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Rapid Assessment of the Microfinance Sector in Haiti



May 2024

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ACRONYMS AND ABBREVIATIONS

ACI	: International Cooperative Alliance
ACLAM	: Action Against Misery
ACME	: Action for Cooperation with Micro-Enterprises
AFIH	: Haitian Alliance for Inclusive Finance
ANACAPH	: Association of Savings and Credit Cooperatives
ANIMH	: National Association of Microfinance Institutions in Haiti
BPH	: Haitian Popular Bank
BRH	: Bank of the Republic of Haiti / Central Bank of Haiti
CAPODOSA	: Credit Union Dominique Savio
CEC	: Savings and Credit Cooperatives
CNC	: National Council for Cooperatives
CNSA	: National Coordination for Food Security
CPF	: Credit Union Fraternité
DIGCP	: Credit Unions General Inspection Department
FCEC	: Savings and Credit Federations
FHAF	: Haitian Women's Aid Fund
FINCA	: Foundation for International Community Assistance
FONHADES	: Haitian Fund for Economic and Social Development
FSP	: Electronic Payment Service Providers
GAFME	: Micro-Enterprise Financial Support Group
GDP	: Gross Domestic Product
GRAIFSA	: Support Group for the Integration of Women in the Informal Sector
HTG	: Gourde (Haitian currency)
ID	: Development Initiative
IHSI	: Haitian Institute of Statistics and Informatics
KNFP	: National Council of Popular Financing
KOFIP	: Collective for Popular Financing
MAST	: Ministry of Social Affairs and Labor
MCC	: Capital Bank Micro-Credit Unit
MCN	: Unibank National Microcredit Unit
MEF	: Ministry of Economy and finance
MFI	: Microfinance Institution
MPCE	: Ministry of Planning and External Cooperation
MUSO	: Solidarity Mutuals
NGO	: Non-Governmental Organization
NTIC	: New Information and Communication Technologies
OER	: Operating Expense Ratio
SFF	: Fonkoze Financial Services
SNIF	: National Strategy for Financial Inclusion
SOGESOL	: Haitian General Solidarity Society
USD	: United States Dollar

EXECUTIVE SUMMARY

• Key takeaways

This report consists of a rapid assessment of the operational and financial situation of microfinance institutions (MFIs) in Haiti, in the context of the socio-political and economic crisis that the country has been facing for at least six (6) years. It is also accompanied by a review of the regulatory framework for MFIs, established by the June 2002 law on Savings and Credit Cooperatives (CECs) and the June 2020 decree on non-cooperative MFIs.

The investigations revealed that, like many other businesses in Haiti, MFIs of all categories are significantly affected by the general socio-political and economic crisis. The findings focus on two (2) aspects: the way MFIs operate (operational aspect) and their financial situation.

On the operational side, the crisis has led to major difficulties in the management of MFIs. In some cases, there have even been closures.

- ANIMH was put on hold in February 2024, as almost half of its member MFIs were experiencing operational and financial difficulties and could no longer pay the membership fees required to keep the association running.
- FINCA, whose portfolio has been severely damaged by the crisis, states it can no longer continue its financial intermediation operations and is therefore requesting the central bank (BRH) to withdraw its approval.
- Nearly 15% of the CECs contacted are affected by acts of vandalism perpetrated by armed gangs. These events have led to the closure of some service outlets.
- MFIs adopted a cautious attitude towards the prolonged multidimensional crisis. Several projects were therefore put on hold, which hinders the sector's development.

It is worth noting that, despite the crisis, new players have entered the microfinance industry. These include GAFME (a non-cooperative MFI licensed in 2023) and AFIH (an association of MFIs created less than 5 years ago).

In addition, there are currently five (5) Electronic Payment Service Providers (FSPs)¹ in Haiti, all of which were licensed by BRH during the crisis, between 2021 and 2023. Some indicators show that the FSPs have made impressive progress in their activities despite the crisis. This is the case for MonCash, whose number of users increased by more than 10 000 between 2014 and 2023, rising from 37 thousand to 4 million over the period.

On the financial side, despite the impressive growth in assets between 2013 and 2023, the main indicators of MFIs' financial health give cause for concern. The key points to bear in mind regarding the financial situation of MFIs are as follows:

- Growth in assets and equity: MFI assets and equity grew significantly between 2013 and 2023, from 6.61 billion gourdes to 40 billion gourdes for assets, and from 1.55 billion gourdes to 5.89

¹ Generally called Digital financial services (DFS).

billion gourdes for equity. This increase reflects the sector's ability to grow despite unfavorable conditions.

- Increase in provisions for doubtful debts: Provisions rose considerably, from 0.4 billion gourdes to 1.49 billion gourdes, signaling a deterioration in asset quality. This reflects the negative impact of socio-political crises and natural disasters on customers' ability to repay their loans.
- Increase in gross revenues: Gross revenues increased from 1.15 billion gourdes in 2013 to 4.1 billion gourdes in 2023, demonstrating the ability of MFIs to generate revenues even in an unstable economic environment.
- Falling net profit for non-cooperative MFIs: For CECs, net profit gradually increased from 0.15 billion gourdes in 2013 to 0.45 billion gourdes in 2023, while for non-cooperative MFIs, net profit fluctuated more sharply, resulting in a net loss of 0.14 billion gourdes in 2023.
- ROA and ROE performance: Return on Assets (ROA) and Return on Equity (ROE) showed worrying trends. In 2023, ROA dropped to negative values for several MFIs, indicating inefficient use of assets. ROE also fluctuated, with extremely negative values for some MFIs, reflecting significant losses relative to shareholder equity.
- OSS analysis: The analysis of Operational Self-Sufficiency (OSS) for microfinance institutions, in particular for CECs, shows high levels of operational autonomy. However, despite ratios often exceeding 1, the OSS of CECs indicates no significant growth over the last five (5) years. This is particularly worrying as the ratios calculated concern 74 institutions, reflecting the image of a sector struggling to maintain its financial viability.
- FSS analysis: MFIs' Financial Self-Sufficiency (FSS) indicates significant difficulties in the CEC and non-cooperative MFI sub-sectors. This ratio shows that, by 2023, MFIs were struggling to fully cover their total expenses with the income they generate.
- Portfolio Yield: Non-cooperative MFIs maintained relatively stable yields. On the other hand, CECs saw their yields fall considerably. This explains the increased difficulty MFIs have in generating interest income on credit, given the country's overall situation.
- Risk analysis: Analysis of the delinquency rate for loans exceeding 30 days (PAR 30) for all MFIs in Haiti shows a significant increase in delinquency in 2023, directly reflecting the impact of socio-political unrest and growing insecurity. Other indicators confirm the existence of a relatively high risk.

