

Building a Microfinance Industry: PRET/FINNET in Haiti

by Ann Duval

A case study of USAID support to the microfinance sector in Haiti, 1995 – present. The story of a donor that recognized opportunity, was flexible, took risks, and invested the time and resources needed to build a microfinance industry.

The Beginning

In 1995, the Haitian government began to implement policy reforms to liberalize the economy. USAID was ready to support the government with its five-year Program for the Recovery of the Economy in Transition (PRET). Microfinance was one of several private-sector initiatives supported by USAID through PRET. In a country where the economic situation had been continually deteriorating and as much as 70 percent of the urban population relied on the informal sector for their livelihoods, the need for microfinance was clear.

A key financial sector reform was the lifting of interest rate ceilings. Although removing these ceilings was a precondition to USAID financing, USAID did not anticipate the growth in microfinance that would follow!

“The interest rate ceilings were intended to protect low-income people, but in fact they made it impossible for them to get credit. I would like to be able to say we knew there would be an explosion in microcredit when the ceilings were removed, but we were not really focusing on that sector at the time.”

Gabriel Verret, USAID Haiti Economic Advisor, 1995

“The removal of the interest rate ceiling is what determined future success. Initially, our vision was to move away from subsidy because we could see there was now enough margin to do microfinance profitably. We never anticipated the great impact.”

Ralph Denizé, USAID/Haiti program officer, PRET

Strategic Redirection

At first, USAID continued to support one small MFI that had not made progress toward sustainability since the

early 1980s, when USAID helped to create it. By early 1996, agency staff recognized that it needed to strategically redirect the program. USAID discontinued its funding of the non-performing MFI and shifted its focus to actively engage other actors in the financial sector. This strategic redirection included efforts to interest commercial banks in microfinance and provide support to organizations using village banking methodology. USAID later made efforts also to reach out to credit unions.

By 1997, the new strategy was in place. While all MFIs in Haiti could access some type of assistance through PRET, USAID implemented a tiered approach that targeted the most promising institutions. The simple criteria for partner classification was (1) strength and vision of leadership, (2) ability to grow and have significant outreach, and (3) commitment to sustainability and good practice. “Tier 1” partners had access to financial assistance and to individualized technical assistance. Tiers 2 and 3 could access only more general types of technical assistance. Financial



Female micro-entrepreneur in Haiti. (USAID/Haiti Archives.)

assistance took the shape of a USAID MicroFinance Fund (US\$1.65 million) that provided lending capital to non-banking institutions (NBIs) through a combination of grants and cash collateral to secure commercial bank financing. The fund also provided loan guarantees to commercial banks for microloans.

“We listened and seized opportunities. We recognized a great idea when we saw it – the opportunity to bring resources from the formal economy to people who had never had access before.”
Gabriel Verret

The new strategy paid off. In 1997, the oldest privately owned commercial bank in Haiti joined the program. The bank began with one test site in May 1997 and by 1999 had 14 points of sale, including 8 in the provinces. By that time, microloans had become a principal bank product in terms of revenues and profits, and the bank had leveraged the original USAID guarantee by a factor of 9. Equally important was the demonstration effect of the first bank’s experience. Two other banks followed suit and established subsidiaries wholly dedicated to microcredit by the end of 1999, assisted by other donors and technical partners. In 2003, a fourth bank initiated microlending and two more banks are currently on the verge of entering the market.

“We worked very hard to interest commercial banks in microfinance. It was only after several meetings with the Association of Professional Bankers that the first commercial bank decided to try.”

Ralph Denizé

“The defining moment of the program was when the first bank got on board.”

Robert Dressen, DAI Chief of Party for PRET

“USAID gave a jump start to the microfinance industry. It encouraged commercial banks to see microfinance as a niche product.”

Lloyd Freeman, DAI Chief of Party for FINNET

Changing with the Sector

By 1999, the number and quality of MFIs in Haiti was growing and PRET was coming to an end. It was time to shift focus once again. There were now enough MFIs in Haiti, but USAID recognized a need to address the

complete lack of microfinance industry infrastructure in the country, such as the lack of a credit information exchange mechanism and appropriate external audit services. Another pressing need was to improve information flows, networking opportunities, and coordination within a rapidly growing sector. In order to ensure that industry momentum was not lost, USAID financed a follow-up program, Financial Services Network for Entrepreneurial Empowerment (FINNET). FINNET provides only technical assistance and concentrates on meeting the evolving needs of its Tier 1 partners through the delivery of sophisticated, individualized assistance. FINNET also funds a number of initiatives to build industry infrastructure in Haiti.

Keys to Project Success

1. **Support for a diversity of institutions.** The decision to abandon a non-performing MFI partner and cast a larger net for more and different types of institutional partners was critical. That decision set the stage for rapid growth, greater professionalism, and commercialization of the microfinance sector in Haiti. As a consequence, many more low-income entrepreneurs gained access to both credit and savings services.

