

Providing Access to Finance for Haiti's Rural and Agricultural Population

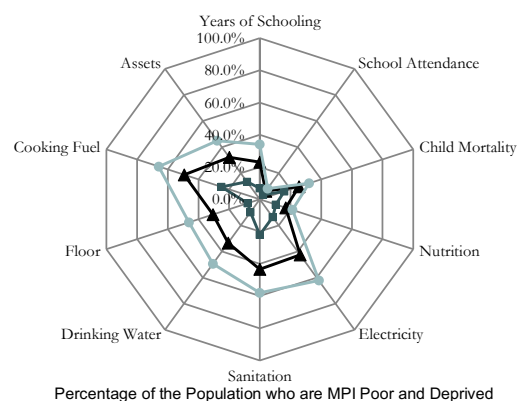
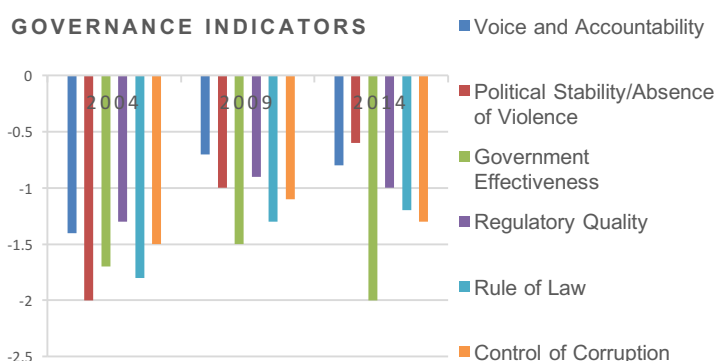
FINCA Haiti S.A.

1. Development relevance

Economic and Poverty Context: Haiti is the poorest country in the Western hemisphere with over 80% of the population living on less than USD 2 a day and 54% living on less than USD 1.ⁱ Four and a half million Haitians suffer from food insecurity and 800'000 suffer from high food insecurity. A disproportionate number of the food-insecure reside in rural areas where the per capita income is one third that of those living in urban areas. Smallholder farmers and rural micro-entrepreneurs, who employ more than 85% of the economically active rural population, make up a vast proportion of the food insecure. A key priority of the government continues to be economic stabilization, which is focused on sustainable livelihoods and income generation in rural areas as well as the provision of agricultural credit to alleviate rural poverty. In fact, the Ministry of Agriculture identifies the chronic lack of financing as a key constraint to the development of rural agriculture, and ascertains a reluctance of commercial banks towards this kind of lending after major losses experienced in 2008.ⁱⁱ A particular concern is government effectiveness and control of corruption (figure).

Population and economic indicators	
Population (2013)	10'317'461
GDP growth (2013)	4,30%
Inflation (2013)	5,90%
Trade balance (% of GDP) (2012)	12,32%
Foreign Direct Investment (net) (% of GDP) (2013)	2,20%
Net ODA & official aid received (% of GDP) (2012)	15,07%
Economic Freedom Index (Rank among 185 countries)	48,1
Poverty indicators	
GDP per capita (current USD) (2013)	820
Multidimensional Poverty Index (1=poor 0=not poor) (2012)	0,248
National poverty headcount ratio (2012)	58,5

GOVERNANCE INDICATORS



Financial Sector Context: Only 19% of the population aged 15+ had an account in 2014 (of whom 17,5% at a financial institution, compared to 22% in 2011),ⁱⁱⁱ 14,5% of adults belonging to the poorest 40% of the population have an account. Only 4,6% of the population aged 15+ borrowed from a financial institution in 2014 (compared to 8,3% in 2011). The Ministry of Agriculture estimates that commercial banks allocate approximately 1% of their loan portfolio to rural areas. MFIs, the main providers of rural credit, allocate 20% of their portfolios to agriculture, which is not enough to meet the rural demand.

