalyst to open up lending to new sectors, MCC used it more as a reserve fund to protect mainly the trade and commerce sector by offering post-earthquake coverage to borrowers whose businesses were destroyed or severely hampered by natural or socio-political events. Other DCA guarantee partners, such as SOFIHDES, claim to have benefitted the MSME sector because of the guarantee, whereas MCN claimed the guarantee made no difference in its loan practices. Without additional data from these institutions, it is impossible to substantiate their officials' opinions, but it does not appear that the guarantees to SOGESOL and MCC influenced the behavior of other lenders.

Many other factors have contributed to MSMEs' access to credit, including their sector (although agriculture is especially difficult), lenders' level of risk tolerance, market and government forces affecting lender and borrower behavior, and assistance from other programs such as HIFIVE. What seems clear is that in order to bring financial institutions and MSMEs together, in addition to more availability of credit, training is needed to help them meet each other's needs.

Recommendations

If it has not done so already, USAID, with organizations such as SOFIHDES, lenders, and MSMEs, might want to analyze where the most unmet demand for credit exists in Haiti, which of the identified populations offer the best potential for generating economic growth, and how best to meet their credit needs. Training for both lenders and MSMEs is clearly needed and systems such as SOGESOL's that promote extensive loan officer-borrower interaction might be used as a model. In addition, the financial sector in general needs to understand how lending to MSMEs can be profitable. Although the solution will not be the same for every institution, USAID could facilitate this understanding through a study of best practices in pricing, product development, market analysis, and subsequent dissemination seminars or other vehicles.

MSMEs, on the other hand, need both the understanding and motivation to provide accurate financial data and repay their loans on time, as well as access to credit and market information and other resources available to them. Here, too, USAID could play a role as a facilitator with training programs that involve both the MSMEs and the banks so that they are not isolated from each other, but rather learn together about each other's needs.

As for E3/DC, the evaluator recommends that when considering whether to provide a guarantee to a particular institution, the risk tolerance, motivation, and interest of the institution in increasing access to credit to the target sector be thoroughly assessed through all available means (e.g., interviews with lender officials, examination of lender strategies and annual reports, and portfolio data.

INFLUENCES OF EXOGENOUS FACTORS: EVALUATION QUESTION 4

What exogenous factors affected the financial sector during the agreement period (from 2004–2013?) How have these factors also affected the performance of the multibank guarantee and, if so, why?

How this Question Was Addressed

The nature of the question requires a bird's eye view of major events and sectors that greatly affect the financial sector. It is necessary to look at the many natural disasters, political climate, banking, and regulations that have created major disequilibrium over the years. Then, the evaluation will make a quick assessment of their impact on the multibank agreement and its performance.

Findings

Natural Disaster: During the period between 2004 and the present, Haiti has suffered a series of calamities. Hurricane Ivan struck southwest of the island, causing millions of dollars of destruction of livestock and flooding. Soon after, Hurricane Jeanne picked up from Ivan and ravaged the northwest and the Artibonite region. The North suffered 1,870 dead, 2,620 wounded, 846 unknown, and 300,000 homeless, and the Artibonite region lost 3,000 dead in Gonaives while leaving the town a desert[58]. Hurricanes Isaac and Sandy are known to have done their share of destruction in August 2012 and October 2012. This is the end result of deforestation and poor planning. Consequently, hurricane season is renowned to cause major damage and human suffering. The population continuously remains fragile, with a financial burden.

Haiti was stunned by a major earthquake in January 2010, which left an estimated 300,000 dead and caused $7,804 billion in losses and damages[59.]

Financial Sector: The Haitian economy (GDP) contracted by 5.4 percent for FY 2009/10 and grew by 5.6 percent in FY 2010/11. This recovery was driven by growth in manufacturing, construction, and services, which picked up significantly after the earthquake. However, the momentum of the recovery slowed in 2012 to around 2 percent due to drought, higher food prices on the consumer price index, and slower construction and transportation activities. This slowdown was compounded by damage from Hurricanes Isaac and Sandy[60]. To help revitalize the economy, international organizations facilitated financing in agriculture and small-scale rural infrastructure and tried to improve the business environment.

58 Hurricanes Ivan and Jeanne in Haiti, Grenada, and the Dominican Republic, Compiled by the Joint UNEP/OCHA Environment Unit, Based on assessment reports from UN Disaster Assessment and Coordination (UNDAC) team members, October 2004

59 Haiti PDNA 2010 http://www.ipred-iisee.org/gtfbc/Haiti%20PDNA%20Document%20de%20Travail.pdf

60 Haiti/Wb: 2013/14 Strategy Focuses On Reconstruction And Capacity Building For Stronger Institutions http://www.worldbank.org/en/news/press-release/2012/09/27/haiti-strategy-focuses-reconstruction-capacity-building-stronger-institutions

The financial sector suffered tremendous losses from the damage inflicted by the earthquake. More than 30 percent of the buildings and branches of banks, MFIs, credit unions, and money transfer operators were destroyed or badly damaged. In the days immediately following the earthquake, severe liquidity problems mounted as banks were closed for some period. Mass pandemonium followed by the reopening, leading to long lines and waiting periods as people scratched for cash.

Haiti is ranked 174th out of 185 in the World Bank's ranking for ease of doing business[61]. This low-level ranking does not feed investors' appetite. This is manifested by a major industrial park in the north of the country named Caracol, with a potential employment of 20,000 workers[62]. It has limited tenants at present and is considered to be a 'work in progress.' Potential investors have been deterred by fear of social instability and lack of clarity over land rights.

The International Finance Corporation's (IFC's) Advisory Services (AS) in Haiti has supported disbursement of more than 450 MSME loans, valued at over $14 million since January 2010. As part of the AS project, IFC client SOGEBANK(the parent company of SOGESOL) initiated and continues to grow its SME portfolio, with $6.5 million in 337 loans outstanding as of June 2012.[63]

Legal Framework: Despite liberalization of the financial sector in 1995, there have only recently been moves to overhaul the legal framework. The laws date as far back as 1979. In the past, banks and cooperatives have defaulted. SOGEBANK lost $32 million of depositors' money. The loss incurred in the cooperatives was estimated to be $200 million, with the largest and renowned cooperative being Coeurs-Unis, leaving lawmakers paralyzed to act[64]. Currently, there are some specific bills governing banking and the informal sector, not yet signed by Parliament, which would allow the Central Bank to exert more control over the informal sector, according to Central Bank officials and an APB official. For example, one specific bill covers money laundering to protect depositors due to the deep wound caused by the lenders under President Aristide. By establishing a legal framework for this sector, these officials believed they are improving its access to credit. Their reasoning is that people do not want to invest in the MSME sector currently because it is not seriously regulated.

In July 2012, Haiti's President Martelly signed into law a general banking bill that, among other things, extends coverage to the microcredit field. Under the new law, the Central Bank does not regulate insurance companies, pension funds, savings and loan cooperatives, or MFIs. It can, however, supervise "every other category of company that conducts operations similar to those of banks, which the Bank of the Republic of Haiti can designate, taking into account the evolution of the economic and financial activities."[65] In addition, the law gives the central bank the right to

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[61] IFC, Economy Ranking http://www.doingbusiness.org/rankings

[62] The Clintons in Haiti: Can an Industrial Park Save the Country?
Read more: http://world.time.com/2012/10/25/the-clintons-in-haiti-can-an-industrial-park-save-the-country/#ixzz2RaWeHskt

[63] Coffee International Development: Evaluation of IFC LAC MSME SOGEBANK and SOGEBANK Mobile banking projects. October 2012

[64] CIA World factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/ha.html

[65] Copy of the new banking law published in *Le Moniteur*, Special No. 4, Friday, July 20, 2012, p. 4.

supervise all entities within a corporate group that are active in finance, as well as any company active in finance that is dominated by a financial group or conglomerate that the BRH monitors, thereby extending supervision to entities like MCC and SOGESOL.

To protect clients who could be potential victims of bank losses, the new law extends prohibition of money laundering to all financial institutions. Banks and other financial institutions are required to track and monitor all financial transactions to catch any dubious transactions that could be linked to money laundering activities.[66]

The new law also requires that a minimum reserve amount of 10 percent of a bank's gross profit (i.e., before taxes) be transferred to its reserve account before each dividend declaration or each transfer of profit to the bank's headquarters or elsewhere.[67] According to a SOFIHDES official, most banks were required to maintain a reserve of 35 percent in their reserve accounts, which does not leave them enough funds to lend to MSMEs. In addition, the law allows for preferential minimum reserve amounts for housing loans, whether private or commercial,[68] which should help boost financing to MSMEs that need to build new facilities or rehabilitate old ones. The law allows banks and other financial institutions to seize belongings or property in the case of default,[69] which should hopefully encourage these institutions to reduce cash collateral requirements for MSMEs.

Political Front: The political front has been a major source of instability, with each election and elected president adding fuel to the fire. Briefly, the election of Jean Bertrand Aristide, despite a large popular support, did not add much stability to the country. Instead, a rift was created, leading to increased tensions between his opponents and supporters. A coup occurred in 2004 which led to street clashes leaving at least 70 dead and hundreds injured, followed by looting in the area of Port-au-Prince. This mayhem led to international pressure to demand a UN resolution to send an international force to ensure peace and security, which culminated in the UN Mission for Stabilization.[70]

In addition, 2011 marked the return of two ex-presidents from exile—ex-Dictator Jean Claude Duvalier in January 2011, followed by exiled ex-President Jean Bertrand Aristide on March 18 after seven years in exile. The net result has been political speculation and further uncertainty on the upcoming election. The election of President Michel Martelly in 2011was marred by electoral mishap, including alleged fraud.

Effects on the Multibank Agreement. The above natural and political events have affected the multibank agreement at various levels, as indicated by the two amendment letters to the lenders[71].

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66 *Ibid,* p. 55.
67 *Ibid*, p. 21.
68 *Ibid*, p. 58.
69 *Ibid*, p. 60.
70 CIA World Factbook
71 See Letter amendment to Capital Bank Guarantee Agreement No. 521-DCA-07-03A (Haiti). September 28, 2010; Letter amendment to SOGEBANK Guarantee Agreement No. 521-DCA-07-03B (Haiti). September 28, 2010.

1) There has been a change in the criteria for qualifying borrowers, which now include not only SMEs but also MSMEs in productive sectors that use a qualifying loan for a qualifying project that has the potential to stimulate economic growth, create new jobs, and/or increase trade opportunities for Haitian business.

2) There has been an extension of the geographical areas covered by the Agreement, since qualifying borrowers could reside in any of the following five communes: Port-au-Prince, Pétion-Ville, Delmas, Carrefour, and Tabarre.