However, despite these concerns, our analyses indicate that MFIs of all categories are resilient in the face of socio-political and economic shocks. Indeed, the resilience indicators demonstrate that they have a strong capacity to adapt to difficult and complex contexts.

As far as the regulatory framework is concerned, clear strengths have been identified. However, our investigations have shown that it needs to be reconsidered. Indeed, several players are in favor of revising the 2002 law on CECs. As for the July 2020 decree, despite its strengths, it presents pitfalls that are likely to hold back MFIs in their development or in the race towards institutionalization. Moreover, the SWOT analysis conducted as part of a Benchmarking exercise shows that although regulatory progress has been made in Haiti, much remains to be done to strengthen the microfinance sector and achieve the level of financial inclusion and regulatory development seen in the Dominican Republic and Peru.

• Recommendations

The findings have led to the formulation of the following main recommendations:

FIELDS	RECOMMENDATIONS	STAKEHOLDERS
Development and professionalization of the MFI sector	1. Collaborate with MEF and MPCE to define a National Microfinance Development Strategy (NMDS).	Sector development partners / MFIs / MEF / MPCE
	2. Make the legal framework of MFIs compatible not only with the objectives of financial viability, but also with the constraints of the context in which they operate and the aims of microfinance.	Sector development partners / MFIs / MEF / MPCE / CNC / BRH
	3. Promote the strengthening and professionalization of the microfinance sector by strengthening the supervision to which they must be subject, especially for non-cooperative MFIs.	BRH
	4. Produce annual reports on MFI network performance indicators to promote financial transparency and professionalization of the microfinance sector.	MFIs / Federations / Associations
Resilience of the microfinance sector	5. Offer opportunities to strengthen the microfinance sector, by injecting new funds based on the repurchase of part of the bad debt stock, or by implementing loan guarantee programs to stimulate credit for vulnerable categories, including women.	Sector development partners
	6. Promote the role and autonomy of MFI groupings – a) by rescuing ANIMH and b) by involving CEC Federations as intermediaries in microfinance investments for the management of funds to support CEC loan portfolios, capping management fees.	ANIMH / CEC Federations / Sector development partners
Risk Management and Collections	7. Strengthen due diligence processes to better assess customer creditworthiness before granting credit and implement more efficient collection systems, including flexible payment options tailored to customers' economic situation.	MFIs / Federations / Associations
Financial Inclusion	8. Define a product diversification strategy as part of the extension of services, with a view to developing products backed by international transfers and adapted to the conditions of recipients of such transfers.	MFIs
	9. Encourage non-cooperative MFIs to receive customer savings and offer other related products, including Term Deposits (DAT).	Non-cooperative MFIs / Sector development partners
	10. Further promote the development of digital financial services in the microfinance sector.	FSPs / MFIs Federations & Associations / Sector development partners

BACKGROUND AND CONTEXT

The acute socio-political and economic crisis that Haiti has been experiencing for at least six (6) years is not without effect on the country's business ecosystem. This study, commissioned by USAID/MEDA, focuses on the microfinance industry in Haiti. It is a rapid assessment of the situation of microfinance institutions (MFIs) in the context of the crisis.

• Study objectives

This study has the following objectives:

1. Assess the financial health of the microfinance sector while identifying portfolio risks and operational dynamics.
2. Produce specific quantitative indicators and clear qualitative elements capable of guiding interventions in the sector.
3. Analyze the impacts of the socio-political crisis on the situation of the microfinance industry, while assessing the sector's resilience.
4. Analyze the impact of the latest regulatory measures on MFIs.
5. Make clear recommendations aimed at strengthening the resilience of the MFI sector in Haiti.

The conclusions of this rapid assessment should inform strategic decision-making in the microfinance sector, which has demonstrated its vital role in the fight against financial exclusion and poverty in many parts of the world.

• Socio-political context of Haiti

Socio-political environment. The following table is a chronology of the main events characterizing the socio-political crisis in Haiti. Since the end of 2017, the country has been experiencing a major socio-political crisis that has continued to deteriorate. The situation deteriorated further in 2020 following the rise in insecurity in the West department and in certain provincial towns. The assassination in 2021 of Mr. Jovenel Moïse, President of the Republic, proved to be a turning point in the national crisis.

Table 1: Chronology of the main events characterizing the socio-political crisis in Haiti from 2018 to 2023

YEAR	EVENTS
2023	• Since February: Deadly clashes between several gangs in the metropolitan area of Port-au-Prince, with violent and recurring attacks against people in the West and Artibonite department. These events have significantly slowed down the movement of goods and people in the country. • April: Repeated fuel shortages across the country, which have led to a decrease in economic activities nationwide. • September - December: Closure of borders between Haiti and the Dominican Republic. This was a major setback for bilateral trade.
2022	• February - May: Waves of protests against insecurity and high living costs, demands from healthcare workers and textile sector workers, etc. • February: Russia invades Ukraine. This war has caused global economic imbalances. • September: Lockdown (<i>Peyi Lòk</i>) protest movements were declared again following the government's decision to increase the prices of petroleum products. In addition to riots and looting scenes, they caused the paralysis of activities until mid-November.