Partner Financial Institution: FINCA Haiti was founded in 1989 to serve the entrepreneurial poor and to alleviate poverty through lasting solutions that help people build assets, create jobs and improve their standard of living. It continues to be a key player in the Haitian microfinance market, focusing its efforts on lower-income populations and on women, operating mainly in the service and agricultural sectors. As a result of the 2010 earthquake, two of its eight branches were destroyed, with the entire portfolio of those branches written off and other branches and clients heavily affected. Following this, FINCA Haiti initiated a consolidation and restructuring period, with a resumption of growth in Q4 2012. In Q1 2013, it transformed from a non-profit into a regulated *Société Anonyme* (SA), thus providing the basis to offer savings services in the future. As of September 2014, it had 246 employees and operated through nine branches (Port-au-Prince, Cap-Haitien, Gonaives, Pétion-Ville, Carrefour, Jacmel, Les Cayes, Croix-des-Bouquets, Saint-Marc). It offers village banking loans, individual lending loans, small and medium enterprise loans and agricultural loans. With 16'179 clients and an outstanding loan portfolio of USD 6,2 million, FINCA Haiti doubled its outreach and portfolio figures from the prior end of

Partner financial institution (data in USD)				
	08/31/2010	08/31/2013	08/31/2014	2017
Total assets	2'857'302	4'116'245	8'342'204	25'455'710
Gross loan portfolio	1'309'372	2'577'053	5'939'772	23'479'277
Total staff/women	135/56	185/115	246/153	330
Total offices	10	7	7	10

year while maintaining strong portfolio quality with a PAR>30 of 0,9%. 84% of clients are women. The barriers to accessing credit for self-employment in Haiti among women are significant, mostly stemming from the fact that women generally operate in the informal economy and financial institutions will not lend to those without a business registration.

FINCA International is the majority owner of FINCA Microfinance Holding Company LLC (FMH), an investment partnership that includes socially responsible investors such as International Finance Corporation (IFC), KfW Bankengruppe, FMO (Dutch development bank), responsAbility Global Microfinance Fund, ASN-Novib (Managed via Triple Jump) and Triodos Investment Management.

2. Intervention approach and additionality

Previous activities: FINCA Haiti has always worked with rural clients engaged in agriculture, but it has not explicitly supported agricultural production with tailor-made loans. Market research in July/August 2013 indicated a strong demand and a general lack of rural financial services, specifically for agricultural activities. FINCA determined that the best approach was to develop an agricultural loan product tailored to smallholders.

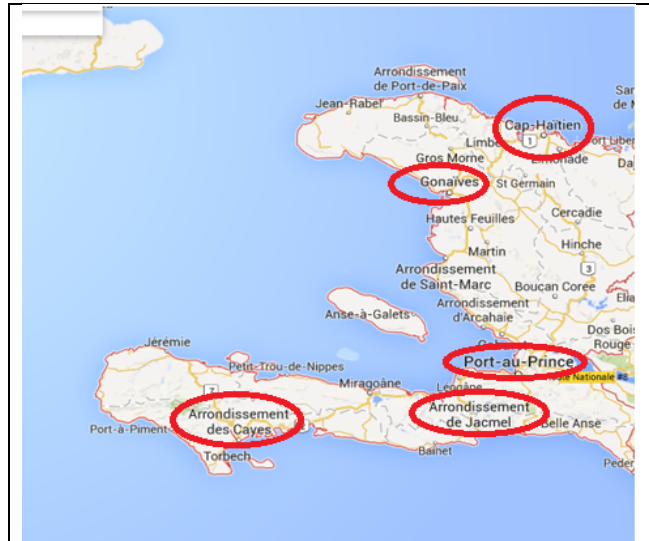
Capacity building needs: FINCA Haiti needed support to expand its capacity to provide more accessible financial services tailored to the needs of smallholder farmers and rural micro-entrepreneurs with the ultimate goal of reducing rural poverty. Specifically, this initiative sought to: 1) strengthen rural value chains and increase access to appropriate financial services among rural populations and agricultural workers; and 2) decrease client expenses related to taking loans through increased access points in rural areas.

Intervention approach: FINCA utilized SCBF funding to secure expert consultants with skills in agricultural product design and management to attain the goal of designing, piloting, and rolling out an agricultural loan product with loan capital supplied through the US Department of Agriculture's Food for Progress program. The SCBF support complemented the rural and agricultural outreach FINCA has already achieved through its existing offices in Cap Haitien, Port au Prince, Petion-Ville, and Les Cayes (supported by USDA), through:¹

- 1) **Piloting a new agricultural loan product:** FINCA used SCBF funding to hire an expert to design and manage the pilot implementation of an agricultural loan product specifically crafted for smallholder farmers producing cash crops. FINCA launched the pilot in the Gonaïves branch in August 2013, disbursing agricultural loans with USDA loan capital. FINCA implemented the agricultural loan pilot as a slow roll-out in order to build up the team and institutional experience, and to modify and improve the product and methodology based on lessons learned. It kept the total portfolio, number of agricultural loans and clients, at a manageable level to minimize the high risk associated with agriculture lending, accommodate the more detailed business analysis required, and to reflect the number of loans each new loan officer could take on and properly support. The pilot highlighted the benefit of hiring and training agronomists to serve as loan officers for the agricultural loan product – by the end of the pilot 7 such new loan officers were employed. Following the initial success, the product was expanded to the Croix-des-Bouquets branch in September 2014 as the first step in rollout and scale-up.