3) There has been a change in the standard terms and conditions of a qualifying loan since "the guaranteed party may restructure a qualifying loan without the written consent of USAID, as long as such qualifying loan…demonstrates reasonable assurance of repayment."

4) Lastly, there has been a change in the definition of a loan, with a loan referring to "any type of commercial loan or restructured loan…"

In addition, the pre- and post-earthquake data confirmed a change of behavior in the banking sector. Traditionally, the sector lends to the export and commercial sector. Almost all of the MCC borrowers interviewed were victims of fire and/or robbery. According to MCC's director, the lender made several attempts to refinance the business of some of the victims. Field research indicates that none of the borrowers interviewed were able to restart their business. However, most of them were still paying late fees at the time of the interviews.

Conclusions

The combined effect of natural disasters, political inertia, and economic and social instability has hindered the growth of the financial sector. Investors' confidence relies on economic stability. While SOGESOL appears to have weathered the earthquake and subsequent events relatively unscathed (see outputs and outcomes), given the preponderance of factors working against it, the DCA guarantee likely helped the institution to do so. On the other hand, MCC used the guarantee to mitigate damage done especially by recent natural disasters. This strategy does not appear to have worked, since borrowers were still unable to repay the restructured loans. Perhaps longer loan tenors or lower interest rates would have helped. Perhaps training for the borrowers in how to rebuild their businesses and still repay their previous loans would have helped, but it is difficult to say in retrospect what could have worked without a larger study. One wonders, though, whether the experience will make MCC even more risk averse in future.

The MSME credit sector in Haiti is an emerging industry. The Central Bank is making an effort to increase money supply, in addition to supervising institutions that serve MSMEs and, therefore, raise incentives for investment in the MSME sector. As for any other embryonic sector, time and institutional support are essential for the maturity of the sector. Without DCA guarantees, this infant industry could be short-lived given the many obstacles in its path. This guarantee removes some of the bankers' risk and also affords borrowers an opportunity that would not otherwise exist. With this support, it permits the sector to live through the three- to five- year incubation period that is so often required for the sector to survive.

The DCA program is in effect raising the volume of investment by providing added insurance to private lenders to increase their balance sheet, thus facilitating financial deepening. It is clear that much relies on full government participation to achieve a greater impact, but hopefully the new law's implementation and the recent proposed bills will help support the nascent MSME finance industry. For now, the DCA guarantees' impact is modest, yet important given exogenous constraints.

Recommendations

In order to increase further the financial deepening, E3/DC and its partner lenders should develop a structure whereby the repayments of the guaranteed borrowers turn the guarantee into a revolving fund. In addition, rather than guaranteeing the individual borrower, it would be preferable to guarantee the loan portfolio, as it would reduce the administrative costs to the lenders.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Both lenders wanted to move down market to diversify their clientele prior to receiving the DCA guarantee. As a consequence, they created the means to do so by obtaining the necessary technical training in microcredit for key personnel. However, beginning in 2004, SOGEBANK/SOGESOL recognized a niche opportunity to attract an as-yet underserved market—SMEs. Thus, although the DCA had no impact on the SME orientation of the lender, it certainly facilitated SOGESOL's move into the market. MCC, however, continued its move down market, providing smaller loans to its borrowers, using the guarantee.

SOGESOL used the DCA to reach out to other markets in the productive sectors, although it mitigated the potential risk involved by limiting the number of loans given to new borrowers. As such, the DCA fits into the partner's strategy to move into new markets in order to satisfy the demand for credit of many clients. MCC did not use the DCA to extend its market but rather as a reserve to cover a set of clients who had problems paying back their loans. Neither institution made any changes to loan terms, conditions, policies, procedures, or marketing for the DCA guarantees. As both were operating in the target sectors prior to the DCA guarantees, they had also begun operational accommodations for these sectors previously.

Borrowers benefitted from their loans through improvements to their businesses, covering some of their domestic needs and/or reinforcing their social status in their residential communities. However, the nature of a particular business dictates when it is most profitable. Thus, it might be important for lenders to offer a loan product that is more in tune with the concrete periodicity of the selling peak of a set of activities.

SOGESOL increased credit to the target sector outside of the guarantee in terms of number of loans, but not loan value. SOGESOL mitigated the risk of providing many more loans to finance new activities by reducing the average loan amount. The DCA allowed SOGESOL to gain a better knowledge of sectors by taking the risk to explore them.

MCC did not proceed the same way as SOGESOL. Although MCC's non-guaranteed portfolio grew substantially between 2004 and 2012, the lender did not extend credit to any new sectors outside the guarantee. MCC used the guarantee in an attempt to restructure loans for borrowers whose businesses were in trouble. Therefore, the DCA guarantee was not responsible for the growth in MCC's portfolio outside the guarantee.

Motivation also played a role. SOGESOL was clearly motivated to explore new business activities, whereas MCC primarily stuck with its existing sector.

The DCA guarantees definitely contributed to improving the willingness of interviewed borrowers to seek credit from the partner lenders, although the lack of extensive data does not allow the evaluator to generalize this conclusion to the rest of the DCA-guaranteed borrowers.

In addition, the borrowers' businesses benefitted from the adoption of new business procedures to qualify for loans, which solidifies the existence of the MSMEs. Applying for and managing a loan is a new experience for most borrowers, who had never gone to a lender before they received their DCA-guaranteed loans. From a business perspective, it is an added benefit for a small enterprise to attempt to formalize, even partially, its business in response to lender requirements (e.g., make timely payments, providing proper financial documentation).

Banking in the informal sector is challenging at many levels. For a banker, finding the right mix between profitability and access to credit is a balancing act. Present field data pre- and post-earthquake have clearly demonstrated capital deepening, whereby the banking system has ventured into business sectors that are new territory. It has done so in search of profit as well as to fulfill the needs of the largest sector of the economy—MSMEs. Several trends are at work, such as the reversal of the banking system by going to the people rather than waiting for the people to come to the lender, as well as the change of the relationship of the banker in order to adapt to its environment. The evaluation showed that with further incentive—namely, a guarantee mechanism from a major donor such as USAID—banks are more likely to push the barrier of lending.

However, it does not appear that the guarantees to SOGESOL and MCC influenced the behavior of other lenders. Many other factors have contributed to MSMEs' access to credit, including their sector (with agriculture being especially difficult), lenders' level of risk tolerance, market and government forces affecting lender and borrower behavior, and assistance from other programs such as HIFIVE. What seems clear is that in order to bring financial institutions and MSMEs together, in addition to more availability of credit, training is needed to help them meet each other's needs.

The combined effect of natural disasters, political inertia, and economic and social instability has hindered the growth of the financial sector in Haiti. Investors' confidence relies on economic stability. While SOGESOL appears to have weathered the earthquake and subsequent events relatively unscathed (see outputs and outcomes), given the preponderance of factors working against it, the DCA guarantee likely helped the institution to do so. On the other hand, MCC used the guarantee to mitigate damage done especially by recent natural disasters in an attempt to restructure troubled loans. This strategy does not appear to have succeeded, since most of the borrowers were still unable to repay their loans. One wonders whether the experience will make MCC even more risk averse in the future.

The MSME credit sector in Haiti is an emerging industry. Like any other embryonic sector, time and institutional support are essential for the maturity of the sector. Without DCA guarantees, this infant industry could be short-lived given the many obstacles in its path. The guarantee mechanism removes some of the bankers' risk and equally provides the borrowers an opportunity that would not otherwise exist. With this assistance, it permits the sector to live through the three- to five-year incubation period that is so often required for the sector to survive.

The DCA program is in effect raising the volume of investment by providing the added insurance to private lenders to increase their balance sheet, thus facilitating financial deepening. It is clear that much relies on full government participation to achieve a greater impact. For now, the impact is modest, yet important given exogenous constraints.

Recommendations

After reviewing the lender and borrower data, the evaluation team believes that the DCA guarantee would be more effective at meeting its goals if the changes outlined below were made to the guarantee structure and implementation as well as to the lenders' strategies.

The lender should use the DCA guarantee as insurance for certain sectors where the risk is higher, such as agriculture, and for new borrowers, in order to improve access to credit. Procedures to put borrowers under the guarantee should be dictated by criteria other than their incapacity to repay their loans, as was the case in MCC. Even though the criteria for MCC changed when the DCA agreement was amended post-earthquake to allow for problem loans, neither the borrowers nor MCC appear to have benefitted from this strategy.

Lenders' loans should be structured according to the type of MSME activities to accommodate different industries' needs (e.g., seasonal, short-term versus long-term investment).

Lenders' loan terms and conditions should reflect the heterogeneous composition of the MSME borrowers' population. Loans should be structured according to type of activities: some are more seasonal than others, some are used directly for investment in the long run, and others are used for investment on a short-term or inventory reinforcement basis. The borrower's capacity to repay, of course, is a function of the turnover of its business and it is therefore in the lender's interest to make loan terms flexible.

Both lenders and USAID (missions and E3/DC) need to be clear on how they can best support the target sector in a given country. USAID missions, especially, should ensure that training in proper financial recordkeeping and other good business practices, and the DCAs are closely coordinated. The more lenders can help their MSME clients, the more both would benefit. MSMEs need both the understanding and motivation to provide accurate financial data and repay their loans on time, as well as access to credit and market information and other resources available to them. USAID could play a role as a facilitator with training programs that involve both the MSMEs and the banks so that they are not isolated from each other, but rather learn together about each other's needs.

USAID should also encourage lenders to target needier and more diverse business owners with the guarantees by understanding better how these businesses function and what their needs are. Again, such assistance could be coordinated with other USAID programs or other donor training programs. For example, training for loan officers should continue, with an emphasis on human relations aspects, as the direct relationship that they develop with the clients helps reduce the distance between the latter and the lending institution.

If it has not done so already, USAID, with organizations such as lenders, and MSMEs, might want to analyze where the most unmet demand for credit exists in Haiti, which of the identified populations offers the best potential for generating economic growth, and how best to meet their credit needs. The financial sector in general needs to understand how lending to MSMEs can be profitable. Although the solution will not be the same for every institution, USAID could facilitate this understanding through a study of best practices in pricing, product development, and market analysis, as well as subsequent dissemination seminars or other vehicles.

In order to increase further the financial deepening, E3/DC and its partner lenders should develop a system whereby the repayments of the borrowers put under the guarantee turn the guarantee into a revolving guarantee. In addition, rather than guaranteeing the individual borrower, it would be preferable to guarantee the loan portfolio, as it would reduce the administrative costs of the lenders. With lower costs, lenders could extend credit at a faster rate and increase the pool of borrowers.

