Haiti: Microcredit line (MCN)

Ex post evaluation

OECD sector	24030 – Financial intermediaries of the formal sector	
BMZ project ID	1999 65 047	
Project-executing agency	**Micro Credit National S.A.**	
Consultant	IPC GmbH	
Year of ex-post evaluation	**2006**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation (outflow of funds)	1999	2004
Period of implementation	2 years	1 year
Investment costs	no information available	no information available
Counterpart contribution	no information available	no information available
Financing, of which Financial Cooperation (FC) funds	EUR 2.53 million	EUR 2.53 million
Other institutions/donors involved	UNIBANK, ProCredit Holding, IFC, FMO, ICDF	UNIBANK, ProCredit Holding, IFC, ICDF, ICO
Performance rating	1	
• Significance / relevance	1	
• Effectiveness	1	
• Efficiency	1	

Brief Description, Overall Objective and Programme Objectives with Indicators

The programme comprised the establishment and structuring of a credit institution specialised in micro and small loans - the Micro Credit National (MCN). Total FC funds of EUR 2.53 million were provided to MCN under the programme. The programme objective was to provide personal micro loans to small businesses from poorer sections of the population in predominantly urban areas of Haiti on an efficient and sustained basis. It was to contribute to creating and/or safeguarding employment and income within the target group and to deepening and broadening the local financial market through its integration into the formal financial system (overall objective).

The programme objective was to be considered reached when the following indicators were fulfilled five years after the beginning of the MCN's business activities:

(1) The gross portfolio was to be the equivalent of at least USD 7.5 billion.

(2) The average volume of loans outstanding was to be not more than the equivalent of USD 1500.

(3) The loan interest rate was to be positive in real terms on a sustained basis.

(4) MCN was to generate positive returns in real terms.

(5) The share of loans in the total loan portfolio with interest and/or principal arrears of over 30 days was to be no more than 5% (overdue rate).

The following indicators were formulated for the achievement of the overall objective:

(1) Continuous increase in the share of the gross loan volume (micro loans) in GDP.

(2) Continuous growth in the number of customers from the target group and expansion of the range of financial products offered by the financial system to match the target group's characteristics.

Programme design / major deviations from the original programme planning and their main causes

In November 1999, MCN was founded as a private stock corporation with a share capital of USD 2 million and registered with the ministry in charge. It started business operations in the same year and developed positively over the last five years (see below). It is being supervised by its board of supervisors. This board is composed of representatives of the shareholders. After the Dutch development bank FMO, which was originally a shareholder, sold its shares to the Haitian Unibank and to ProCredit-Holding (formerly Internationale Micro Investitionen AG), the ownership structure is now as follows: Unibank holds 50% of the shares, International Finance Corporation (IFC) 20%, ProCredit Holding 25%, and the Taiwanese development fund ICDF 5%. In addition to providing equity, Unibank as well as ICDF also made funding available to MCN. Since the foundation of MCN, the position of general manager has been occupied by a representative of the consulting firm IPC. In the coming months it is to be staffed by local representative as scheduled.

The establishment of the micro lending business took place in an unusually difficult environment. Haiti has a per capita income of USD 517 (USD 559 at the time of programme appraisal) and a large portion of people surviving on less than USD 2 per day in local purchasing power. This makes it one of the world's poorest countries. Life expectancy was recently measured at 51.6 years, far lower than the average of Latin America and the Caribbean (71.9 years) but also below that of the low-income developing countries (58.4 years) and lower than at the time of programme appraisal (52.4 years). The illiteracy rate is relatively high as well, at 48% (Latin America and the Caribbean: 10%, low-income developing countries: 39%). On the Human Development Index Haiti occupies rank 153 (2005) of 177 countries altogether (rank 152 at the time of programme appraisal). This drop was mainly due to the political crisis triggered by manipulations during the parliamentary and presidential elections in the year 2000. As a result, the donors completely withdrew from Haiti for some time to wait how things would develop. The situation worsened in 2004 as violent clashes between the government and rebels led to the breakdown of the *Lavalas* regime and caused President Jean Bertrand Aristide to resign. The crisis and resulting instability paralysed all economic activity for some time. According to IMF estimates, public and private assets worth 5.5% of GDP were destroyed in early 2004. Devastating floods in south-eastern Haiti in May of the same year worsened the population's living conditions even further. Inflation, which had already risen from around 9% to over 32% in 2003, remained high in 2004 as well, totalling 27% on an annual basis (2005: 17%). The security situation improved under the interim government of Prime Minister Gerard Latortue and under the new President René Préval, who was elected in February 2006, but violent conflicts do erupt time and again, particularly in the capital, Port-au-Prince. As a result of these circumstances, the signing of the financing agreement for the FC programme was delayed until August 2004. The financial contribution of EUR 2.53 million was scheduled to be channelled to MCN in the form of a refinancing loan of EUR 1.77 million and as a grant of EUR 0.77 million to finance part of the start-up investments. The disbursement of the loan to refinance the institution therefore was delayed by around five years against the original planning of the programme appraisal of 1999. The grant which was intended to finance the establishment and expansion of MCN had been pre-financed by the consultant in 1999. It was utilised to train loan officers, renovate buildings, procure office equipment and finance the management under the management service agreement. After the signing the funds that were earmarked could be disbursed and refunded quickly. The annual audit of MCN, conducted by a local auditor associated with KPMG, so far has shown no irregularities.