The new agricultural loan accommodates the specific cash flow cycle of the agricultural product being financed. The target group for the pilot are farmers who commercialize their production. To minimize their risk and portfolio risk, the target group included farmers who cultivate a diversity of crops, multiple plots in different locations, and have other household income generating activities. A detailed cash flow analysis is conducted as part of the loan application. Loan officers visit clients prior to the loan disbursement and at least once a month during the course of the loan to collect interest and evaluate how the borrower is progressing.

- 2) **Establishing new rural offices:** The USDA project funds enabled FINCA to establish branches that would service rural and agricultural clients in Jacmel, Croix des Bouquets, and Gonaïves City. Support from



Map of branch locations. In Port-au-Prince there are 4 branches: Delmas, Croix-des-Bouquets, Carrefour and Petion-Ville. In addition, Saint-Marc was launched in September 2014.

¹ In these locations FINCA used USDA funds to support branch expansion costs and develop new products (e.g. SME loan products) and (mobile) services to expand its potential client base (i.e. crop producers) and allow access beyond the reach of the branches.

SCBF allowed FINCA to use those branch locations as a launch pad to pilot (Gonaïves) and roll out (Croix-des-Bouquets and Jacmel) the agricultural loan product.

- 3) **Pilot testing and deploying an alternative delivery channel:** In order to expand outreach to underserved, remote rural populations, FINCA Haiti partnered with Digicel, a mobile network operator, to offer their mobile money service called “Tcho-Tcho Mobil” to FINCA clients. SCBF funding allowed FINCA Haiti to hire an expert to design, implement, pilot (Croix des Bouquets branch) and roll out the service (Delmas, Les Cayes, Jacmel branches) following substantial market research and a feasibility study (funded by USDA) to assist clients in their business transactions, mainly with clients making loan repayments.

Additionality: The SCBF support leveraged the funds provided by the USDA to support agricultural and rural lending. It enabled FINCA to build sustainable, best practice solutions and to make the expansion of its services a short-term reality rather than a long-term vision. The innovations and successes in rural lending will serve as a model for other financial institutions in Haiti.

3. Results achieved

3.1. Client level

The SCBF funding supported the broad goal of FINCA’s USDA-funded program: by the end of 2014, to provide financing to 8’000 clients in rural and peri-urban areas of Haiti and reach 10’000 clients overall. Both targets were achieved as of September 2014. Client increase to this point has been largely accomplished through growth of the village banking and individual loan products with the vast majority of clients living in rural areas.

New agricultural loan product:

Between September 2013 and September 2014, 372 agricultural loans totalling more than USD 235’131 were disbursed (see annex). At the end of September, this included 218 outstanding loans of USD 120’036, including 66 loans to women (i.e. 30% women instead of 50% targeted). FINCA Haiti is analysing this gender breakdown to ensure the product is accessible to women and that the percentages reflect actual market and client segment composition. The size of the agricultural loan portfolio is expected to double or triple over the coming years. Because of FINCA Haiti’s rural focus, the agriculture loan product filled an important gap both for some of its existing clients who previously only borrowed for non-agriculture production purposes, and for a new client segment of agriculture producers that have not had access to credit to expand and strengthen their crop production operations.

Outreach	31/08/2010	31/08/2013	31/08/2014	2017
Number of borrowers	8’597	7’029	14’901	42’594
% of female borrowers	89	83	85	N/A
Average loan balance per borrower (in USD)	152	366	399	551
Number of rural clients	8’597	6’661	14’313	TBD
Rural clients (in %)	100	94,8	96,1	
Number of agricultural loan borrowers	N/A	N/A	218	TBD
% of female agricultural loan borrowers	N/A	N/A	30,3%	TBD
Clients according to income level				
-below 2,5 USD/day			6,42%	
-below 3,75 USD/day			9,63%	

Client reception of the agricultural loan product has been overwhelmingly positive as the following customer feedback based on a case study conducted for another program shows:

- Roland D. said that in addition to purchasing seeds and fertilizer, he used part of the loan to grow his farming business: “Credit helped me to advance in my trade and in my garden. It has brought big changes for me.”
- “Credit has allowed me to prepare and plant my field and to increase my trade, bringing improvements for me. I say thanks to FINCA because it has helped me,” says Claude S. P.
- “Credit allowed me to prepare and plant my field and to breed livestock. I can tell FINCA provides assistance for people to improve their lives. I choose to follow this path,” affirmed Seloni J.
- Christmas S. says “I’ve not needed to sell my animals again. Credit allows me tuition for my children.”
- Monestine M. used her loan for agriculture and trade. She said “credit allows me to prepare more fields and plant more crops. I have renewed my loan because it has helped me make tremendous progress. I thank all of FINCA for working for the entire Haitian population.”
- Ernst M. also claimed to be very satisfied. He used his loan of USD 360 to cultivate his crops, to support his wife’s trading, and invested in livestock.
- Martine J.-P., a mother of four children, used her second loan for her business and to expand her crop production: “I put part of the loan towards the fields and part towards increasing my trade. The loan allowed me to quickly move forward with more activities and has increased my production and trade. I renewed the loan quickly because it is very good.

Increased access points in rural areas and new distribution channels:

The new branches have expanded access to financial services in two ways: by directly offering services to unserved and underserved communities, and by improving the quality of services to reduce the time burden on clients to transact their loans and payments. FINCA is not aiming to improve access for existing clients, but rather directly increase financial inclusion by serving communities that currently cannot access or do not utilize financial services. The three new branches served 7'398 new clients in September 2014. Given financial inclusion figures in Haiti of about 22%, even a conservative assumption that 70% of these new clients were unbanked before FINCA



launched its services in their community, allows estimating 5'178 clients newly financially included. The total figure of 7'398 includes 6'453 female clients and a total loan portfolio through these branches of more than USD 2,2 million.

Mobile services: Tcho-Tcho integrates FINCA's credit services (including loan repayment) with the mobile phone based platform, enabling electronic transactions for rural clients and improving FINCA's ability to lend to more remote populations at lower costs. In October 2014, FINCA had approximately 600 clients in 7

branches using the service. Although FINCA developed the service for loan recipients, most of FINCA's Tcho-Tcho clients are not FINCA credit clients; also very few of FINCA's credit clients that have registered actually use the service for loan repayments. To date, the service is primarily used for money transfers or remittances, and by new FINCA clients. On one hand this shows the attractiveness of the service to non-FINCA clients, which bodes well for future increased usage, and also the possibility to cross-sell services to new mobile clients. However, on the other hand, the lack of uptake from current clients has exposed weaknesses in the transaction process and user interface that must be addressed. There is also a general scepticism and lack of trust in the service that FINCA, and our partner Digicel, need to address through client education. This service needs more time and modifications to be effective, and several elements need to be addressed from a cultural perspective, operational and cost-effectiveness for clients, accessibility, and ease of utilization. Overall, FINCA still sees promise in the mobile service and we are working with Digicel to make the necessary adjustments.

3.2 Partner financial institution

Market positioning: The new branches position FINCA well to continue to expand services to low-income clients. As of August 31, 2013 FINCA Haiti had 7'029 clients, including 5'868 women (83%) and a gross loan portfolio of USD 2,6 million, of which USD 1,5 million (58%) were loans to women. By September 30, 2014 these figures increased substantially to 16'179 clients, including 13'855 women (87%) and a gross loan portfolio of USD 6,2 million, of which USD 3,2 million (51%) funded loans to women. Through this rapid growth period FINCA Haiti has kept a strong focus on portfolio quality, which is reflected in a PAR>30 days of 1,7%.³ The relative increase in the percentage of women clients, but relative decrease in the percentage of the loan portfolio comprised of loans to women, reflects the increase in Small and Medium Enterprise (SME) lending, which has a substantially higher average loan size, and a greater percentage of male borrowers. Some of these SMEs are agricultural businesses, though not all of these borrowers are in the agribusiness sector.