GENERAL CONSIDERATIONS

To achieve substantial and sustained growth of output, Haiti needs to put in place sound financial policies aimed at improving financial depth. This can be done by:

- Raising the volume of investment, which is the most important explanatory variable;
- Applying deficit and surplus spending, which is not an option for the present government;
- Enacting policies to attract both domestic and foreign investment; and/or
- Improving the volume and structure of savings, which are very weak nationally, thus encouraging private savings.

Financial development can be achieved if Haiti directs public policies toward maintaining external competitiveness, promoting structural reforms, slowing population growth, and encouraging human capital development. To the extent that USAID can assist the Haitian government with such reforms, it would greatly support its programming with the private sector and financial institutions.

ANNEX 1: WORK ORDER

Work Order
Contract Number: EEM-I-04-07-00001-00
Work Order Number: 012 Capital Bank/SOGEBANK Evaluation

Title: 2007 Capital Bank/SOGEBANK DCA Guarantee Evaluation

Location: Washington, DC and Port-au-Prince, Haiti

Level of Effort: Not to exceed (all-inclusive) 55 Days LOE, not to exceed 10 Days LOE of Level I for international travel

Background:

USAID/Haiti signed a $4 million multibank loan portfolio guarantee in 2007 with both Capital Bank and SOGEBANK in support of loans to small and medium enterprises (SMEs) in productive sectors such as such as agriculture, handicraft, tourism, textile industries, waste removal, construction, and fisheries. The 50 percent guarantee, will end in September 2013 but it already has high utilization with 98 percent each, 130 loans for Capital Bank at an average loan size of $7,536 and 1,729 loans for SOGEBANK at an average loan size $1,714. USAID has paid $59,735 in Claims to Capital Bank for 64 defaulted borrowers (almost half of the DCA guarantee loans) and no claims to SOGEBANK under this guarantee. Both of the banks had the microfinance entities implement the guarantees, Micro Credit Capital (MCC) and SOGESOL and as a result the majority of the loans were at the microenterprise level.

This was the first guarantee with Capital Bank and the third guarantee with SOGEBANK. The first guarantee with SOGEBANK was signed in FY 2004 to support microentrepreneurs in sectors such as agriculture, textiles, manufacturing, infrastructure development, and arts and craft. This guarantee expired in 2007 with 100 percent utilization. 1,411 borrowers were placed under guarantee coverage with an average loan size of $2,251. USAID paid $60,864 in claims for 134 defaulted borrowers. The second DCA guarantee was signed in FY 2007 simultaneously with the SME guarantee, again with Capital Bank and SOGEBANK but targeting microentrepreneurs in rural and semi-rural areas outside Port-au-Prince and Petionville. This guarantee expired two years later with 96 percent utilization and 1,678 loans under coverage. The average loan size was $1,194. USAID paid $48,459 in claims to 265 defaulted borrowers.

As described in the action package, the SME multibank guarantee was designed to support the mission's strategic objective of focusing on export-oriented, job-creating economic growth as a source for wealth creation and poverty alleviation. The guarantees also link to Program Area 4.7 Economic Opportunity within USAID's Foreign Assistance Strategy. Under this Program Area, USAID's objective is to expand financial market mechanisms and strengthen public and private financial institutions for sustainable economic growth that will lead to increased stabilization. The DCA will help productive small and medium enterprises (SMEs) to secure funding by offering the partner banks a flexible tool to share the risk of defaults on lending to eligible borrowers.

It should be noted that this DCA agreement was amended in 2010 post earthquake to allow borrowers with restructured loans and more borrowers in the Port-Au-Prince area. In several of these cases, the impact was immediate. Guarantee utilization increased rapidly, as their clients were able to successfully restructure their loans. Capital Bank's utilization increased from 0 to 60 percent in the first six months since these modifications were implemented.

While there was initial support from technical assistance programs such as *Market Chain Enhancement Project (MarCHe)* for developing market value chains in agricultural sectors and non-agricultural sectors such as tourism and handicraft, more recently there has been support from the Haiti Integrated Financing for Value Chains and Enterprises (HIFIVE) program. HIFIVE has been working with financial institutions to develop innovative financial products with a focus on rural areas. They are targeting high potential value chains and supporting the use of technology solutions to broaden and deepen access to financial services for Haiti's poor and rural populations. Through HIFIVE's Catalyst Fund, grants are awarded to promote innovations and technology solution pilots. Capital Bank received a grant for their market assessment on new rural areas where they may open new branches and SOGESOL received a grant to improve their business model.

In August 2012, a Progress Report was conducted on both partners and findings include that Capital Bank mainly used the DCA guarantee for first time borrowers as they felt those borrowers were the riskiest and they would like to be more prudent. In their experience, one in every six borrowers becomes delinquent. Findings from SOGESOL include that the DCA has permitted them to expand into productive sectors and place new borrowers under coverage. SOGESOL explained that in the beginning they struggled to find productive sectors and requested that USAID permit loans in the Trade and Commerce sector which USAID permitted. SOGESOL also has a new agricultural product that they have launched for Gonaives, Saint Marc, and Petion-Ville regions. In both institutions, loan officers do not know about the guarantee as management wants them to be prudent and continue to do good credit analysis. And of course the borrowers do not know about the guarantee for fear of moral hazard and that they will not repay their loans.

Scope of Work:

E3/DC is requesting an evaluation of the 2007 multibank DCA guarantee with both Capital Bank and SOGEBANK. The evaluation will determine the results of the guarantee on both partners' lending practices in Haiti. As of September 2012 E3/DC has a revised framework for the evaluations which will continue to look at how the lender has implemented the guarantee but also expand on examining how the borrowers are affected. It will analyze results at four levels: inputs, outputs, outcomes, and impact at both lenders and borrowers. It is important that the evaluation not repeat the information already available through progress reports, trip reports, CMS reports, and other relevant documents. Rather, the evaluation will analyze the data and explore further through interviews to learn about results of the guarantee at the various levels. The questions to be answered will be derived from the questions agreed to between USAID and the SEGURA/MSI team in September 2012, referred to as the "Revised Evaluation Framework."

At the input level, the evaluation will explore how the guarantee has been designed and structured to achieve stated goals. At the output level, the evaluation will explore Financial Additionality on the lender side and Economic Additionality on the borrower side. At the outcome level, the evaluation will examine both Lender Behavior Change and Borrower Behavior Change. Lastly, at the impact level, the evaluation will look at how the DCA guarantee contributed to long-term changes in market practices or perceptions to the targeted sectors. Exogenous factors will also have to be explored to determine how much of the changes at the output, outcome, and impact levels are a result of the credit guarantee.

Key Questions to Answer:

All the evaluation questions will be derived from the revised framework but the evaluator should focus on answering these key questions:

- Given the high utilization of the guarantee, did the partners increase credit to the target sectors outside the DCA guarantee? Did it move into any new sectors/industries, types of borrowers, types of loans, or loan terms? If so, how and why? To what extent were the DCA guarantees responsible for improving access of partners' customers to credit outside the guarantees? (Outcome- Lender)
- Did borrowers seek loans before and after the guaranteed loan from the partner financial institution or other financial institution? If so, were the requests successful? To what extent were the DCA guarantees responsible for improving the borrowers' willingness to seek credit? (Outcome- Borrower) *Note: Borrowers do not know their loans were guaranteed so please be careful when asking the questions to the borrowers.*
- What additional insights can you provide that access for loans improved for the targeted sectors? What role if any did the DCA guarantee play as a demonstration model? (Impact)
- What exogenous factors affected the financial sector during the agreement period? How? Have these factors also affected the performance of the multibank guarantee? If so, how?

Deliverables:

In order to answer the evaluation questions, SEGURA will develop the following deliverables:

- By March 11, develop a Capital Bank/SOGEBANK Evaluation-specific "Workplan" including team roles, a timeline for evaluation activities, and a data collection plan.

- By March 11, customize the "DCA Evaluation Framework," to the Capital Bank/SOGEBANK evaluation. The framework/methodology should reflect the specific objectives of the multibank guarantee described in the Action Packages and Legal Agreements. It will also detail the measurements of how success in meeting those objectives has or has not been achieved.

- By March 11, provide a list of quantitative and qualitative indicators.

- By March 11, conduct a desktop analysis of the following USAID documents:

  CMS data
  Action Package
  Legal Agreement
  Trip Reports
  Progress Reports

- By March 11, conduct a desktop analysis of the following other documents:

  Data sent by Capital Bank and SOGEBANK
  The EIU Report for Haiti where DCA guarantee loans were extended
  If readily available, sector reports regarding the productive sectors (agriculture, textiles, manufacturing, construction) in Haiti

From o/a March 18, conduct a site visit to Haiti to obtain primary source information from sources listed in the "Revised Evaluation Framework.

By April 18, provide for E3/DC review, a draft evaluation report including the following chapters:

-Executive Summary
-Methodology and Indicators
-Exogenous factors that may have influenced guarantee performance
- Results of the guarantee at the input level
- Results of the guarantee at the output level for lender and borrower
- Results of the guarantee at the outcome level (behavior change for lender and borrower during and after the guarantee)
- Results of the guarantee at the impact level (market demonstration impact)
-Conclusions and Findings
- Recommendations
-Bibliography

By May 2 obtain comments on the draft evaluation report from E3/DC

By May 9, submit to E3/DC a final draft of the evaluation report.

By April 23, provide E3/DC with a draft 4-page "Impact Brief" for comment.

By May 6, obtain comments on the 4- page "Impact Brief" from E3/DC.

By May 9, (or 3 working days after receiving comments from E3/DC), submit to E3/DC a final draft of the 4 page "Impact Brief."

Provide a Brownbag presentation (optional), including a PowerPoint presentation, (specific date TBD) to E3/DC and other relevant USAID personnel to present key evaluation findings. At the time of the Brownbag presentation also make available copies of the 4-page "Impact Brief."

These deliverables will be used by E3/DC to develop action items that will improve guarantee development and management.

ANNEX 2: Data collection tools

Tool A.-Capital Bank /SOGEBANK Interview Guide

Intro: Who we are and why here. We are not evaluating the bank—this assessment is one of many we are doing for USAID/DCA so that they can get an objective picture of what happened with many loan guarantees around the world to enable DCA to learn from these experiences, with respect to improving the process and use of future guarantees.

Indicate which Bank………………..Date and Location of Interview ………………..

Please state your position and describe your role within the Bank. When did you join the bank?

SVP, quelle position occupez-vous et décrire votre rôle dans la Banque. Depuis quand travaillez-vous ici ?