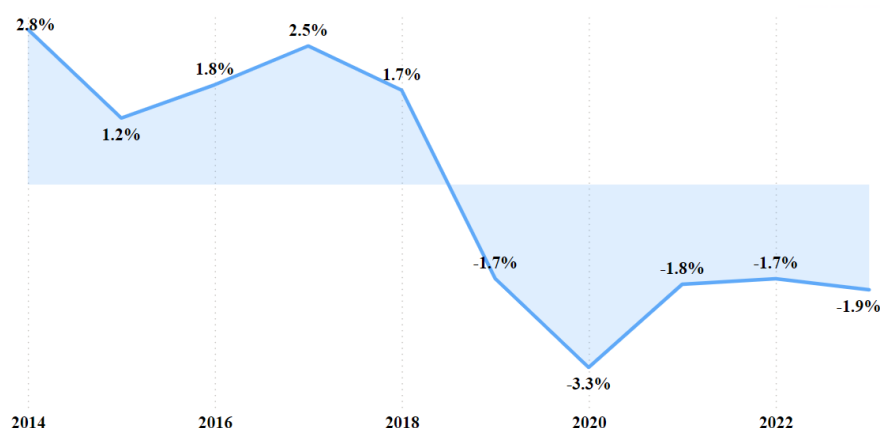
- **September:** The start of a confirmed blockage on national road number 1. This was a shock to trade between the West and the country's main agricultural region (Artibonite).
- 2021**
- **Since February:** Deadly clashes between several gangs in the metropolitan area of Port-au-Prince, with violent and recurring attacks against people in the West and Artibonite department. These events have significantly slowed down the movement of goods and people in the country.
 - **April:** Repeated fuel shortages across the country, which have led to a decrease in economic activities nationwide.
 - **September - December:** Closure of borders between Haiti and the Dominican Republic. This was a major setback for bilateral trade.
- 2020**
- **January:** The Parliament became inactive as it still is, with the end of the terms of all Deputies and Senators.
 - **March:** The government announced the registration of the first two cases of Covid-19 and declared a state of health emergency across the entire territory. Various restrictive measures were adopted, and a state of emergency was declared.
 - **June:** Formation of a coalition of armed groups called "G-9 family and allies". A UN report published the same month counted more than 90 armed groups, terrorizing the population, conducting raids, blocking roads and isolating some departments.
- 2019**
- **September:** The protest movement called *Peyi Lòk* (lockdown) was declared by the political opposition to force President Jovenel Moïse to resign. All activities were paralyzed until mid-December.
 - **June:** Protests in Port-au-Prince and some provincial towns against the "misuse of PetroCaribe funds" and to demand the resignation of President Jovenel Moïse.
- 2018**
- **July:** The attempt to raise the prices of petroleum products led to three consecutive days of protests (riots and looting scenes). The protest movements, marked by violence, lasted for more than a week. Businesses and commerce suffered heavy losses.

• The country's economic situation

Haiti's difficult socio-political context has had a negative impact on the country's economy. Since 2018, the main economic indicators have been in the red, revealing a hard economic situation. Here, an overview is provided on the evolution of growth, prices, external balance and the food insecurity.

GDP growth. In 2023, with Gross Domestic Product (GDP) growth of -1.9%, the Haiti recorded its fifth consecutive year of negative growth, following counter-performances of -1.7%, -3.3%, -1.8%, and -1.7% in 2019, 2020, 2021 and 2022 respectively.

Figure 1: GDP growth rate from 2014 to 2023 (in percentage)



Source: Based on IHSI data

Over the last five (5) years, all sectors of the economy have underperformed significantly. The primary sector contracted by -2.4%, -4.1%, -4.5% and -5.6% in 2020, 2021, 2022 and 2023 respectively. The secondary sector, for its part, fell by -7.2%, -2.4%, -0.2% and -3.7% over the same period. As for the tertiary sector, its activities declined by -1.2%, -2.0%, -1.6% and -2.9% over the same years.

Price trends. Inflation has continued to rise. For the fiscal 2019-2020, inflation averaged 22.9% year-on-year. In 2020-2021, it averaged 15.9%. In 2021-2022, it climbed to 27.6%. According to official data, inflation was particularly severe in 2023, when it averaged 44.1%.

Balance of trade. The difference between the country's exports and imports shows that Haiti's trade deficit with the rest of the world has continued to deteriorate. The country is structurally in deficit, exporting goods and services worth around US\$1 billion but importing over US\$4 billion on average over the last five (5) years.

Food insecurity. The proportion of the Haitian population affected by food insecurity is growing. Data from the National Coordination for Food Security (CNSA) show that 35% of the population was affected by food insecurity between October 2019 and February 2020. This figure rose to 46% between October 2021 and February 2022, 48% between October 2022 and February 2023, and 49% in March 2023.

METHODOLOGY AND LIMITATIONS OF THE STUDY

The methodology was mainly based on two (2) complementary approaches: 1) a literature review and 2) surveys and individual interviews.

- **Documentary review**

The literature review was approached as an iterative process during which information relevant to the analysis of the microfinance sector was mobilized from multiple documents on MFI sector as a whole.

- **Surveys and individual interviews**

Individual interviews were conducted with the main stakeholders in the microfinance sector (BRH, non-cooperative MFIs, cooperative MFIs/CEC, MFI Federations and Associations, etc.) The aim was to gather stakeholders' opinions on the sector's regulatory framework and the operational and financial situation of MFIs in the context of the current crisis.

The surveys were carried out using four (4) questionnaires, aiming to obtain the quantitative and qualitative information required for regulatory, operational and financial analysis. These surveys were supplemented by administrative research.

Data sources and collection

Data on cooperative MFIs: Aggregate data provided by BRH were used. They concern a total of 74 CECs supervised by the central bank.

Data concerning non-cooperative MFIs: As aggregated data is not available from BRH, contacts were made directly with the institutions concerned. These include: FINCA, FONKOZE, ACME and GAFME. The required financial statements were provided by three (3) of these institutions. FINCA did not provide its financial statements, but data for the year ending September 30, 2023, was obtained.

In total, the analysis focuses on 78 MFIs: 74 CECs and 4 non-cooperative MFIs. In this study, these two (2) categories constitute the microfinance sector, as detailed information was not obtained for informal financial structures. In addition, there are no separate financial statements for the microcredit

institutions that are divisions of commercial banks (MNC, MCC and SOGESOL); their data is incorporated into the financial statements of their respective banks.

