SCBF 2017-10 October 2018

Individual small business loan product for Sèvis Finansye Fonkoze, S.A. (SFF) in Haiti

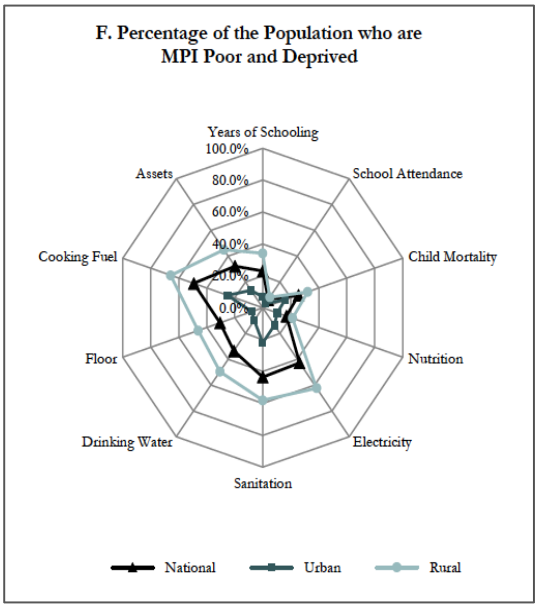
1. DEVELOPMENT RELEVANCE

Economic and poverty context[i]

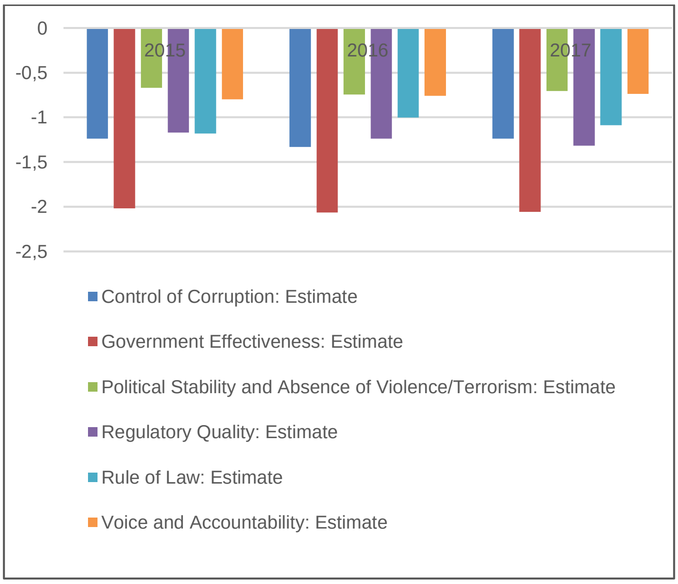
Haiti counts 10,083,000 inhabitants out of which 46% live in rural areas. The economic growth rate should show a modest increase from 1.2 percent in 2016-2017 to 1.6 percent in 2017-2018, owing primarily to the performance of the agricultural sector. However, the gourde has continued to depreciate against the US dollar and inflation remains high. Struck by frequent natural disasters, Haiti remains the poorest country of the Caribbean, and one of the poorest countries in the world. According the World Bank, 59% of the population live under the national poverty line of $2.41 per day and more than 24% live under the national extreme poverty line of $1.23 per day. Furthermore, Haiti continues to recover from the 2010 earthquake that devastated the country and caused damages equivalent to 32% of GDP. However, according to the State Department, Haiti has made the transition from a post disaster era to one of reconstruction and long-term development[ii].