Question 1	**Question 1**
1. How and why did the bank decide to enter into the Guarantee for SMEs? a. Have these reasons changed over time? b. What constraints did the bank face in expanding into these markets? Have they changed over time? c. How did the USAID guarantees address those constraints? If not, why not?	1. Comment et pourquoi la Banque décidait-elle d'entrer dans la Garantie pour PMEs a. Ces raisons ont-elles changé avec le temps ? b. Quels ont été les obstacles rencontrés par la banque pour s'étendre sur ces marchés ? Est-ce que ces obstacles ont changé avec le temps ? **c.** Comment la Garantie USAID a surmonté ces obstacles ? Si non, pourquoi ?
Technical Assistance Received by the partner bank	**Assistance reçue par la Banque de la USAID ou d'une autre institution dans le cadre du programme de prêts garantis**
Elaborate on pre- and post-earthquake guarantee	Etat du Portefeuille de Garantie avant et après le Goudougoudou Nouveaux marchés ouverts grâce au programme
1.1.What sectors of the economy do you currently lend DCA guaranteed loans to? (Before/after earthquake) 1.2.When did you begin lending to these various sectors? (Before/after earthquake)	1.1 A quels secteurs économiques accordez-vous des prêts garantis (CDA) ? (Avant / après le tremblement de terre) ? 1.2 Quand avez-vous commencé à accorder des prêts à ces différents secteurs ? (Avant le tremblement de terre) ? 1.2a Et après le tremblement de terre, y a-t-il d'autres secteurs qui ont reçu des prêts?

1.3.What is the number and percent of guaranteed and non-guaranteed loans to these sectors per year? (Before/after earthquake) 1.4.Taking the overall bank portfolio, what percentages of the guaranteed loans (in terms of value) go to various sectors? (Before/after earthquake) **Question 1b** What procedures did the bank use to market the guarantees? (e.g., posters, radio spots, etc.) What changes in bank procedures, processes, structure, etc. did you have to make to accommodate the guarantees, if any? To what degree have you maintained these changes? What was the process you used to assess a potential borrower and place the borrower under the guarantee? How did loan approval and administration procedures differ (if at all) between guaranteed and non-guaranteed loans, pre and during the guarantee period? **Questions I-2a &_I-2b** (For credit manager ONLY: Obtain data for spreadsheets previously sent through Fasika to the bank for completion.) How did loan terms and conditions (i.e., tenors, interest rates, collateral requirements, loan purposes, etc.) differ between USAID-guaranteed and non-guaranteed loans? How did they change over time? 1. How many of the borrowers covered by the guarantee were new customers to the bank? 2. Considering the loans placed under USAID coverage, would the bank have extended loans to those borrowers without guarantee coverage? Why or why not? a. If yes, would the loan have been for a lower/higher value without guarantee	1.3 Combien et quel pourcentage de prêts garantis et non garantis accordez-vous à ces secteurs par année ? (Avant / après le tremblement de terre) 1.4 Par rapport au portefeuille global de la banque, quels pourcentages de ces prêts garantis (en termes de valeur) vont à ces secteurs ? (Avant / après le tremblement de terre) **Question 1b** Quelles procédures la banque a-t-elle utilisé pour promouvoir ces garanties ? (Affiches, spots publicitaires) Quels changements avez-vous fait dans les procédures, les processus et structure etc. de la banque pour les adapter aux garanties ? A quel point avez-vous maintenu ces changements ? Quel processus avez –vous utilisé pour évaluer un emprunteur potentiel et le placer sous garantie ? Quelle est la différence dans la l'approbation du prêt et les procédures administratives entre les prêts garantis et non garantis avant et pendant la période de garantie ? **Question 1-2a &1-2b** Comment la durée et les conditions des prêts varient selon qu'il s'agit d'un prêt garanti par USAID ou non (Bénéficiaires, intérêt, collatéral etc.) 1. Combien d'emprunteurs couverts par la garantie étaient de nouveaux clients de la banque ? 2. Considérant les prêts accordés sous la garantie USAID, la banque aurait-elle donné d'autres prêts sans garantie à ces mêmes emprunteurs ?Pourquoi oui ou non ?

coverage? If yes, why did the DCA guarantee affect loan size? b. If yes, would the tenor of the loan have been different without the guarantee coverage? If yes, why did the DCA guarantee affect loan tenor? c. If yes, would the interest rate on the loan have been different without the guarantee coverage? If yes, why did the DCA guarantee affect the interest rate? d. Would there have been any other differences in the terms and conditions of the loans without the DCA guarantee? How much private capital have you been able to mobilize for lending to the sector(s) covered by the USAID guarantee, if any? If none has been mobilized, why not?	a. Si oui, le prêt aurait-il été pour une valeur plus ou moins grande sans la garantie ? Si oui, pourquoi la garantie DCA a-t-elle un impact sur la valeur du prêt ? b. Si oui, la durée du prêt serait-elle différent sans la garantie ? Si oui, pourquoi la garantie a-t-elle un effet sur le bénéficiaire du prêt. c. Si oui, est ce que le taux d'intérêt changerait sans la garantie. Si oui, pourquoi, la garantie DCA a-t-elle un effet sur le taux d'intérêt ? d. Combien d'argent privé avez-vous pu mobiliser pour accorder des prêts à des secteurs couverts par la garantie USAID ? Si aucun capital privé n'a été mobilisé, pourquoi ?
Questions I-3a 1. Have any borrowers covered by the guarantee subsequently received non-USAID-guaranteed loans? a. If yes, how many? On what terms? (e.g., loan type, interest rate, tenor, collateral, size, etc.) b. If yes, what types of loans (i.e., term, lines of credit, vehicle purchase, etc.)? c. If not, why not? 2. To what extent has the bank lent to the qualifying sectors outside of the guarantee coverage? Why? a. What were the characteristics of these loans (i.e., percent of portfolio, value, average loan size and tenor, # of loans, etc.) 3. What market potential does the bank see in these types of borrowers? 4. Do you think you will continue to lend to these types of borrowers in the future? Why/why not? Under what conditions? 5. Does the bank have guarantees from other donors/sources? If so, what are the terms? Are the same borrowers covered? 6. Are there any other differences in the bank's loan portfolio pre- and post-the DCA guarantee? If so, to what do you attribute these differences and why?	**Question 1-3**a 1. Vous est-il arrivé d'accorder des prêts non garantis par USAID à d'anciens bénéficiaires de prêts couverts par la garantie ? a. Si oui, combien ? Quels sont les termes ?(eg. Type de prêt, taux d'intérêt, collatéral, durée, valeur…..etc. b. Si oui, quel types de prêts (ie Durée, lignes de crédit, achat de véhicule….. ? c. Si non, pourquoi ? 2. Jusqu'à quel point la banque accorda des prêts à des secteurs qualifiés qui ne sont pas couverts par la garantie ? Pourquoi ?(Avant et Après le Tremblement de terre) a. Quelles étaient les caractéristiques de ces prêts (ie % du portefeuille, valeur, valeur moyenne des prêts et bénéficiaire, Nombre de prêts…etc.) 3. Quel marché potentiel, la banque voit-elle dans ces emprunteurs ? 4. Pensez-vous que vous allez continuer à accorder des prêts à ces types d'emprunteurs ? Pourquoi/pourquoi pas ? Sous quelles conditions ? 5. La banque a –t- elle d'autres sources de garantie ? Si oui quelles sont les termes ? Couvrent-elles les mêmes emprunteurs ?

<table>
<tr>
<td>7. Did Non partner banks imitate partner banks (products/services)

Questions I-3b
1. Are there other factors responsible for the Bank extending credit to sectors outside of the USAID guarantee coverage?
(For example, did TA, staff training, revised bank strategy, improved procedures, or other factors help the bank to lend to sectors outside of the guarantee coverage? If so, how? How important was each of these factors?)

Questions 4

Which was the first Haitian bank(s) to offer SME lending? When? Under what terms/conditions?

Have any banks begun or increased lending to the SME sector during the period 2007 until now? If so, please name them.

Who are the Bank's main competitors in this market?

Why do you think these other banks have begun/increased lending to the SME sector?

Questions 5

1. To what extent have access to loans, or loan terms, changed for SME borrowers in Haiti?

2. What factors have been responsible for the changes/lack of change?

3. What could be done to improve access to credit for the SME sector?

Question 6</td>
<td>6. Y a-t- il une différence quelconque dans le portefeuille de crédit de la banque avant et après la garantie DCA ? Si oui, a quoi sont dues ces différences et pourquoi ?

7. Dans quelle mesure des Banques non partenaires qui offrent des crédits non garantis à ces mêmes secteurs ont été influencées par le programme ?

Question 1-3b
1. Y a-t-il d'autres facteurs qui font que la banque accorde du crédit à des secteurs en dehors de la couverture de la garantie USAID? (Ex, Est-ce que Assistance technique, formation du personnel, révision de la stratégie de la banque, amélioration des procédures etc. …ont aidé la banque à accorder des prêts à des secteurs sans garantie ? Si oui, comment ? Quelle était l'importance de chacun de ces facteurs ?

Question 4

1. Quelle est la première banque haïtienne à offrir des prêts aux PMEs ? Quand ? A quelles conditions ?

2. Est-ce que des banques ont commencé ou augmenté leurs prêts aux PMEs durant la période allant de 2007 à aujourd'hui ? Si oui, quelques noms.

3. Quelles sont les banques les plus compétitives dans ce marché ?

4. Pourquoi pensez-vous que ces banques ont commencé / augmenté les prêts accordés au secteur PMEs ?

Question 5

1. A quel point avoir accès au prêt a changé pour les emprunteurs en Haïti ?

2. Quels facteurs sont responsables de ces changements ou de ces manques de changement ?

3. Qu'est ce qui pourrait être fait pour donner aux PMEs plus d'accès au crédit?</td>
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1. What government-level actions have affected access to credit for the SME sector? How? 2. Other factors? (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, or donor behavior) Other Points. Elaborate on the various impacts that the guarantee has. In what sector, where and for whom?	**Question 6** **1.** Quels niveaux d'actions gouvernementales ont affecté l'accès au crédit pour le secteur des PME 2. Autres facteurs ? (ex. Réforme du secteur financier, intervention du gouvernement, compétition entre les banques, crise financière…….)

Tool B.-Banque de la République d'Haïti(Central Bank) Interview Guide

Please describe your position and role within the BRH. For how long have you been working here?

Lending Environment

1. What are the Bank's rules for minimum collateral requirements?
   a. Interest rates?
   b. Loan terms?
   c. Do these rules differ depending upon the size of the borrower (i.e., individual, microenterprise, SME, large business)?
   d. Do these rules differ depending upon the lender (i.e., bank, microfinance corporation, credit union, etc.)?