Aggregation methodology and analysis

Aggregation according to BRH methodology: The financial statements of non-cooperative microfinance institutions have been aggregated according to BRH methodology in order to standardize the basis for comparison with CEC data.

The analyses were carried out over a ten (10) year period, from 2013 to 2023. In order to provide an overview of the MFIs' financial development, horizontal financial analyses were first carried out. These were followed by a ratio analysis and a portfolio risk assessment of the institutions concerned. In line with the objectives of the study, the main financial indicators analyzed include gross loan portfolio (GLP), operational self-sufficiency (OSS), financial self-sufficiency (FSS), outreach measures (number of active lenders, loan penetration rate) and efficiency ratios (portfolio yield, operating expense ratio).

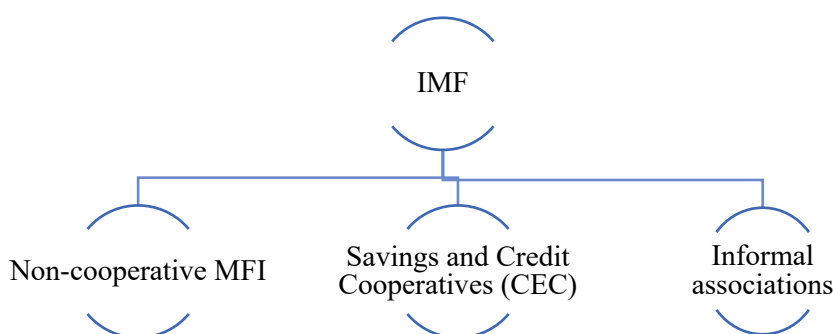
- **Limitations of the study**

The main limitation of this study lies in the limited access to data for certain non-cooperative MFIs, in particular FINCA and GAFME. GAFME is a relatively young institution approved by the central bank; FINCA had not deemed it appropriate to share information. For these two non-cooperative MFIs, we only have information for fiscal year 2022-2023. In accordance with BRH's methodology, microcredit institutions that are divisions of commercial banks are not primarily concerned by the analysis. As already underlined, they do not prepare separate financial statements. However, key indicators are provided for these institutions in order to capture their evolution over time.

I. PANORAMA OF THE MICROFINANCE INDUSTRY IN HAÏTI

The main players in Haiti's MFI industry are the microfinance institutions themselves, and the Federations and Associations of MFIs, and the supervisory institutions. However, this section also highlights other key players in the sector's dynamics.

1. Three main categories of MFI



■ *Non-cooperative MFIs*

Four is the number of non-cooperative MFIs approved by BRH on September 30, 2023. A further **four** applications for approval are currently being examined by BRH. There are also a number of other players who have not yet come forward as part of the compliance process.

Approved non-cooperative microfinance companies:

- o Action for Coopération with Micro-Enterprises (**ACME**)
- o Foundation for International Community Assistance (**FINCA**)
- o Fonkoze Financial Service (**FONKOZE/SFF**)
- o Micro-Enterprise Financial Support Group (**GAFME**)

■ *Savings and Credit Cooperatives (CEC)*

Seventy-four (74) is the number of CECs approved by BRH and the Conseil National des Coopératives (CNC) on June 30, 2023.

■ *Informal associations*

This group includes solidarity mutuals (MUSO), AVECs, etc., which are associations or other structures that carry out savings and credit activities in the informal sector. It is estimated that there are over 10,000 informal associations throughout the country (IFC-World Bank, 2022).

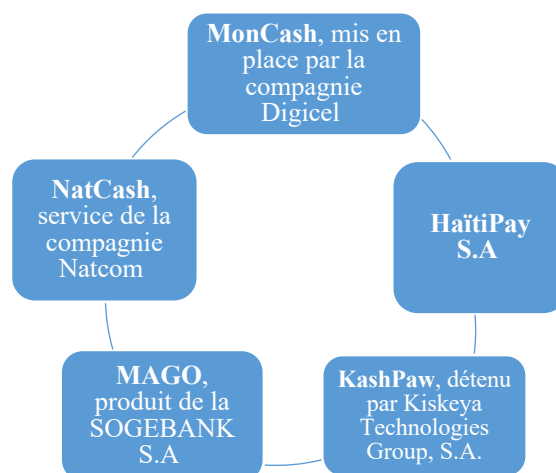
2. Three microcredit institutions and five FSPs

■ *Three microcredit institutions subsidiaries of commercial banks*

Among the commercial banks operating in Haiti, three (3) have microcredit divisions or subsidiaries. These are Unibank, which manages Microcrédit National (MCN), Capital Bank, whose subsidiary is Micro Crédit Capital (MCC), and the Sogebank group, which owns Société Générale de Solidarité (SOGESOL).

- *Five FSPs approved by BRH*

The Electronic Payment Service Providers (FSPs) approved by BRH as of September 30, 2023 are:



3. Two categories of MFI groupings

MFIs in Haiti are grouped into Associations and Federations. Basically, there are five (5) Associations and two (2) Federations.

- *Five MFI Associations*

- o Association Nationale des Caisses Populaires Haïtiennes (**ANACAPH**).
- o Konsèy Nasyonal Finansman (**KNFP**).
- o Association Nationale des Institutions de la Microfinance en Haïti (**ANIMH**).
- o L'Alliance Haïtienne pour la Finance Inclusive (**AHFI**).
- o Kolektif Finansman Popilè (**KOFIP**).

- *Two MFI Federations*

The two (2) Federations of the microfinance sub-sector are: Le Levier and Le Sociétaire. They held their first general meetings on June 30, 2008, and January 28, 2017, respectively. They act as support structures (technical and financial), monitoring, promoting and representing CEC members.

4. Microfinance supervision

All MFIs are supervised by the BRH, which issues regulations applicable through circulars under its 1979 organic law. However, the Conseil National des Coopératives (CNC), which reports to the Ministry of Planning and External Cooperation (MPCE), supervises the CECs alongside the BRH.