Population and economic indicators	
Population in million (Estimate: 2016)	**10.1**
GDP growth (*average: 2012 - 2017*)	**2.05%**
Inflation (*average: 2011 - 2016*)	**11.1%**
Trade balance (% of GDP) (2017)	**-37.7%**
Foreign direct investment (net) (% of GDP) (2016)	**1.3%**
Net ODA received (% of GNI) (*2016*)	**13.3%**
Remittances received (% of GDP) (2017)	**29.9%**
Economic Freedom Index (Rank among 186 countries) *(2018)*	**124**
Poverty indicators	
GDP per capita (USD) (2017)	**765.7**
Gini Index (0= equality 100= inequality) (2012)	**41.1**
International poverty rate (2012*;* at 1.90 USD/day)	**23.5%**
National poverty rate (*2012*)	**59%**
National rural poverty headcount rate (2012)	**74.9%**

Multidimensional poverty index ***(Haiti, 2017)***[iii]



Governance indicators ***(Haiti, 2017)***[iv]



Financial sector context

The financial sector in Haiti is dominated by three major banking institutions (Unibank, Sogebank and BNC) which hold 80% of the total banking assets.[v] In addition, the microfinance sector plays a fundamental role in meeting the needs of MSMEs in terms of financing and access to financial services. During the last ten years, the microfinance sector has been very dynamic. In 2011 total assets were estimated at 10.78 billion gourdes (EUR 145 million) (USAID, 2012)[vi] and today it is estimated at 12,234 billion gourdes (EUR 173 million), an increase of more than 11% (HIFIVE-USAID, 2015).[vii] During the same period, the credit portfolio of the microfinance sector rose from 6.9 billion gourdes in 2011 to more than 8 billion gourdes in 2014 (HIFIVE, 2015), an increase of more than 13.75%. However, the legal framework for this sector did not follow this development. It was only in 2002 that a law on the regulation of co-operatives was put in place and a law on microfinance is still being reviewed, meaning that no regulation is currently applied.

Partner financial institution/s[viii]

The main partner financial institution of this project is SFF. Sèvis Finansye Fonkoze is a Haitian joint-stock company incorporated on May 14, 2014, and the country's largest microfinance institution, providing a variety of financial and development services to the rural poor. SFF offers a full range of retail financial services including microcredit, individual business loans, savings, foreign exchange, domestic money transfer, international remittances and other financial services. SFF's mission is to provide the financial and non-financial tools that Haitians (primarily women) need to lift their families out of poverty. The institution serves over 60,000 loan clients and over 200,000 savings clients. SFF has identified six short- and medium-term objectives that will ensure the long-term success of the organisation and achievement of this aim: sustainability, poverty targeting, access to financial services, use of technology to improve operational efficiency/clients' convenience, building a fully Haitian organisation, and meeting prudential regulatory requirements for MFIs as proposed under the draft Law of Microfinance. These goals also form the overall strategic approach on which the business plan is based.

2. INTERVENTION APPROACH

Capacity building needs

The basic goal of the intervention was to continue to sustainably scale-up SFF's individual business loan product from 4,718 (July 2017) to 13,532 clients by 2020. SFF lacked the internal expertise and financial resources to strategically move this initiative forward. In order to reach this goal, it was essential for the technical assistance (TA) to review the operations of the product to identify its critical weaknesses, staff capacities and to identify several options for the product going forward.

Main activity areas (goals, targets, resources & time frame) and outputs

In December 2017, after an institutional analysis, a **marketing plan** was developed based on a review of SFF's current marketing activities, interviews with clients and a comparison of the competition's products to those of SFF. The plan was discussed with the two managers responsible for the North and South Region and the plan, including its budget, have been approved by the CEO. Marketing activities began in March.

Based on the review of SFF's lending processes and operations, a **Credit Control Unit** was set up; a procedure, processes, job descriptions as well as necessary tools were developed and implemented.

Afterwards, in February 2018, the consultant proposed adaptations to improve the **risk assessment practices** before loan disbursement. Changes to existing lending tools were approved and implemented by SFF's management. Moreover, the consultant proposed adaptations which aimed mainly at improving the availability of information on expected payments and situations of clients in arrears and the **follow-up and recovery** of outstanding loans, including the documentation of these activities.

Originally it had been planned to develop a new credit risk profile system and introduce a position of credit recovery officer under the TA but finally it was decided not to implement these two activities.