Similarly, the agriculture loan product has already had a positive effect on market positioning by opening up a whole new client segment. While accounting for a relatively small 1,5% (218/14'901) of the full loan portfolio, the product has only been rolled out in one branch for the pilot, and within that branch it accounts for 8,97% (218/2430) of clients/loans, and 26,86% (USD 120'036/ USD 446'845) of the portfolio value. While the Gonaives branch was established with the intent of implementing the agricultural loan pilot at the location, these figures indicate the possibility for a strong agriculture lending program in Haiti. By the end of the pilot,

Branch	Clients	Total Portfolio (USD)	Women Clients	Women's Portfolio (USD)
Gonaives ²	2'430	446'845	2'113	260'000
Croix des Bouquets	2'327	1'209'312	1'995	707'000
Jacmel	2'641	546'536	2'345	346'022

Key performance indicators	08/31/2013	08/31/2014	2017
ROA	-10,2%	-32,9%	3,7%
ROE	-74,4%	-68%	28,2%
Financial Self-Sufficiency	-39,1	-55	110,9%
Capital Adequacy Ratio (SIBOIF)		44%	13,8
Client per staff	41	67	129
Borrower per loan officer	130	159	273
PAR>1	0,47%	2,6%	4,3%
PAR>30	0,60%	1,84%	3,3%

² Branch management funded by SCBF.

³ PAR = Portfolio at Risk: percentage of portfolio where clients are more than 30 days delinquent on payment.

each new loan officer was serving an increasing number of clients/loans (on average 31 clients/loans and USD 17'148 in loan portfolio).

4. Lessons learnt and further challenges

Agricultural lending: Implementation of the agricultural lending product has resulted in changes to certain aspects of the initial lending methodology and re-enforced others. Documentation (e.g., land titles) to support loan guarantees is difficult to obtain as in many cases such documentation does not exist. Agricultural activities comprise a portion of many borrowers' livelihoods, however fewer borrowers than expected fit the professional farmer profile FINCA Haiti is targeting for the agricultural loan product. Standards around this

are not changing, however loan minimums were reduced to better accommodate borrower needs. Lending analysis was modified to incorporate additional risks which have been identified (e.g., identify sources for crop irrigation during seasonally dry periods). The importance of regular loan officer visits, even during principal repayment grace periods was also reinforced. Borrowers find the meetings useful and loan staff are able to see if the borrower has made any changes which might require a modification to a loan.

Delivery channels: Client uptake of mobile banking, both in terms of numbers of clients enrolled in the service, and transaction volumes, have been below expectations reflecting limited client acceptance. FINCA Haiti management expected the loan repayment service would have strong applicability for agricultural finance and village banking clients (which constitute 87% of clients), with the convenience of avoiding travel time to get to a branch, which can easily be an hour away. FINCA Haiti management believes the low uptake reflects clients' limited understanding of how mobile banking works, and concerns as to the security of the channel. Many clients' limited reading and writing skills, exacerbates the challenges of creating awareness of the benefits of using mobile money services. This result may indicate the need for greater client awareness and education around mobile banking.



Annex 1: FINCA Haiti Agricultural Credit Portfolio - Pilot Program Month-by-Month

Month	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
# loans disbursed	17	27	31	24	16	19	27	26	27	34	43	48	33
Cumulative # loans disbursed	17	44	75	99	115	134	161	187	214	248	291	339	372
Funds disbursed	634'619	578'439	814'040	653'953	590'882	617'394	1'028'551	920'282	728'314	842'433	1'307'586	1'532'331	1'073'839
Cumulative funds disbursed	634'619	1'213'058	2'027'098	2'681'051	3'271'933	3'889'327	4'917'878	5'838'160	6'566'474	7'408'907	8'716'493	10'248'824	11'322'663
Portfolio outstanding	706'783	2'201'252	1'989'587	2'377'701	2'570'566	2'580'965	2'694'495	3'130'321	3'457'241	3'847'576	4'553'338	5'419'762	5'780'274
# loans outstanding	19	46	75	99	107	112	100	98	116	139	169	196	218
# of Ag Loan Officers	5	5	5	5	5	4	4	4	4	4	7	7	7
# of loans per Ag Loan Officer	4	9	15	20	21	28	25	25	29	35	24	28	31
Portfolio per Ag Loan Officer	141'357	440'250	397'917	475'540	514'113	645'241	673'624	782'580	864'310	961'894	650'477	774'252	825'753
PAR>30 days	0%	0%	0%	0%	0%	0%	1,9%	1%	0,60%	0,30%	0,50%	0,90%	1,3%

ⁱ CIA Factbook, 2015.

ⁱⁱ Ministry of Agriculture. *Plan d'Investissement dans le Secteur Agricole, 2010-2016*.

ⁱⁱⁱ Global Financial Inclusion Database, 2014.