- *Supervision by BRH*

Supervision of the microfinance sector is done by BRH through two (2) specialized departments: the Credit Unions General Inspection Department (DIGCP) and the Department of Supervision.

The DIGCP is responsible for supervising and monitoring CECs and savings and loan Federations (FCECs) duly constituted under the terms of the July 10, 2002 law. The Department of Supervision supervises non-cooperative MFIs.

- *Supervision by CNC*

Under the law of June 26, 2002, the CNC is the supervisory authority for cooperatives. It is responsible for formulating and promoting government policy on cooperatives.

II. MFI'S FINANCIAL SITUATION AND IMPACTS OF THE CRISIS

The financial situation of cooperative and non-cooperative MFIs is analyzed in this part, taking into account the socio-political and economic crisis in Haiti and the effects it has had on the financial health of various institutions.

First, horizontal analysis is carried out. Its purpose is to appreciate the financial evolution of MFIs from 2013 to 2023. Secondly, a number of financial ratios needed to understand the financial situation of the microfinance sector are analyzed. This is followed by an analysis of the sector's risks.

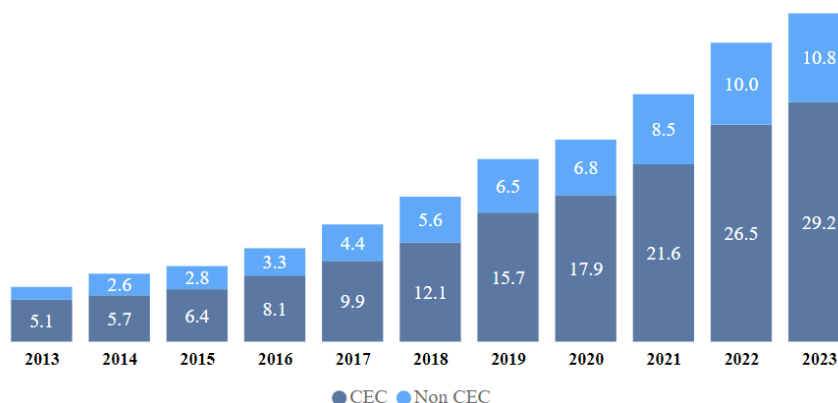
1. Horizontal analysis of key financial indicators of the MFI sector

■ *Total Assets Evolution from 2013 to 2023*

Despite increasing socio-political challenges, the assets of microfinance institutions (MFIs) in Haiti have seen substantial growth over the last decade. Specifically, from September 2013 to September 2023, the assets of non-cooperative accredited MFIs (non-CEC) rose from 1.5 billion gourdes to 10.8 billion gourdes, marking a significant increase of approximately 620%. The Savings and Credit Cooperatives (CECs) saw their assets increase from 5.11 billion gourdes to 29.23 billion gourdes during the same period, representing a growth of over 471%. Consequently, the total assets of the microfinance industry in Haiti escalated from 6.61 billion to 40 billion gourdes between 2013 and 2023.

The growth in total assets of the microfinance sector highlights its capacity to sustain economic activity despite challenging socio-political conditions. A further examination of asset quality through the trend in provisions for doubtful loans in the credit portfolios will provide insights into the quality of asset evolution.

Figure 2: Total assets Evolution from 2013-2023 (in billions HTG)



Sources: BRH and ProEco Haiti surveys

■ *Loan Loss Provisions Evolution from 2013 to 2023*

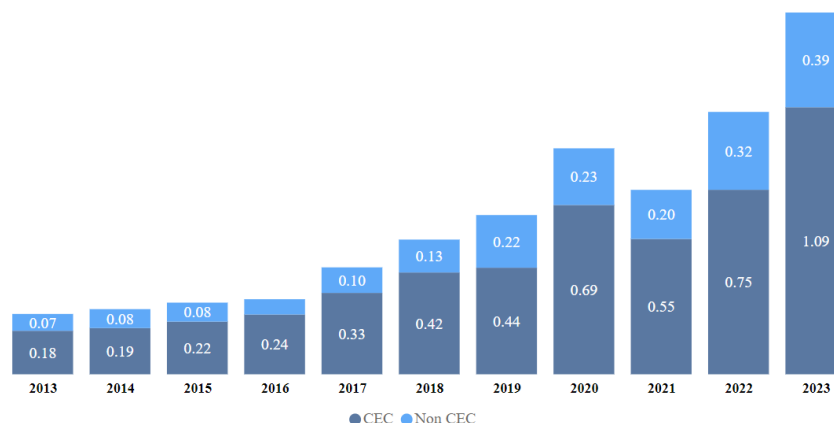
The loan loss provisions for non-cooperative microfinance institutions (non-CEC) in Haiti have seen a significant change, increasing by 463% from 0.23 billion gourdes in 2019 to 0.39 billion gourdes in 2023. This substantial rise indicates a notable deterioration in asset quality within this sector.

This deterioration has been corroborated by reports from FINCA, highlighting the devastating impact of recent crises such as the 2021 earthquake, the socio-political unrest since July 2018, and Hurricane Matthew in 2016. These events have severely impacted the institutions' ability to recover debts, leading to a drastic reduction in the portfolio from 100 million to 20 million gourdes, particularly in the

commune of *Les Cayes*. Meanwhile, the CEC sub-sector experienced a 514% increase, from 0.17 billion gourdes in 2013 to 1.1 billion gourdes in 2023.

The evolution of loan loss provisions across both sub-sectors suggests that risks are persisting and intensifying day by day in the microfinance sector.