The difficult security situation in the last five years also prompted the Haitian banks to be very reluctant in their lending operations to the private sector. Following a temporary increase, the ratio of bank loans for the private sector to GDP declined again recently and was 15.1% in 2004 (1999: 14.4%). Since programme appraisal the number of commercial banks has dropped from 12 to 11. The number of branch offices, in turn, has increased significantly but is still quite low in an international comparison, with around 22 for every 1 million inhabitants (1999: 16). However, given the growing importance of the informal sector for the Haitian economy, a market segment for microcredit has developed over the last five years that is not only broad but also profitable. According to UNCDF, more than 75% of Haitian workers are employed in the informal sector, particularly in micro and small enterprises (MSEs). A major bottleneck for many MSEs is their insufficient equity and inadequate access to external financing from the formal financial sector that could meet the financing needs of MSEs in the required volume and matching maturities at market-driven conditions. At the time of programme appraisal, only a very small proportion of MSEs had access to the formal banking market. The Haitian MSE sector was actually operating outside the formal financial sector. MSEs were mainly forced to finance themselves. External financing sources were usually available to them only from the informal financial sector; that is, through money lenders and from family, friends and acquaintances. Funds from these sources, however, were available neither in the necessary amounts nor for the necessary maturities. Although the microcredit market has grown strongly since programme appraisal, particularly through the MSE loans offered by MCN, financial services are still available only to clearly less than half the estimated 300,000 MSEs that exist.

At the end of 2005 MCN had 135 employees. These included 56 loan officers whose work productivity has developed positively since it was established. In December 2005, each loan officer extended 23 loans on average (December 2000: 9) and managed a portfolio of 152 loans with an average volume of around USD 131,000. Five years after the start of business operations the balance sheet total of MCN increased from EUR 1.92 million in December 1999 to EUR 7.71 million in December 2004. Despite the extremely difficult environment it is thus slightly higher than the EUR 7.67 million estimated at the time of programme appraisal. By the end of 2005 the balance-sheet total had increased by a further 23.5% to EUR 9.52 million. After MCN earned its first profit of EUR 136,000 in 2001, two years after it was founded, the portfolio at risk over 30 days increased from 4.8% to more than 12% at times in the crisis year 2004, and the institution reported a loss. In 2005, however, the portfolio at risk was reduced again to 5.5% and MCN went back into the black. In 2005 it achieved its best result so far, with a profit of EUR 557,000 and a return on equity of 26.2%. Since the start of business operations, the loan portfolio outstanding increased from EUR 0.18 million to EUR 5.0 million in 2004 and to EUR 6.21 million in 2005. This corresponds to approx. 65% of its total assets. Since the start of business MCN has extended around 33,300 loans with a cumulative overall volume of EUR 46.3 million. In terms of sectors, trade dominates the bank's outstanding commercial credit portfolio (2005: 89% of loans and 86% of the loan volume). The service sector and productive sector follow with loan volumes of 12% and 2%, respectively. As the political unrest in the years 2004 and 2005 concentrated on the capital, the branch offices there were more badly affected than elsewhere (see Annex 8). It was also for this reason that MCN stepped up its regional expansion, so the share of loans outstanding in Port-au-Prince in the overall portfolio fell from 48% in 2004 to 27% in 2005 (in terms of volume, the decline was from 54% to 34%). Today nine of the 14 branch offices are outside the capital.