2. Perhaps you could give me some background on SMEs' access to credit in Haiti.
   a. Which bank was the first to offer SMEs lending? When?
   b. Have any banks initiated or increased lending to the SME sector since 2007? If so, which ones? To what do you attribute these changes?
   c. Which banks are currently the most active in providing credit to SME?
   d. Could you provide me with longitudinal data on SME lending over time (i.e., amount, terms and conditions)? IF NOT: Do you think that, generally, interest rates, loan tenors, or collateral requirements for agricultural lending have changed much over time? In what way?
   e. Do you have any data on SME lending by microfinance institutions?
   f. Do you think that SMEs have more, less, or about the same access to credit now than they did since the 2007? Please explain.

3. Does the BRH have any regulations specific to SME lending? (ask only if not covered in answer to Question 1)

SVP quel poste occupez-vous et quel est votre rôle à la Banque ?Depuis combien de temps travaillez-vous ici ?

Conditions générales des prêts

1. Quelles sont les règlements de la banque en termes de demande collatérale minimale ?
   a. Taux d'intérêt ?
   b. Durée du prêt ?
   c. Ces règlements diffèrent-ils suivant la taille de l'entreprise ou de l'emprunteur (i.e., individu, micro entreprise, petite et moyenne entreprise, grande entreprise) ?
   d. Toutes les institutions financières appliquent- elles ces règlements ? (Banques, institution de microfinance, caisse populaire…etc.)

2. Pourriez-vous nous donner un résumé de la situation des petites et moyennes entreprises en termes d'accès au crédit en Haïti ?
   a. Quelle banque a offert le premier programme de crédit aux PMEs ? Quand ?
   b. Est-ce que des banques ont commencé a offrir ou à augmenter les prêts aux PMEs à partir de 2007 ? Si oui, quelles banques ? A quoi sont dus ces changements ?
   c. Quelles sont les banques les plus actives dans la microfinance ?
   d. Pourriez-vous me données quelques statistiques sur l'évolution des prêts i.e. (Montant, durée et conditions). Sinon, pensez-vous que d'une façon générale les taux d'intérêt, les bénéficiaires de prêts or les exigences collatérales pour les crédits agricoles ont changé avec le temps ?
   e. Avez-vous des données sur des PMEs qui bénéficient des prêts d'institutions de microfinance ?
   f. Pensez-vous qu'aujourd'hui les PMEs ont un plus grand, un moindre ou le même niveau d'accès au crédit par rapport à 2007 ?

3. Est-ce que les banques haïtiennes ont des traitements spécifiques aux PMEs ?

4. Quelles les principales contraintes pour les PMEs pour avoir accès au crédit ?

4. What are the key constraints to SME access to credit?

5. Are you aware of the loan portfolio guarantees USAID has provided to Banks to support lending to the SME sector? If so, what impact do you think these guarantees have had on the SME credit market (supply and demand)? ?????

6. Are you aware of any data on SME lending by institutions that are not banks (Fonkoze for example)?

5. Es-tu au courant du fonds de garantie mis à la disposition des banques pour support l'octroi de crédit au secteur des PMEs ? Si oui, quel impact pensez-vous que ces garanties ont sur le marché de crédits aux PMEs (offre et demande)?

6. Avez-vous données sur des institutions de crédits qui ne sont pas des banques (Fonkoze par exemple)

Tool C. Haiti Borrower Survey

Date of the Interview:...
Gender of Borrower (M/F):...
Age of Borrower: ....

Location on Interview : City...
Other Area of the city, specify ....

Address ....
Telephone: ....

Part I: General Profile

Please circle borrower responses (SVP, encerclez la réponse de l'emprunteur)

1	What kind of enterprise do you represent?	1 = in Agriculture………………………….. 2 = in Handicraft…………………………….. 3 = in Garment…………………………………. 4 = in Construction/infrastructure………………….. 5 = in Waste Management………………………. 6 = OTHER (please explain) ……………..	1 Quel type d'entreprise représentez-vous?	1 =Agricole…………… 2 =Artisanale………… 3= Vêtement………….. 4=Construction/infrastructure…………… 5= Gestion de déchets………………… 6= Autre (SVP Expliquez)…………………
2	In which **sector** does your enterprise work **currently**? (circle all that applies)	1 = Agriculture(1. Export 2. Domestic market 3.both) 2 = Handicraft (1. Export 2. Domestic market 3.both) 3 = Garment (1. Export 2. Domestic market 3.both) 4 = Construction /Infrastructure 5 = Waste Management 6=OTHER (please explain)………………..	2 Dans quel secteur votre entreprise travaille actuellement (Encerclez toutes les réponses qui correspondent)	1=Agriculture (1.export 2.Marché local 3. Les deux) 2=Artisanat (1.export 2.Marché local 3. Les deux) 3=Couture (1.export 2.Marché local 3. Les deux) 4=Construction/infrastructure 5=Gestion de déchets 6=Autre (Expliquez)…………
2./1	**Before the earthquake** of January 12, 2010, in which **sector** did your enterprise work?	1 = Agriculture(1. Export 2. Domestic market 3.both) 2 = Handicraft (1. Export 2. Domestic market 3.both) 3 = Garment (1. Export 2. Domestic market 3.both) 4 = Construction /Infrastructure 5 = Waste Management 6=OTHER (please explain)………………..	2/1 Avant le tremblement de terre du 12 janvier 2010, dans quel secteur travaillait votre entreprise	1=Agriculture (1.export 2.Marché local 3. Les deux) 2=Artisanat (1.export 2.Marché local 3. Les deux) 3=Couture (1.export 2.Marché local 3. Les deux) 4=Construction/infrastructure 5=Gestion de déchets 6=Autre (Expliquez)…………
3	In which **geographical area** ·		3 Dans quelle zone géographique	

	does your enterprise work currently?	--		travaille votre entreprise, actuellement?	……………………………
3./1	**Before the earthquake** in which geographical **area** did your enterprise work?			3/1 Avant le tremblement de terre dans quelle zone géographique travaillait votre entreprise ?	…………………………….
4	How many employees do you have **currently**?	------------------------------		4 Vous employez combien de personnes actuellement ?	…………………………….
4/1	**Before the earthquake** how many employees did you have?			4/1 Combien d'employés aviez-vous avant le tremblement de terre	……………………………..

Part II. Current Loan

Prêt actuel

5	1. Note the bank the borrower took the loan from? MicroCrédit of Capital Bank 2. SOGESOL of SOGEBANK		1. Micro Crédit de Capital Bank5 Notez la banque d'emprunteur 2. SOGESOL de SOGEBANK	
6	When did your enterprise receive its first business loan from the bank?	Year………..Month……..Day……….	6 Quand votre entreprise a-t-elle reçu son prêt de la banque ?	Année……….Mois…….Jour…...
7	Prior to receiving your first business loan from a bank, how did you finance your business?	1 = I used my own money 2 = I borrowed from my family or friends 3 = I used a money lender 4 = I used a government program or NGO 5 = I used a cooperative 6 = I used a microfinance institution 7 = OTHER (please explain) _______________________ 99 = No response/ not applicable	7 Avant de recevoir votre premier prêt de la banque comment financiez-vous votre entreprise?	1= Mon argent personnel 2=J'empruntais de ma famille ou de mes amis 3=J'utilisais les services d'un usurier 4=Je participais a un programme du gvnt ou d'un ONG 5=J'utilisais une coopérative 6= J'utilisais une institution de microfinance 7=Autre (Expliquez)………… 99=Sans réponse/ pas applicable
8	Does your enterprise currently have a business loan?	1 = yes (go to **Question 9**) 2 = no (go to **Part 3,Question 13**) 99 = don't know	8 Votre entreprise a t elle un prêt en cours?	1=oui (allez à la question 9) 2=non (Allez à la partie 3, question 13) 99=Ne sait pas
9	If yes to 8, please indicate the bracket amount of the loan	1.Less than 50,000 gourdes 2.50,000-100,000 3.100,001-200,000 4.200,001-500,000 5.500,001-1000,000 6. 1000,001-2000,000 7. 2001,000+	9 Si oui dans 8, SVP indiquez le niveau du prêt	1.Moins que 50 000 gourdes 2. 50 000 – 100 000 3. 100 001 – 200 000 4. 200 001 - 500 000 5. 500 001 – 1 000 000 6. 1 000 000 – 2 000 000 7. 2 000 000 et plus

10	If yes to 8, what is the purpose of your loan?	1= working capital 2 = investment capital 3 = marketing 4 = purchase of inventory or raw materials 5 = purchase of vehicle or equipment 6 = OTHER (please explain) ___________________________ 99 = don't know / not applicable	10 Si oui dans 8, quel est le motif de votre prêt?	1=Fonds de roulement 2=Investissement 3=Marketing 4= Achat de matières premières 5= Achat de véhicule ou équipement 6= Autre (Expliquez) ………… 99=Ne sait pas/ pas applicable
11	If "yes" to Question 8, what is the loan term?	1 = 1 year or less 2 = 2 years to 5 years 3 = more than 5 years 99 = don't know / not applicable	11Si oui dans 8, quelle est la durée du prêt?	1= 1an ou moins 2= 2 à 5ans 3= Plus que 5ans 99= Ne sait pas/ Pas applicable
12	If you responded "yes" to Question 8, what is the collateral requirement?	1 = less than 50 percent of the value of loan principal plus interest 2 = 50 to 80 percent of the value of the loan principal plus interest 3 = 80 to 100 percent of the value of the loan principal plus interest 4 = more than 100 percent of the value of the loan principal plus interest 5=Other collateral (specify……………………….) 99 = don't know / not applicable	Si vous avez répondu oui dans 8, quel est le collatéral exigé ?	1= moins que 50% de la valeur du prêt principal plus intérêt 2= 50 à 80 % de la valeur du prêt principal plus intérêt 3= 80 à 100 % de la valeur du prêt principal plus intérêt 4= plus que 100% de la valeur du prêt principal plus intérêt 5= Autre collatéral (Précisez………………………) 99= Ne sait pas/ Pas applicable
12/1	Did you have an endorser?	1. Yes 2. No (go to Q13)	12/1 Aviez-vous un avaliseur?	1. Oui 2. Non (Allez à la question13)
12/2	If yes, what is your relationship to him/her?	1. Parent 2. Family 3. Business Friend 4. Other (specify………………….)	12/2 Si oui, Quelle est votre lien avec lui ou elle?	1. Parent 2. Famille 3. Ami 4. Autre (Précisez)