Figure 3: Loan loss provisions evolution from 2013 to 2023 (in billions HTG)



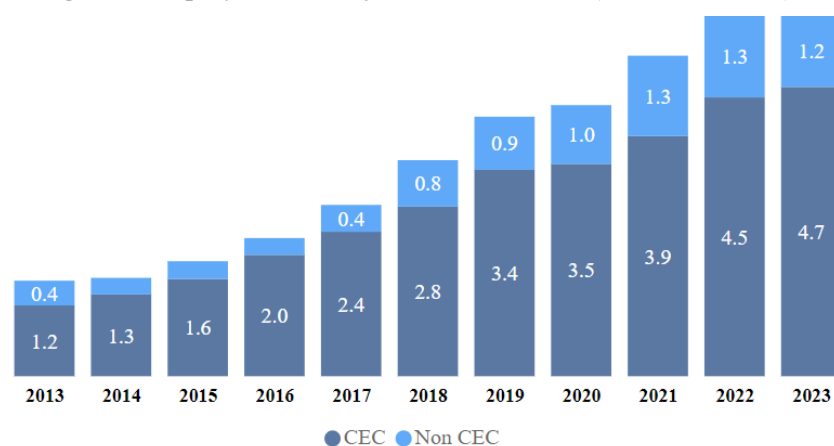
Sources: BRH and ProEco Haiti surveys

■ *Equity Evolution from 2013 to 2023*

The analysis of the evolution of equity in the microfinance institutions (MFIs) sector in Haiti from 2013 to 2023 reveals robust growth. The Savings and Credit Cooperatives (CECs) saw their equity increase from 1.15 billion gourdes to 4.72 billion gourdes, while the non-cooperative MFIs recorded an increase from 0.40 billion to 1.17 billion gourdes. This represents growth of 310% for the CECs and 192.5% for the non-cooperative MFIs, demonstrating resilience despite socio-political challenges that have hindered broader economic expansion.

However, examining the evolution of the equity-to-total assets ratio, there is a noticeable decline in the share of equity in the financial structure of the assets of both sub-sectors, despite the significant increase in equity. For the CECs, the ratio gradually decreased from 23% in 2013 to 16% in 2023, while for the non-CEC MFIs, it varied more significantly, dropping from 26% in 2013 to 11% in 2023. This reduction indicates a considerable decrease in the financial autonomy of the sector. This development underscores the need for prudent risk management to maintain solvency and ensure the long-term viability of the sector.

Figure 4 : Equity Evolution from 2013 to 2023 (in billions HTG)



Sources: BRH and ProEco Haiti surveys

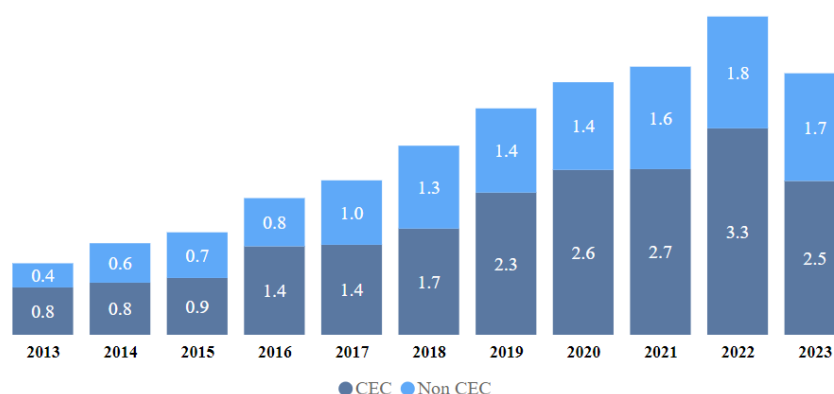
■ *Gross Revenue Evolution from 2013 to 2023*

Despite the difficult economic environment, gross revenues of MFIs increased considerably from 2013 to 2023. Gross revenues for the CEC sub-sector rose from 0.76 billion gourdes in 2013 to 2.4 billion gourdes in 2023, a variation of 225%, while the non-CEC MFI sub-sector saw its revenues rise from 0.39 billion to 1.7 billion gourdes for the same period, a variation of 346%.

The sustained increase in gross revenues underlines not only the resilience but also the growing attractiveness of the microfinance sector. To better understand this dynamic, it is essential to consider the relationship between revenues generated and provisions for bad debts.

Indeed, comparing the change in bad debt provision charges for the period against the change in gross revenues for the two sub-sectors, we can see that provision charges have changed by 285% for the non-CEC MFI sub-sector and 168% for the CEC sub-sector between 2013 and 2023. In both cases, the variation in gross revenues is greater than that of provisions, implying that, despite the current difficult environment, the sector is able to create wealth, and it also proves that their credit policy is not liberal. That said, in a more stable, business-friendly environment, it would be possible to significantly reduce the charges linked to bad debt provisions and write-offs. This reduction in charges would enable institutions to generate substantial revenues and operational savings, giving them the capacity to cover other important operating expenses.

Figure 5: Evolution of Gross Revenues from 2013 to 2023 (in billions HTG)



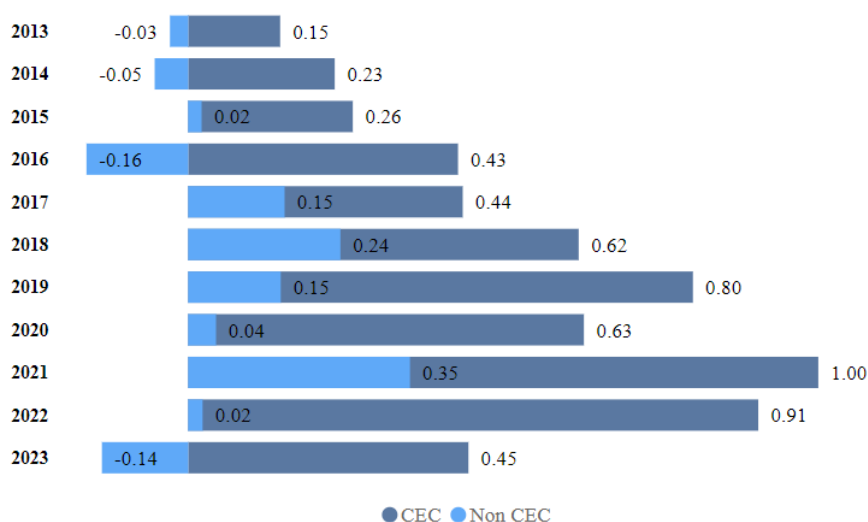
Sources: BRH and ProEco Haiti surveys

■ *Net Profit Evolution from 2013 to 2023*

The evolution of net profit in the microfinance sector in Haiti between 2013 and 2023 shows marked fluctuations, reflecting the challenges of the sector. For CECs, net profit gradually increased, from 0.15 billion gourdes in 2013 to 0.45 billion gourdes in 2023. For non-CEC MFIs (non-cooperative MFI), net profit experienced more pronounced variations, moving from losses in 2013 and 2014 to a net loss of -0.14 billion in 2023. In a ten-year comparison, the CEC sector recorded a 200% increase in net profit, and the non-CEC sector saw a significant improvement despite a net loss at the start of the period.