In the lending business the credit worthiness, particularly the customers' ability to repay the loan (on the basis of a cashflow analysis) is the main criterion. The appraisal of loans to micro enterprises is far more complex and time-consuming than in the traditional lending business. In this target group the information supplied by the applicants has to be reviewed carefully within the enterprises. The loan officers usually visit the customers in their enterprises during the credit worthiness appraisal in order to obtain an accurate impression of the income situation and financial situation of the enterprise. The theoretical part of the loan officers' training therefore needs to be followed by on-the-job training reflecting the practice of the lending business. Particularly during the start-up phase of MCN, training took place in the microcredit institution Banco ProCredit (formerly Financiera Calpiá) in El Salvador, which also belongs to ProCredit-Holding. As many applicants in the microcredit segment can only supply faulty documents, these are made plausible with the aid of additional information obtained through surveys of suppliers, purchasers, neighbours and co-applicants, so as to match the numbers as accurately as possible with the actual income situation. All loan products need to be 100% collateralised. As it is currently difficult to enforce claims in court, they play a minor role for the loan decision, however, instead serving primarily to establish a strict lending discipline. In addition to in-depth loan analysis, strict and timely monitoring also serve to reduce the loan risk. Customers in arrears are contacted already after a day overdue and the loan officer in charge keeps the pressure on the borrower until the problem is solved.

The three loan products currently being offered by MCN differ in terms of maturity, amount and interest rates and therefore address different groups of customers. The "mini loan" has a maximum term of 12 months, a maximum amount of around EUR 730 and a monthly nominal interest rate of between 5.75% and 6.5%. It is designed particularly for the financing of short-term commercial transactions. MCN offers so-called micro or petit loans for larger transactions. They can also be used to form permanent assets as they are granted for up to 36 months in maximum amounts of approximately EUR 21,000 at a monthly nominal interest rate of 3.5% to 5.75%.

We continue to maintain that it is a valid rationale to provide a grant for establishing and expanding a micro credit institution as well as a loan to refinance micro loans with the aim of improving poor people's access to these financing instruments. The FC programme in Haiti has made a tangible contribution to easing the problem of insufficient access of MSEs to micro loans.

Key results of the impact analysis and performance rating

All programme goal achievement indicators have been basically well achieved.

Five years after the start of operations (2004), the gross portfolio was USD 6.8 million, just below the project objective indicator of USD 7.5 million. In 2005 the gross portfolio rose to USD 7.4 million. This means the project objective indicator was achieved one year later than planned. Given the extremely difficult environment as well as the delay of nearly five years in the disbursement of the FC refinancing funds, we consider the indicator to have been well fulfilled.

Immediately after the start of operations the average loan amount continued to be above the project objective indicator of USD 1500, but this amount fell to USD 1285 in 2004 and dropped further to USD 867 in 2005, so that this indicator was fully achieved.

The loan interest rates were positive in real terms over a sustained period and last fluctuated between 29.6% and 82.6% per annum depending on the loan product and the maturity.

As early as two years after the start of operations MCN was able to report its first profit. With the exception of the crisis year 2004 it has since then been generating positive returns on a sustained basis. The most recent profit reported was approx. USD 660,000 (2005).

The portfolio at risk over 30 days oscillated between 1.0% and 5.1% in the first four years since its foundation, although it rose to over 12% at times during the crisis year 2004. As the security situation slowly began to improve and corresponding measures were being implemented by MCN, this figure was reduced again to 5.5% in 2005. Given these circumstances the quality of the loan portfolio can therefore be rated satisfactory.

With regard to the achievement of the overall objective, the share of the gross loan volume (micro loans) in GDP increased from 0.29% in 2000 to 0.94% in 2004. The number of customers from the target group also increased substantially. While the customer basis of MCN has grown continuously to around 8500 since it was founded in 1999, the number of customers of the overall sector has also increased considerably. The offer of financial services specially tailored to the needs of micro entrepreneurs has also expanded since MCN entered the market. As lending operations strongly focus on commercial transactions that are often of short-term nature, however, the contribution to medium and long-term investment finance for the formation of fixed assets has remained limited. The creation of MCN as a new financial intermediary (greenfield approach) has had very positive structural effects on Haiti's financial sector and MSE lending in the past 5 years. It has had a positive demonstration effect on local banks: giving loans of less than USD 10,000 can be profitable business (MCN grants approximately 99% of its loans in the segment below USD 10,000). All six big banks of Haiti, Sogebank, Unibank (through the FC project-executing agency MCN), Socabank, Capital Bank, Banque Populaire Haïtienne and BRH, as well as various NGO MFIs have now become involved in this segment.

Protecting the environment and natural resources did not play any role in the objectives. Environmental aspects are routinely included in the loan appraisal, however, and MCN generally does not finance projects that have an adverse impact on the environment. At the end of 2005, 58% of the borrowers were women. As women have so far been generally under-represented in the Haitian financial system it can be inferred that the access to micro loans made possible by MCN has had a positive impact in regard to gender equality. The high number of micro enterprises financed positively impacts employment, income and poverty reduction efforts. Participation and good governance did not constitute explicit programme objectives.

The audit of the records performed under the ex post evaluation revealed no misappropriation of funds.