Part 3: Previous Loan

Prêt Antérieur

13	Did your enterprise ever receive a business loan from a bank in the past?1 = yes (go to **Question 14**) 2 = no (go to **Part 4, Question 20**) 99 = don't know / not applicable (go to **Part 4, Question 19**)	13 Votre entreprise a-t-elle reçu dans le passé un prêt bancaire?	1=oui (Allez à la question 14) 2= Non (Allez à la partie 4, question 20) 99= Ne sait pas/ Pas applicable (allez à la partie 4, question 19)

14	If you responded "yes" to Question 13, from which financial institution was the loan?	1 = Capital Bank 2 = SOGEBANK 3 = Unibank 4 = BNC 5 = OTHER ……………………. _______________________	14 Si vous avez répondu oui à la question 13, quelle institution financière vous a accordé le prêt?	1= Capital Bank 2=SOGEBANK 3= Unibank 4= BNC 5= Autre………………
14/1	If yes to Question 13, **When** did your enterprise receive a previous loan?	1. before 2004 2. after 2004 up to 2007 **3.** between 2007-2010 (**before earthquake (date…………….** 4. **after earthquake (indicate date………………………..)**	14/1 Si oui à la question 13, quand votre entreprise a-t-elle reçu le prêt antérieur ?	1. Avant 2004 2. Après 2004 jusqu'à 2007 3. Entre 2007 et 2010 (Avant le tremblement de terre) (Date)…………….. 4. Après le tremblement de terre (Indiquez la date)………….
15	If yes to 13, please indicate the bracket amount of the loan	1.Less than 50,000 gourdes 2.50,000-100,000 3.100,001-200,000 4.200,001-500,000 5.500,001-1000,000 6. 1000,001-2000,000 7. 2001,000+	15 Si oui dans 13 SVP, indiquez dans quelle fourchette se situe le prêt ?	1.Moins que 50 000 gourdes 2. 50 000 – 100 000 3. 100 001 – 200 000 4. 200 001 - 500 000 5. 500 001 – 1 000 000 6. 1 000 000 – 2 000 000 7. 2 000 000 et plus
16	If yes to 13, what was the purpose of your loan?	1= working capital 2 = investment capital 3 = marketing 4 = purchase of inventory or raw materials 5 = purchase of vehicle or equipment 6 = OTHER (please explain) _______________________ 99 = don't know / not applicable	16 Si oui dans 13, quel était le motif de votre prêt?	1= Fonds de roulement 2=Investissement 3= Promotion 4= Achat de inventaire ou de matières premières 5= Achat de véhicule ou d'équipement 6= Autre(SVP Expliquez) 99= Ne sait pas/Pas applicable
17	If "yes" to Question 13, what was the loan term?	1 = 1 year or less 2 = 2 years to 5 years 3 = more than 5 years 99 = don't know / not applicable	17 Si oui dans 13, quelle était la durée du prêt?	1= 1an ou moins 2= 2 à 5ans 3= Plus que 5ans 99= Ne sait pas/ Pas applicable

18	If you responded “yes” to Question 13, what was the collateral requirement?	1 = less than 50% of the value of loan principal plus interest 2 = 50 to 80% of the value of the loan principal plus interest 3 = 80 to 100% of the value of the loan principal plus interest 4 = more than 100% of the value of the loan principal plus interest 5= Other collateral (specify…………………………………….) 99 = don’t know / not applicable	18 Si oui dans 13, quel fut le collatéral exigé?	1= moins que 50% de la valeur du prêt principal plus intérêt 2= 50 à 80 % de la valeur du prêt principal plus intérêt 3= 80 à 100 % de la valeur du prêt principal plus intérêt 4= plus que 100% de la valeur du prêt principal plus intérêt 5= Autre collatéral (Précisez…………………….) 99= Ne sait pas/ Pas applicable
18/1	Did you have an endorser?	3. Yes 4. No	18/1 Aviez- vous un avaliseur?	3= oui 4= Non
18/2	What is your relationship to him/her?	5. Parent 6. Family 7. Business Friend 8. Other (specify………………….)	18/2 Quel est votre lien avec lui ou elle ?	5= Parent 6= Famille 7= Ami 8= Autre (Précisez……………………..)

Part 4: Access to Credit

Partie 4: Accès au crédit

19	Looking back **since the earthquake** of January 12, 2010, how has access to credit for small and medium enterprises changed?1 = Access to credit has improved a lot 2 = Access to credit has improved a little 3 = Access to credit has remained the same 4 = Access to credit has declined a little 5 = Access to credit has declined a lot 99 = don’t know	19 Depuis le tremblement de terre du 12 janvier 2010, comment l’accès au crédit a-t-il changé pour les PMEs ?	1= l’accès au crédit s’est beaucoup amélioré 2= l’accès au crédit s’est amélioré un peu 3= Rien n’a changé 4=l’accès au crédit s’est dégradé un peu 5= l’accès au crédit s’est gravement dégradé 99= Ne sait pas	
20	Are all of your credit needs currently met?	1 = yes 2 = no 99 = don’t know	20 As tu pu obtenir tout le crédit dont tu avais besoin ?	1= Oui 2= Non 99= Ne sait pas

21	If you answered “no” to Question 21, why not?	1 = I am applying for a new loan now, but have not yet received it 2 = I already applied for a loan, but it was not approved 3 = I need a loan that is bigger than what I have 4 = I need a loan that is longer than what I have 5 = OTHER (please explain) ___________________________ 99 = don’t know/no response	21 Si tu as répondu NON à la question 21, pourquoi pas?	1= J’ai fait une nouvelle demande de prêt mais je ne l’ai pas reçu encore 2= Ma demande de prêt n’a pas été approuvé 3=J’ai besoin d’un prêt plus important 4= J’ai besoin d’un prêt sur plus longue durée 5= Autre (Précisez……………………..) 99= Ne sait pas/ pas de réponse
22	Before the earthquake, going back to Aristide’s departure in 2004, how would you describe access to credit for SMEs?	1. very easy 2. easy 3. difficult 4. very difficult 5. 99 = don’t know	22 Avant le tremblement de terre, à partir du départ d’Aristide en 2004, comment décrirais-tu l’accès au crédit pour les PMEs ?	1. Très facile 2. Facile 3. Difficile 4. Très difficile 5. Ne sait pas

Tool D. Haiti Borrower Interview Guide

Date of the Interview: ....
Gender of Borrower (M/F):..
Age of Borrower: ....

Location on Interview : City ....
Other Area of the city, specify...

Address...
Telephone:...

When did you obtain your current loan with this Bank?	Quand avez-vous obtenu votre prêt actuel de cette banque ?
How many loans have you already obtained from the Bank? And what is their value? What date(s)? Why did you look for the loan(s)? Are there changes in the terms of the loans (interest rate, tenor, size, collateral requirements)?	Combien de prêts avez-vous déjà obtenus de la banque ? Quelle est leur valeur ? A quelle date (s) ? Est-ce que les termes ont changé (Taux d'intérêt, motif, dimension, exigences collatérales) ?
How would you evaluate the timeframe of the actual loan?	Comment évalueriez-vous le calendrier de remboursement de votre prêt actuel ?
What would you say about the application process?	Que diriez-vous de l'application de ce procédé ?
How open or closed do you find the Bank is when it comes to Credit to SMEs?	Trouvez – vous les banques ouvertes ou fermées quand il s'agit d'accorder des prêts aux PMEs ?
How open or closed do you find the Bank is regarding the information around the loan?	Trouvez-vous les banques ou fermées au sujet de l'information concernant le crédit ?
How would you compare the terms of this loan versus the terms from other financial institutions? Please indicate which institutions you choose as reference.	Quelle comparaison faites-vous entre les termes de ce prêt et ceux d'autres institutions financières ? SVP, indiquez votre institution de référence
What have you done with your loan(s) from this Bank? What impact have they had on your business? Your family?Your overall quality of life?	Qu'avez-vous fait de votre ou vos prêt (s) de cette banque ? Quel impact ont-ils eu sur votre affaire ? Sur votre qualité de vie en générale ?
Prior to obtaining a loan from this Bank, did you seek credit previously, either with this bank or another? Please describe the experience.	Avant d'obtenir ce prêt de cette banque, aviez-vous fait démarches antérieurement auprès de cette banque ou d'autres ? SVP, décrivez l'expérience.
Have you attempted to obtain any additional loans since you received your first loan from this Bank? Please describe the experience.	Avez-vous essayé d'obtenir un crédit additionnel depuis que vous aviez reçu votre premier prêt de cette banque ?
How much influence do you think you have over your business peers in trying to get a loan themselves for their businesses? Have you talked to anyone?	Comment pensez-vous avoir influencé vos collègues à chercher à obtenir du crédit pour leurs affaires ? Avez-vous parlé à certains d'entre eux ?
Looking back, since the earthquake how easy/difficult has it been for you to obtain a business loan?	Coup d'œil en arrière, depuis le tremblement de terre a-t-il été facile ou difficile d'obtenir un prêt pour affaire ?

• How has this situation changed after? • What has been responsible for these changes/no changes? • What more could be done to increase access to credit for SMEs? What are the current constraints to access to finance for SMEs? How have they changed (if at all) since 2007? How easy/difficult is it to obtain credit now, compared with 6 years ago? Any rules or regulations coming from this government that can hinder or promote your business?	• Comment cette situation a-t-elle changé après • A quoi sont dus ces changements / ou statu quo ? • Qu'est ce qu'on pourrait faire en plus pour faciliter l'accès au crédit pour les PMEs ? Quelles actuellement les obstacles pour accéder au crédit pour PMEs ? Comment ont-ils changé depuis 2007 ? Est-il facile ou difficile d'obtenir du crédit aujourd'hui, en comparaison à 2007 ? Des lois ou des règlements mis par le gouvernement peuvent ils nuire ou encourager votre affaire ?

ANNEX 3: Information Sources

List of Documents Consulted

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Capital Bank Transaction Report (CMS data)

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Progress Report on DCA Guarantee Agreement with Capital Bank 521-DCA-07-03A

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World Bank General Economic and Financial Indicators on Haiti

Zephyr, Dominique ;Yves-Francois Pierre, and Addy Cordoba. Culture Politique de la Démocratie. In America's Barometer , LAPOP 2006 (Latin American Public Opinion Project), Political Science Department, Vanderbilt University,Tennessee.