This decline in net income, despite a continuous growth in gross income in the CEC sub-sector, indicates that high costs, including provisions for doubtful debts and loan losses, have consumed a considerable portion of revenues. Additionally, operating activity is not sustainable enough to cover operating expenses, which are extremely high and often fixed, exacerbating the financial challenges of institutions. This context highlights the sector's vulnerability to unstable economic conditions and underscores the urgency of a more stable environment to reduce these costs and improve net profitability.

Figure 6: Sector net profit evolution from 2013 to 2023 (in billions HTG)



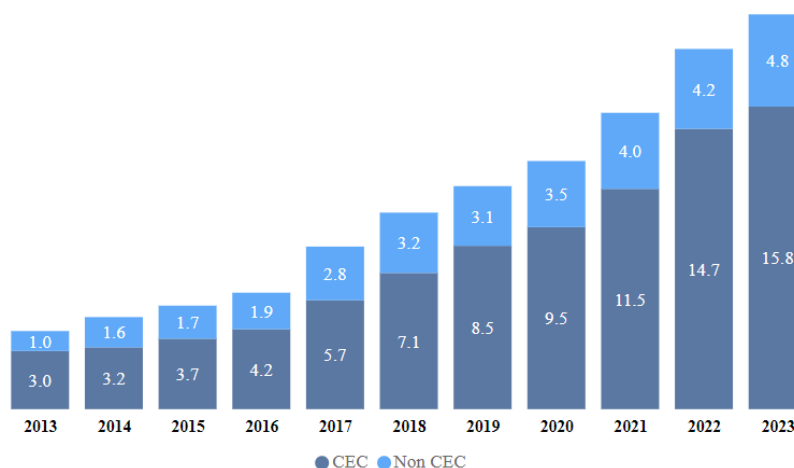
Sources: BRH and ProEco Haiti surveys

■ Gross Loan Portfolio (GLP) Evolution from 2013 to 2023

The evolution of the gross loan portfolio of microfinance institutions in Haiti shows significant growth from 2013 to 2023. The CECs saw their portfolios increase from 3.04 billion gourdes in 2013 to 15.28 billion in 2023, representing a 402% increase. Simultaneously, the non-cooperative institutions (non-CEC) also recorded substantial growth, with their portfolios rising from 1.04 billion to 4.82 billion gourdes, an increase of 364% over the same period. This expansion reflects the sector's ability to increase its activities despite an often-unstable economic environment. However, this growth is tempered by a worrying increase in provisions for doubtful debts, indicating a deterioration in asset quality.

In 2023, provisions for doubtful debts reached approximately 1.09 billion gourdes for the CECs and 387 million gourdes for the non-cooperative MFIs, revealing significant challenges in loan recovery and increased vulnerability of the sector to an unstable economic environment. This situation highlights the underlying precariousness of the microfinance sector, which, despite apparent growth, faces considerable financial risks, heightening concerns about the sector's future.

Figure 7: Gross Loan Portfolio from 2013 to 2023 (in billions HTG)



Sources: BRH and ProEco Haiti surveys

2. Analysis of the microfinance sector's main financial ratios between 2013 and 2023

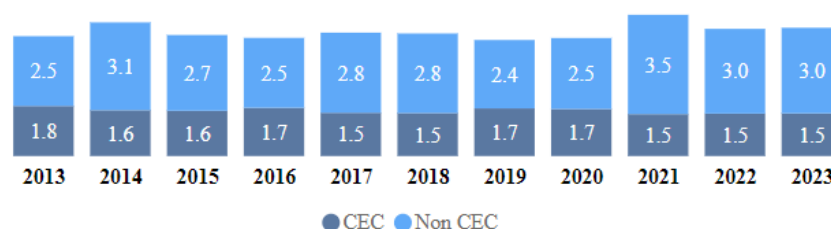
■ Operational Self-Sufficiency (OSS)

This ratio is the relationship between gross income and operating expenses. **The analysis of the OSS ratio for microfinance institutions, particularly for CECs, shows high levels of operational autonomy.** For instance, in 2023, the ratio was estimated at 1.51 for CECs, meaning that every 100 gourdes of operating expenses generates 151 gourdes in operating income.

However, despite often exceeding 1, the OSS for CECs has not shown significant growth over the past five (5) years. This is particularly concerning since the calculated ratio involves 74 institutions, reflecting the image of a sector struggling to maintain its financial viability.

The stagnation of the OSS highlights how the precariousness of the Haitian economy prevents these institutions from generating sufficient revenue to support a sustainable self-financing capacity. If these conditions persist, the risk of many institutions being forced to cease operations increases, underscoring the ongoing struggle of the sector to remain solvent in a turbulent national environment.

Figure 8: OSS evolution from 2013 to 2023



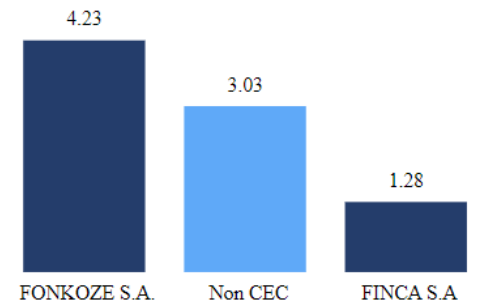
Sources: BRH and ProEco Haiti surveys

As part of this specific analysis, we considered two significant companies in the non-cooperative IMF sub-sector approved by the BRH, namely Fonkoze and FINCA, to illustrate the distinct performance within this group.