Session	Topics	Participants	
		Branch managers	Loan officers[ix]
April 2018	(1) Financial analysis, (2) Credit technology, (3) Credit risk management	62	68
	(4) Team and time management		
July 2018	(1) Financial analysis, (2) Credit technology, (3) Credit risk management	41	24
	4) Team and time management		
	Total	103	94

Based on the review of SFF's operations with individual loan clients, the consultant proposed **training topics and a curriculum**, which were discussed with SFF. Trainings started with a **train-the-trainer** session, as the assistant regional directors will act as internal trainers who will take over the trainings after the end of the project. Due to the large number of people to be trained (**~200 credit staff including branch managers and their deputies and loan officers in charge of individual loans**), two sessions were organised in April and July 2018 followed by on-the-job coaching until October 2018. The table shows the number of people trained and the topic.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

Small business loans play an important role in strengthening small and medium enterprises in urban and rural areas, thus strengthening the overall economy and especially benefitting rural populations where the majority of Haiti's poor are concentrated. With the strengthening and redefining financing processes within SFF, the project played a key role in improving the various financial services provided to the client, especially credit.
With regard to the development of clients' activities, the **revision of the credit processes** has enabled the loan staff to increase the processing speed of loan applications. In the past, many customers complained about the loss of opportunities, as loans were disbursed almost a month after their application (during the market study, we calculated an average processing time of 22 days to disburse a loan). This loss of opportunities resulted in weak business growth and liquidity problems. Project monitoring in October 2018 showed (on a sample of 20 credit files) that the processing speed increased to an average of 7 days from the loan request to disbursement.
Additionally, through the **capacity building of staff** in the analysis of clients' repayment capacity, loan amounts and repayment plans have become better adapted to clients' needs. Before, most clients did not receive the full loan amount they had requested and seasonality of their business operations was not taken into account. The institutional analysis conducted in December 2017 showed that almost 50% of clients only received half of the loan amount requested, which did not meet their need for financing. As a consequence, most clients took out another loan at a different MFI and finally ended up with a debt index that exceeded by far 50% of their equity. Out of 20 monitored files, 80% of clients financed after the training measures were granted a loan amount which corresponded to the size of their activities, allowed them to increase their turnover and benefit from a repayment plan proportional to their turnover.

To reinforce the policy of proximity with the customers, the TA recommended that **credit staff work as advisers of the entrepreneurs (customers)** and not just as a loan officers. In this perspective, the role of loan officers is no longer limited to granting credit, but extends to supporting customers with advice on investment and compliance with the credit goal. The implementation of this new approach is still ongoing and will integrate the institution's philosophy.

Client Profiles

Marie Mersola Charles (Kabare, Ouest) is a new Business Development client. To support herself, Marie started selling on the streets and open market in her teenage years. Marie recently received a HTG 250,000 ($3,900) loan from Fonkoze; with the funds, she added a variety of products to her inventory. In addition to rice, sugar and oil, she now also sells wheat bran to feed pigs and sugar cane syrup. "With Fonkoze, I see myself growing and becoming a bigger and better business woman."

Cancia Phedeline (Gros Morne, Artibonite) has been an SFF client for the past five years, and although she is no longer part of a Solidarity Group, she decided to continue as an individual client because "these women became part of my family; I don't want to be separated from them." By steadily using her credit to buy more merchandise and increase her profits, her business has grown. She no longer carries her merchandise in a basket on her head to the open market; clients come to her shop. She is grateful that she entered Fonkoze, especially for her child, who now attends school. As she puts it, "Our lives are steadily improving for the better, thank you God, and thank you Fonkoze."