In a summarised assessment of the developmental effectiveness, we have arrived at the following evaluation of the programme Microcredit Line - MCN:

<u>Effectiveness</u>

The programme objective - to provide personal micro loans to small business people from poorer sections of the population in predominantly urban areas of Haiti on an efficient and sustained basis - was well achieved. By applying a target group-specific credit technology, MCN was able to extend around 33,300 loans in an overall volume of USD 50.8 million since it was founded. The average amount of loans outstanding gradually declined during the programme period and was last reported at USD 867. Despite the extremely difficult environment, MCN was able to report a profit already two years after it was founded and has been working profitably since then with the exception of the crisis year 2004. We therefore rate the **effectiveness** of the project as **good** (**sub-rating 1**).

<u>Relevance/significance</u>

The overall economic objectives - to contribute to creating and/or safeguarding employment and income in the target group and to deepening and broadening the local financial markets - have been well achieved. With regard to the financial sector the programme is of very high relevance/significance. The regional expansion and the positive demonstration effect that micro lending can be profitable business enabled the programme to shape the structures of the financial sector. Not only the absolute number of micro credit customers but also the share of the loan volume in GDP significantly increased during the programme period. Many micro businesses obtained access to formal lending and other financial services for the first time, and this contributed significantly to creating and safeguarding income and employment in the private sector and, consequently, to stabilising Haiti's economy. Overall, we rate the **significance/relevance** of the programme as **good (sub-rating 1).**

<u>Efficiency</u>

We rate the allocation efficiency of the project as good. The credit interest rates are positive in real terms and are in line with market rates. MCN manages its loan portfolio efficiently. Following a strong increase in the crisis year 2004, the portfolio at risk has declined again to a level that is satisfactory given the continuing difficult conditions in Haiti. We also rate the production efficiency as good. The productivity of the staff is good and continues to increase. In terms of the portfolio of loans outstanding, MCN is today Haiti's largest microcredit institution. The financial situation of MCN is also convincing. Interest earnings are the bank's main source of income. Return on equity is positive, with 26.2% in 2005, so it can be assumed that MCN will be able to continue supplying micro businesses with adequate financial products on a sustained basis. We rate the **efficiency** of the programme as good (**sub-rating 1**).

In a summarised assessment of the above impacts and risks, and given the extremely difficult circumstances in the country, we arrive at a generally positive assessment of the programme and rate its developmental efficacy as good (sub-rating 1). The project is suited to serve as an example of “*best practice*.”

Conclusions and recommendations

It is possible to set up a profitably operating micro credit institution even in a situation of temporary political instability and high inflation rates.

In this case the positive outcome was due to the following main factors:

- The application of a cash-flow based credit technology specially crafted for the target group.
- The possibility of adapting the loan interest rate to the macro-economic conditions, particularly inflation, on a timely basis.
- The swift creation of a branch office network. The nationwide presence of MCN enabled the losses caused by political unrest, which concentrated on the capital city, to be at least partly compensated by profitable operations in other parts of the country.

As the programme has shown that financial institutions operating according to the ProCredit model can also work profitably in an extremely difficult environment within a short time, future programmes should nevertheless consider the option of granting only long-term loans for investments in establishment instead of grants. After repayment the respective central government would have additional funds at its disposal for poverty reduction. An alternative would be to make future grants conditional on an equity investment, thereby mobilising additional funds in the long term as well.

As lending still focuses strongly on financing commercial transactions which are often short-term, the granting of medium and long-term loans for the formation of fixed assets of MSEs is not yet far advanced. Since it is economically desirable to have such funding available, particularly for the producing sector, the design of future projects should consider the option of deliberately promoting products of this kind from the very start.

Assessment criteria

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory developmental efficacy
Rating 3	Overall sufficient degree of developmental efficacy
Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient degree of developmental efficacy
Rating 5	Clearly insufficient degree of developmental efficacy
Rating 6	The project is a total failure.

Criteria for the evaluation of project success

The evaluation of the "developmental efficacy" of a project and its classification during the ex-post evaluation under one of the various levels of success described in more detail above concentrate on the following fundamental questions:

- Have the **project** objectives been achieved to a sufficient degree (project **effectiveness**)?
- Does the programme generate sufficient **significant developmental effects** (project **relevance** and **significance** measured in terms of the achievement of the overall developmental policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being **employed/incurred** to reach the objectives appropriate and how can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project concept)?
- To the extent that undesired **(side) effects** occur, can these be tolerated?

We do not treat **sustainability**, a key aspect to consider when a project is evaluated, as a separate evaluation category, but rather as an element common to all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are/is able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms, or to carry on with the project activities independently and generate positive results after the financial, organisational and/or technical support has come to an end.