List of Respondents

List of Institution staff interviewed

Name	First Name	Institution
Vertus	Marie Vertus	USAID
Pierre	Béatrice	USAID
Sylney	Hubert	USAID
Louissaint	Daphné	SOGESOL
Sifrain	Rocheny	SOGESOL
Boisson	Pierre-Marie	SOGESOL
Larosilière	Julio	MCC
Pigniat	Wonder	MCC
Clefils	Similien	MCN
Mérisier	Rubens	MCN
Craan	Bernard	SOFIHDES
Moise	Thony	SOFIHDES
Casimir	François	APB
Greathouse	Greta	HIFIVE
Elyzé	Frantz	ANIMH
Boyer	Marie Laurence	BanqueCentrale
Jérome	Evens	BanqueCentrale

List of Borrowers interviewed

Name	First Name	City
Narcisse	Archelly	Port-au-Prince
Louis	Marie Cazeau	Port-au-Prince
Siméus	Marc	Port-au-Prince
Condestin	McKenan	Port-au-Prince
Dolbrus	Merlang	Port-au-Prince
Louis	JnAculas	Port-au-Prince
Avril	Jean Denis	Port-au-Prince
Calixte Jean	Alumene	Port-au-Prince
Merisier	Marie Ange	Croix des Bouquets

StLouis	Rose Marie	Port-au-Prince
Deravine	Madeleine	Port-au-Prince
Mentor	Lourdes	St Marc
Joseph	Leonie	Liancourt
Jn Charles	Ketly	St Marc
Cadet	Ezechiel	St marc
Juliet	Dorseus	Delmas
Marcelin	Etienne	Delmas
Cadet	Ernst	St Marc
Charles	Antonio	Delmas
Jn Louis	Philemon	Delmas
Francin	Philogène	Jacmel
Alexis	Lionel	Jacmel
Sénatus	Jn Marie	Jacmel
Ambroise	Carmelle	Jacmel
Jean	Jacquelin	Cap-Haitien
Regis	Anita	Cap-Haitien
Noel	Rubia	Cap-Haitien
Telmé	Evna	Cap-Haitien
Frédérique	Stéphanie	Cap-Haitien
Desravines	Madeleine	Port-au-Prince
Laguerre	Jean Morel	SOGESOL
St Germain	Julia	
Solimon	Lolita	
Val	Eddy	SOGESOL
Elvetus	Evenine	
Michel	Olins	
Group mixed of 2 women/2 men		
Fieffe	JnSagesse	MCC
Mathieu	Belkys	
Jules	Stanley	
Charles	Andre Fils	
Pierre	Marie Denise	MCC
Charles	Frantz B.	
Pierre (?)	Guy	
Avril	Almite	

ANNEX 4: USAID Development Credit Authority (DCA).Evaluation of Capital Bank and SOGEBANK DCA Guarantees: Evaluation Framework with Indicators

The Capital Bank/SOGEBANK Evaluation Work Order Number 012 stipulates, on page 2, that E3/DC is requesting an evaluation of the 2007 multibank DCA guarantee with both Capital Bank and SOGEBANK. The evaluation will determine the results of the guarantee on both bank partners' lending practices in Haiti, as well as on borrowers' businesses. As of September 2012, E3/DC has a revised framework for the evaluations which will continue to look at how the lender has implemented the guarantee but also expand on examining how the borrowers are affected. It will analyze results at four levels: inputs, outputs, outcomes, and impact for both lenders and borrowers. The Development Credit Authority (DCA) officials will use evaluation findings for different **purposes**, including to:

1) Demonstrate and communicate to DCA stakeholders (Office of Management and Budget, Congress, USAID Missions, etc.) and external partners the contributions of DCA loan guarantees to the achievement of development results[72];

2) Find out how best to engage financial sector institutions as partners in development;

3) Determine the impact of the DCA loan guarantee by assessing, among other things, the borrowers' main goal of increasing investment opportunities and incomes; and

4) Strengthen USAID's future application of the DCA guarantee as a tool for achieving development results.

The present document was developed in preparation for an evaluation of a DCA Loan Portfolio Guarantee (LPG) signed in 2007 and modified in 2010. This Evaluation Framework and Indicators document was prepared as a deliverable per the Capital Bank/SOGEBANK Evaluation Work Order Number 012.

Conceptual Background

As stipulated in the Work Order, the general evaluation approach will follow a four-fold scheme in order to assess the development results of the DCA loan portfolio guarantee to Capital Bank and SOGEBANK. These results occur at four levels: input, output, outcome and impact.[73]

- **Inputs** assess what it takes to get the guarantee up and running and how the guarantee has been designed and structured to achieve stated goals.

- **Outputs** (direct and indirect) explore both economic additionality (e.g., business sales, profits, and jobs) on the borrower side and financial additionality(additional loans extended) on the lender side.

- **Outcomes** examine short to midterm changes and behavior and perception as a result of the guarantee output at both the borrower and the lender level.

- **Impact** looks at how the DCA GUARANTEE contributed to long-term changes and market practices or perceptions toward targeted sectors, recognizing that attribution/counter actual may not be possible.

More specifically, with respect to the above definitions, the key questions to answer in this evaluation are the following:[74]

- Given the high utilization of the guarantee, did the partners increase credit to the target sectors outside the DCA guarantee? Did it move into any new sectors/industries, types of borrowers, types of loans, or loan terms? If so, how and why? To what extent were the DCA guarantees responsible for improving access of partners' customers to credit outside the guarantees? **(Outcome- Lender)**

[72] Development means, according to the Work Order, wealth and job creation; thus, poverty alleviation.

[73] The definitions below are from the Development Credit Authority Evaluations Revised Evaluation Framework, September 2012.

[74] From the Work Order for the DCA Capital Bank/SOGEBANK Evaluation.

- Did borrowers seek loans before and after the guaranteed loan from the partner financial institution or other financial institution? If so, were the requests successful? To what extent were the DCA guarantees responsible for improving the borrowers' willingness to seek credit? **(Outcome- Borrower)**

- What additional insights can you provide that access for loans improved for the targeted sectors? What role if any did the DCA guarantee play as a demonstration model? **(Impact)**

- What exogenous factors affected the financial sector during the agreement period? How? Have these factors also affected the performance of the multi-bank guarantee? If so, how?

Table 1 of this Annex presents the customized evaluation framework that addresses the four levels of results described above. Thus the table focuses much more on outcome and impact than on output indicators as such, given that outcome-lender, outcome-borrower, and market demonstration effect are the main evaluation research themes.

TABLE 1. Evaluation of DCA and SME Operations : Evaluation Framework

EVALUATION QUESTIONS	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
INPUT (Guarantee design and Development):			
1.What was the motivation for the guarantee agreement?Who originated the effort?	Mission/contractor/staff; Partner staff;	(1) & (2) Evaluation Scope of Work, Interviews of cognizant USAID and contractor staff (2) Guided interviews with financial institution staff (HQ & branches)	Purposes 3 & 4 above.Can be indicative of the effort to achieve results. The question is primarily *descriptive.*
2. Is technical assistance provided (either by USAID or other institution) to Partners and/or borrowers to accompany guarantee?	DCA; annual report; Mission/ contractor/ staff; partner staff; borrowers, and identified technical assistance donor organizations	(1) – Evaluation Scope of Work, Review of financial institution documents (2) Guided interviews with financial institution staff (HQ & branches), and borrowers.	Purposes 2, 3 & 4 above. This question is primarily *descriptive.*

EVALUATION QUESTIONS I. lender II. borrower	DATA SOURCES (1) pre-field activities (2) field activities	DATA COLLECTION METHODS (1) pre-field activities (2) field activities	HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS
OUTPUT (Loans Disbursed, Financial Additionality…)			
LENDER I.-1a. How does each partner Bank implement its loan guarantee programs that is different from the usual implementation of its existing portfolio (e.g., marketing campaigns, changed terms, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?	(1) DCA documents: especially Action Package (1) CMS data (2) Banks' strategy documents 2007-2013 (2) Relevant Bank marketing materials and staff training documents (2) Mission staff (2) Bank staff	(1) Review of USAID documents (2) Review of bank documents (2) Guided interviews with bank and Mission staff	DCA use: how best to engage financial sector institutions as partners in development; to strengthen USAID's future application of the DCA guarantee as a tool for achieving development results; and to enhance discussions with potential guarantee partners; to enhance the training that DCA provides to guarantee partners, missions, et al.
I.-1b. What potential market did the DCA guarantee help open for the partner institution? How did the DCA guarantees fit into the partner's ongoing strategy?	DCA documentation, DCA portfolio managers, partner annual reports, Industry/Central financial institution studies	(1) - Analysis of CMS data, Documents review, Interviews of cognizant DCA staff (2) Guided Interviews of partner financial institution staff	Purposes 1, 3 & 4, above. The question is primarily *explanatory*, i.e., the extent to which the DCA guarantees directly influenced change. Secondarily it is *descriptive* and *comparative*; it addresses what happened with loans under guarantees vs. what would likely have happened without the guarantees.
I.-1c.Did the partner use the DCA guarantee to improve access to credit for the target sectors? If so, how much local private capital was mobilized (vs. utilization)? Did characteristics of guaranteed loans differ from other loans in ways that improved access?	Mission technical officers and TA providers, partner managers/staff (HQ & branches), partner electronic files or samples of files	(2) - Analysis of financial institution electronic files on borrowers covered by guarantee (either sample of or full DCA loan portfolio)	What we learn can affect what DCA does when: talking to potential and actual guarantee partners (e.g., asking them what they would change with a guarantee; encouraging financial institutions to do x, y, or z); providing technical assistance (TA) and training to financial institutions; and encouraging missions to provide TA and training to financial institutions.

I-2a. What was the financial additionality of the guarantee? (i.e., comparing indicators for loans under the guarantee with the rest of the bank's portfolio AND with other <u>uncovered</u> financial loan terms dealing with SMEs, for example **Fonkoze**)? I-2b. What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics? **BORROWER** II-1a: How do the SMEs perceive the terms of the loan as compared to other terms? What can they do that they could not	1) CMS (2) Interview with partner banks other financial institution managers/staff 2. field interviews with borrowers	(1) Analysis of CMS data (2) Guided Interviews of partner bank staff (2) Analysis of bank electronic files on borrowers covered by guarantee (either sample of or full DCA loan portfolio) 2. Individual interviews and/or small focus groups with beneficiaries in chosen sectors according to a 'before and after' model. Random sample from Lenders' list of borrowers	DCA use: To report on loans to stakeholders and . Determine the impact of the DCA loan guarantee by assessing, among other things, the borrowers' main goal of increasing investment opportunities and incomes; and strengthen USAID's future application of the DCA guarantee as a tool for achieving development results What we learn can affect what DCA does when talking to potential and actual guarantee partners. Purpose 3: achieving development will be better understood by DCA
OUTPUT LEVEL- Economic Additionality			
How did borrowers benefit from the loans in terms of business sales, profits, jobs, exports?	Partners electronic files, borrowers financial records, secondary data from technical assistance implementers	(2) Review of partner documents; guided interviews with partner staff (HQ & branches), and borrowers	Purposes 1, 2, 3 & 4.
OUTCOME (Behavior Change):			
LENDER I-3b: Given the high utilization of the guarantee, did the partners increase credit to the target sectors outside the DCA guarantee? Did they move into any new sectors/industries, types of borrowers, types of loans, or loan terms? If so, how and why? To what extent were the DCA guarantees responsible for improving access of partners' customers to credit outside the guarantees? I-3c: Did the banks change the loan terms? Did they: reduce collateral requirements? Increase loan tenor?	(1) CMS data review (2) Bank data on non-guaranteed lending to same sectors/regions (2) Bank annual reports (2) Bank staff (2) Field interviews with borrowers	(1) *Cohort-Analysis* of CMS and bank data on guaranteed versus other loans (2) Interviews of cognizant Mission / contractor staff and other stakeholders (2) Guided Interviews of partner bank staff 2) Individual and/or focus group interviews with borrowers working in different sectors	DCA use: Demonstrate and communicate to DCA stakeholders (Office of Management and Budget, Congress, USAID Missions, etc.) and external partners the contributions of DCA loan guarantees to the achievement of development results; Find out how best to engage financial sector institutions as partners in development; Strengthen USAID's future application of the DCA guarantee as a tool for achieving development results.