Partner financial institution/s level

The partnership has supported SFF to improve its risk assessment technology by putting a stronger focus on the client's capacity to repay the loan and by including an assessment of all of the client's business activities. To this end, the TA has been provided in three specific areas: review of lending procedures, establishment of a credit control unit and improvement of credit risk management. As a result, SFF is now using an analysis form which makes information more traceable, includes more details on client premises which will play a significant role in the process of recovery and monitoring of loans. Additionally, the introduction of a credit control department allows increased operational oversight in the 44 branches belonging to the SFF network by assessing whether staff apply the credit procedures and processes in accordance with the policy and philosophy of the institution. The analysis of non-conformities resulting from the credit control allows SFF to identify the problems and difficulties that different branches face, so that processes can quickly be adjusted internally to solve these problems. After the classroom and on-the-job training of all credit staff of the institution, a palpable improvement in the quality of credit analysis was very noticeable during the credit committees and the monitoring of the portfolio of branches. Aside from the quality of credit analysis, the speed of file processing and customer tracking have improved significantly. The table on the next page shows that the **number of outstanding small business loans increased by 2'866** from September 2017 to September 2018 with **7'302 loans issued during the project.**

Indicators[x]	**Sept 17**	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18	May 18	June 18	Jul 18	Aug 18	**Sep 18**
Number of outstanding small business loans	4600	7221	7397	7594	7692	7714	7723	7801	7584	7528	7466
New loans disbursed during the project		1301	634	668	861	600	685	903	552	706	392

Financial sector level

The over-indebtedness of MFI clients is one of the elements that characterize the microfinance sector in Haiti. In the absence of a central credit bureau that should support financial institutions in sharing information, each institution tries in its own way to deal with the problem of over-indebtedness. Through the improvements of the credit processes put in place during the project, SFF contributes effectively to the fight against over-indebtedness by implementing a meticulous analysis of the client's history, while assessing the client's real need for financing. This new orientation has allowed some clients to choose to close their loans in other institutions and to work only with SFF, as long as the institution offers a package that meets their financing needs.

4. CONCLUSION

The implementation of the project was effectively carried out according to the established work plan. Among the success factors that played a big role in the realisation of this project were first of all SFF staff and management, who were very cooperative and receptive of the different proposals to improve their operations. The high commitment of credit staff to put into practice all the skills acquired during the training including credit analysis and portfolio management can be considered as the most positive change. However, the current challenge is that the socio-economic situation in the country remains precarious and it does not benefit the development of customers' businesses. In January 2018 for example, a fire damaged one of the largest markets in Port-au-Prince which is also a market where SFF saw a lot of potential for their individual loans. Luckily, only few current clients were affected by the fire and their loans were restructured in order to allow the clients to recover from their losses.
As a recommendation, SFF needs to invest more in capacity building of its staff, especially the credit staff. The institution will need additional support in the training of its middle management through an intensive and well-adapted program. These points were discussed with the institution and the management is well motivated to develop a strategic plan that will precisely target more training internally.

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[i] Data in this section are from World Bank, "Haiti Overview", September, 2018: http://www.worldbank.org/en/ country/Haiti/overview
[ii] U.S. Department of State, "U.S. Relations with Haiti," Fact Sheet, March 23, 2017
[iii] Oxford Poverty and Human Development Initiative (2018). Global Multidimensional Poverty Index Databank. OPHI, University of Oxford. http://www.dataforall.org/dashboard/ophi/index.php/mpi/country_briefings, October 2018
[iv] The World Bank Group (2018). Worldwide Governance Indicators database. Washington, DC. http://databank.worldbank.org/data/reports.aspx?source=Worldwide-Governance-Indicators. October 2018
[v] https://www.export.gov/article?id=Haiti-Banking-Systems
[vi] https://www.woccu.org/documents/RECENSEMENT-DE-LINDUSTRIE-DE-LA-MICROFINANCE-EN-HATI-2011-2012-version-HIFIVE
[vii] USAID-HIFIVE (2015). Rapport sur la microfinance en Haïti, Port-au-Prince, Agence Américaine pour le Développement International
[viii] In this SFF branch network map , the round yellow points represent SFF branches and the other points the customers' location.
[ix] Only loan officers in charge of individual loans were trained, not those in charge of group loans.
[x] Indicators provided by SFF MIS, October 2018