From supporting just one MFI in 1995, USAID used PRET to expand its support to seven new partners following the agency’s strategic shift in 1997. From 1997 through 2002, the portfolios of these partners grew from US\$827,600 and 3,602 loans to US\$8.3 million and 37,517 loans. Today, FINNET supports 37 partners (commercial banks, NBIs, and credit unions), of which eight are Tier 1 partners, 11 are Tier 2 and 3 partners, and 19 are credit unions.

USAID has had a significant impact on the Haitian microfinance market—the partners of FINNET represent a large share of microfinance activity in the country. According to a market survey conducted by FINNET in late 2002, there were 79 microfinance institutions operating in Haiti, including 58 credit unions and 4 commercial banks. Collectively, these institutions had 73,512 borrowers, a loan portfolio of US\$25 million, and US\$19 million in deposits from 176,622 savers. (The latter number does not include savers served by commercial banks, which do not

separately track savings associated with micro-borrowers.) Average loan sizes ranged from US\$216 for NBIs to US\$553 for commercial banks.

2. **Emphasis on building institutional capacity.**

USAID recognized that sustainable institutions are the key to a permanent microfinance industry and put more money into building institutional capacity than into loan capital. Of total PRET program financing of US\$4.2 million, only 40 percent—US\$1.65 million—was earmarked for loan capital, the balance was devoted to technical assistance. The FINNET budget of US\$10.3 million provides no funding for loan capital whatsoever: about 50 percent of the budget is reserved for continued institutional strengthening of key MFI partners and 50 percent for building industry infrastructure. The focus of institutional assistance evolves to meet the changing needs of the MFIs, ranging from leadership and business planning to financial management and product development.

3. **Focus on creating industry infrastructure.**

FINNET finances a wide range of industry-building initiatives, including a system for the exchange of credit information among MFIs (a precursor to a microfinance credit bureau),¹ building external audit capacity,² support for legal framework studies and performance standards for microfinance in Haiti, assistance to create an association of MFIs whose members share performance information with each other, and support for the association as it prepares to lobby for appropriate legal and regulatory reforms. The program also supports local service providers in the areas of accounting, financial management, and audits.

“I was not pretending to be an expert in the field of microfinance. It was a learning process for me. I relied greatly on DAI’s technical expertise. Getting an experienced banker like Robert Dressen was critical to the success of the program. He could communicate as one banker to another.”

Ralph Denizé

4. **Utilization of expertise and strategic alliances.**

USAID staff recognized that they did not know enough about microfinance to design an appropriate program and contracted Development Alternatives, Inc. (DAI) to implement both PRET and FINNET. DAI in turn hired an experienced commercial banker as Chief of Party to support the PRET strategy of attracting a variety of institutional partners. Within FINNET, DAI also sub-contracted with two other partners – Développement International Desjardins (DID), to assist credit unions interested in microfinance, and AGIR, a local firm that provides financial management assistance to MFIs.

“Contracting with an experienced technical partner was key to our success. DAI knows the business and has provided superb people and guidance. The participation of DID [Développement International Desjardins] has also been important. The CEO of one of the banks is now exploring a wholesale/retail relationship with DID and credit unions because he knows there is a greater potential for microfinance than he has seen so far.” Gabriel Verret

5. **Flexibility, open minds, and trust.**

USAID was able to shift its objectives and approach as circumstances changed. Staff were open to taking advantage of opportunities and had the courage to make difficult decisions. Within the USAID Haiti mission, all departments worked on PRET as a team, which was a first for them. Management was willing to try new things, delegated most of the work, and did not try to micro-manage the program. This spirit allowed the contractor, DAI, to cooperate as a true partner and to experiment with new ideas.

6. **Perseverance and the willingness to take risks.**

Being flexible enough to change direction in mid-stream also meant taking risks. USAID tried some avenues that failed. Although the agency paid out some money on a loan guarantee program, staff saw this activity as the cost of doing business and not as a loss. They kept their eyes on success and kept trying until they got it right.

¹ Information on the credit bureau initiative is available at www.microfinancegateway.org/DAIcbi

² Information on the external audit experience is available at www.fhtechnical.org/publications

*“It is important to stress that USAID took a **big** risk. People thought we were crazy. We knocked on all doors. We were not afraid of taking chances because we knew that we were the only institution capable of risking funds to set an example.”* Ralph Denizé

What are the Lessons for Other Donors?

The two USAID program officers involved in PRET and FINNET have the following advice:

- “First, make sure the enabling environment is nurturing. Where you have interest rate controls and other policies that hinder credit, the first sector to suffer is microcredit. We would not have been able to do what we did without the legislation on interest rates.”
- “Be committed to the project you invested in. Don’t let your heart go before rationality. Set performance criteria for institutions and stick to them. Have the guts to make hard decisions.”
- “If you only give institutions money, they never learn to fish. Make sure they become strong enough to go out and access other kinds of funding.”
- “Take a long-term view. In the short term you may be able to help one entity. If you want to develop the sector, five years is not enough.”
- “Know when to declare victory or defeat and get out. Avoid institutional inertia and take on new challenges.”

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