Is there a new loan product, a new type of loan? Give loan on the basis of cash flow?			
BORROWER II. Did borrowers seek loans before and after the guaranteed loan from the partner financial institution or other financial institution? If so, were the requests successful? To what extent were the DCA guarantees responsible for improving the borrowers' willingness to seek credit? Are indirect benefits (secondary effects) coming from the loan such as (children attending school; health benefits, community involvement			
IMPACT LEVEL (Market Demonstration Effect):			
4a. What additional insights can you provide that access for loans improved for the targeted sectors? What role if any did the DCA guarantee play as a demonstration model?	2)Partner-Lenders' staff, expert or/and other cognizant key informants	2)Key informant interview with SME experts/cognizant bank partners and other banks 2) Key informant interviews with SME owners 3) Key informant interviews with *local development stakeholders*, such as Mayors, associations and CSO's	DCA use: strengthen USAID's future application of the DCA guarantee as a tool for achieving development results.

QUESTIONS THAT APPLY TO ALL THREE LEVELS—OUTPUT, OUTCOME AND IMPACT:			
What are the exogenous factors (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, other donor behavior, others?) that have affected the financial sector from 2007-2013? How? Have these factors also affected the performance of the multi-bank guarantee? If so, how?	(1) Review of donor or research documents / websites (2) Cognizant USAID / contractor staff / other donor representatives (2) Lender managers/staff (2) Competitor bank staff (2) Haiti Bankers Association (2) Haitian Central Bank	(1) Documents review (2) Interviews of cognizant USAID / contractor staff (2) Guided interviews of partner bank staff (2) Other donor / key stakeholder interviews (2) Guided interviews of other banks / central bank	DCA use: To set in context the Evaluation findings for Questions 1 – 4.

Table 2. Evaluation of DCA and SME operations in Capital Bank and SOGEBANK: *Indicators*

The following table presents qualitative and quantitative indicators corresponding to the evaluation questions presented in Table 1. Some questions are just descriptive and don't have any performance indicators.

EVALUATION QUESTIONS	**DATA SOURCES** **(1) pre-field activities** **(2) field activities**	**DATA COLLECTION METHODS** **(1) pre-field activities** **(2) field activities**	**HOW DCA WILL USE THE EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS AND OTHER COMMENTS**
INPUT (Guarantee design and Development):			
What was the motivation for the guarantee agreement? Who originated the effort?	n.a		
Is technical assistance provided (either by USAID or other institution) to Partners and/or borrowers to accompany guarantee?	n.a		

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
OUTPUT LEVEL (Financial Additionality)		
I.-1a. Why did the partner banks enter into the guarantee? I.-1b. How does each partner Bank implement its loan guarantee programs that is different from the <u>usual</u> implementation of its existing portfolio (e.g., marketing campaigns, changed terms, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?	1 a. Qualitative difference between lenders articulated business strategies and the guarantee objectives • Date of commencement of lending to various sectors • Number and percent of guaranteed/non-guaranteed loans to the target sectors, by year • Value of lending to target sectors within overall bank portfolio, by year 1.b Qualitative description of differences between program implementation procedures and "business as usual" implementation procedures • Qualitative description of differences between assessment criteria used for DCA guaranteed and non-guaranteed loans • Qualitative description of loan approval and administration procedures between DCA guaranteed and non-guaranteed loans • Qualitative description of marketing campaigns, staff structure, communications structure, etc.	Comparative analysis (pre / post, with / without DCA guarantee) Statistical calculations (number, percent) Content pattern analysis of documents, interview notes

I-2a. What was the additionality of the guarantee? (i.e., comparing indicators for loans under the guarantee with the rest of the bank's portfolio AND with other uncovered financial loan terms dealing with SMEs, for example **Fonkoze**)? I-2b. What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics? **BORROWER** II-1a: How do the SMEs perceive the terms of the loan as compared to other terms? What can they do that they could not do before?	Partner Banks' loan portfolios pre, during, post DCA guarantees, by sector and year if possible • Value of loans to target sectors and regions in total bank portfolio • Number of loans to target sectors and regions in total bank portfolio • Average (or representative) loan size and frequency distribution • Average (or representative) loan tenor • Rules for collateral requirements (including types of collateral, % relative to loan size) • % of covered borrowers who were new clients • Average interest rate **Qualitative indicators** • Number and value of loans per borrower • Perception of the time frame of the loan; • perception of the application process; • openness of the bank; • openness of the information regarding the loan	Comparative analysis—pre vs. post agreements Statistical analysis (value, mean, median, minimum and maximum)
OUTPUT LEVEL (Economic Additionality)		
How did borrowers benefit from the loans in terms of business sales, profits, jobs, exports?	Guarantee borrowers median percent change in annual revenues, time-series from before loan to until one year after loan repayment.	Comparison of pre-guarantee value to annual values during guarantee period
	Guarantee borrowers median percent change in annual profits, time-series from before loan to until one year after loan repayment.	Comparison of pre-guarantee value to annual values during guarantee period

	Guarantee borrowers median end of year number of employees (annually), time-series from before loan to until one year after loan repayment.	Comparison of pre-guarantee value to annual values during guarantee period
What potential market did the DCA guarantee help open for the partner institution? How did the DCA guarantees fit into partner's ongoing	**LOAN PORTFOLIO:** Partner's number and total value of guaranteed loans to target sector Partner's % of new borrowers in guaranteed loans to target sectors, relative to all loans to target sectors	Compare to partner's loans to target sector and loans to other sectors (beginning with pre-guarantee baseline) Comparison of partner's % of *new borrowers* for guaranteed loans relative to all loans in portfolio to target sector.
Did the partner use of the DCA guarantee improve access to credit for the target sectors? If so, how much local private capital was mobilized (vs. utilization)? Did characteristics of guaranteed loans differ from other loans in ways that improved access?	Partner's number and amount of loans made to the target sector.	Comparison of before and after agreement
	Loan Collateral	
	Average percentage collateral requirement for guaranteed loans to target sectors, relative to all loans to target sectors	Comparison of *collateral requirement* of guaranteed loans relative to all loans in portfolio to target sector.
	% of collateral that borrower assets for guaranteed loans to target sectors, relative to all loans to target sectors	Comparison of *assets (i.e. land) as a % of collateral* of guaranteed loans relative to all loans in portfolio to target sector.
	Loan Terms	
	Average (and median) size and frequency distribution of guarantee loans to target sectors relative to all loans to target sector	Comparison of pre-guarantee distribution of *loan sizes* to distribution during guarantee period.
	Average tenor for guarantee loans relative to all loans to target sector	Comparison of pre-guarantee *loan tenors* to tenors during guarantee period.
	Average interest rate for guarantee loans relative to all loans to target sector	Comparison of pre-guarantee *interest rates* of loans in target sectors to interest rates during guarantee period.

OUTCOME LEVEL		
LENDER I-3b: Given the high utilization of the guarantee, did the partners increase credit to the target sectors outside the DCA guarantee? Did they move into any new sectors/industries, types of borrowers, types of loans, or loan terms? If so, how and why? To what extent were the DCA guarantees responsible for improving access of partners' customers to credit outside the guarantees? (Outcome-Lender) **BORROWER** II. Did borrowers seek loans before and after the guaranteed loan from the partner financial institution or other financial institution? If so, were the requests successful? To what extent were the DCA guarantees responsible for improving the borrowers' willingness to seek credit? (Outcome-Borrower)	Lenders 'portfolio performance outside of DCA guarantee coverage per sector by department • Value of loans to target sectors and regions in total bank portfolio before and after the Agreements • Number of loans to target sectors and regions in total bank portfolio before and after the Agreements • Average (or representative) loan size and frequency distribution before and after the Agreements • Average (or representative) loan tenor before and after the Agreements • Rules for collateral requirements (including types of collateral, % relative to loan size) before and after the Agreements • % of covered borrowers who were new clients • Average interest rate before and after the Agreements • Number and value of loans per borrower before and after the Agreements Identification of borrowers who have requested loans from other financial institutions. If possible, percent of borrowers under the guarantees who have received financing from other banks. Description of borrower behavior from the borrowers themselves.	Comparative analysis—pre vs. post DCA agreement, Statistical analysis (value, mean, median, minimum and maximum) Content pattern analysis of documents, interview notes ***'Network analysis' from a random sample of borrowers from same partner bank to identify the cases***

IMPACT LEVEL		
4. What additional insights can you provide that access for loans improved for the targeted sectors? What role if any did the DCA guarantee play as a demonstration model? (Impact)	Identification of borrowers per sector within a department who have become **local influence leaders** upon their business friends when it comes to looking for credit or more generally to local development. Look at competition among banks dealing with SMEs in terms of advertising, new product, new internal training for their staff, as a proxy of competition. Comparison between 'guaranteed' and non guaranteed portfolio will be interesting to carry out.	Content pattern analysis of interview notes looking for '**contagion effect'**
EXOGENOUS FACTORS		
5. What are the exogenous factors (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, other donor behavior, others?) that have affected the financial sector during the agreement? How? Have these factors also affected the performance of the multi-bank guarantee? If so, how?	What factors are most influencing the financial sector? Are other donor institutions working on financial access or offering guarantees and/or credit to the target sectors? If so, what is their influence? Are they affecting the performance of the DCA guarantee? 'Counterproductive' governmental rules and regulations that appear during the agreement which may affect the financial sector Descriptions of exogenous factors from interviews and document reviews	Content pattern analysis of interview notes and document review
	What are the most important factors affecting partner's lending and borrowers seeking loans?	