The analysis of the performance indicators of Fonkoze and FINCA for the year 2023 reveals contrasting results in terms of operational efficiency. Fonkoze recorded an impressive Operational Self-Sufficiency (OSS) ratio of 4.23, demonstrating very effective management capable of generating gross revenue significantly higher than its operational expenses. In contrast, FINCA recorded an OSS of 1.28, indicating that it faces significant challenges in covering its operational costs.

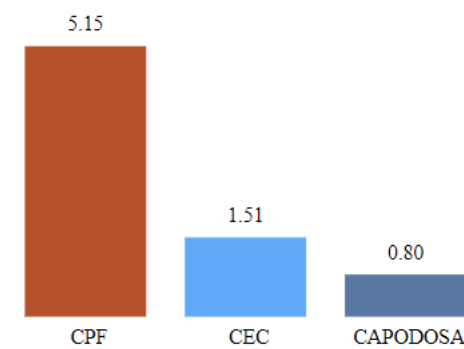
Examining the sub-sector of Savings and Credit Cooperatives (CEC), we observe a notable disparity. The *Caisse Populaire Fraternité* (CPF) recorded an exceptional OSS of 5.15, demonstrating optimal management and very high profitability. This remarkable performance of CPF is also attributable to a more favorable operating environment, as it is in the north, particularly in *Cap-Haïtien*, one of the most stable cities in the country during this period of crisis. In contrast, the *Caisse Populaire Dominique Savio* (CAPODOSA) presents an OSS of 0.8, well below the sub-sector standard of 1.51. CAPODOSA is located in Pétion-Ville, where its activities are likely severely affected by the unstable environment of the capital.

Figure 9: Performance of FONKOZE and FINCA in relation to the non-cooperative MFI sub-sector as of Sept. 30, 2023



Sources: BRH and ProEco Haiti surveys

Figure 10 : Performance of CPF and CAPODOSA in relation to the CEC sub-sector at Sept. 30, 2023



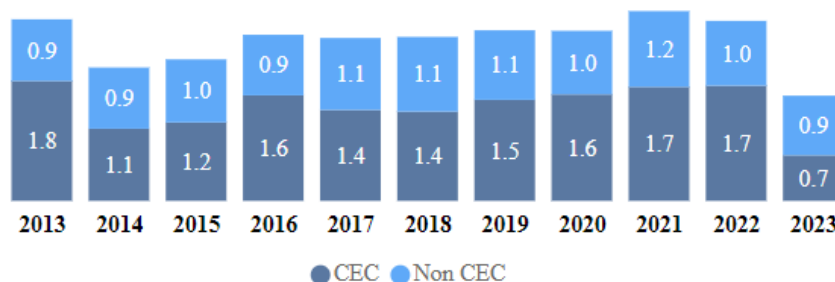
Sources: BRH and ProEco Haiti surveys

■ Financial Self-Sufficiency (FSS)

This ratio corresponds to the relation between total revenue and total expenses. **The Financial Self-Sufficiency (FSS) of MFIs reveals significant difficulties in both the CEC and non-cooperative IMF sub-sectors, particularly in 2023**, where the ratio dropped to 0.7 and 0.9 respectively. This means that for every 100 gourdes of total expenses, 69 gourdes and 90 gourdes are generated as revenue respectively for the CEC and non-cooperative MFIs.

The drastic decline observed in 2023 indicates that institutions are no longer able to fully cover their total expenses (operational expenses plus overhead costs) with the revenue they generate. This alarming trend highlights an increased vulnerability to an unstable economic environment, emphasizing the sector's ongoing struggle to maintain financial viability without relying on external funding.

Figure 11: Evolution of the sector's FSS from 2013 to 2023

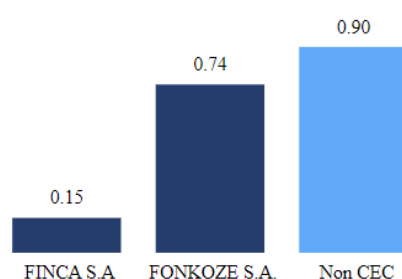


Sources: BRH and ProEco Haiti surveys

FINCA shows an FSS of 0.15, highlighting its inability to generate sufficient revenue to cover its financial costs. This poor performance is largely due to external factors, including a massive loss of credit portfolio in the southern part of the country, exacerbated by the relentless national crisis. These challenging conditions make FINCA's situation even more precarious, preventing any significant improvement in its financial performance. In comparison, Fonkoze has an FSS of 0.74, indicating more stable financial management, yet still insufficient to achieve complete self-sufficiency. The non-CEC group, with an FSS of 0.90, demonstrates better overall performance but remains below the optimal threshold.

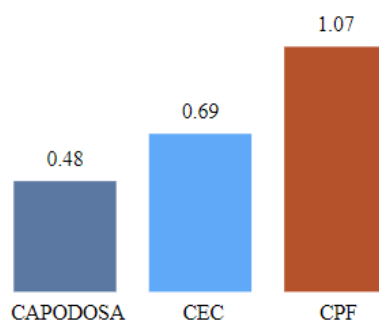
The *Caisse Populaire Dominique Savio* (CAPODOSA) shows an FSS of 0.48, highlighting its struggles to achieve sufficient financial performance to cover its costs. In contrast, the *Caisse Populaire Fraternité* (CPF) stands out with an impressive FSS of 1.07, indicating highly effective management and high profitability. This remarkable success of CPF can be partly attributed to its favorable operating environment in Cap-Haïtien. **Overall, this ratio indicates that the sector is struggling and requires external interventions to improve internal management structures.** These disparities clearly illustrate the importance of the external environment for the financial performance of institutions, in addition to the internal challenges they may face.

Figure 12: Performance of FONKOZE and FINCA as of Sept. 30, 2023



Sources: BRH and ProEco Haiti surveys

Figure 13: Performance of CPF and CAPODOSA as of Sept. 30, 2023

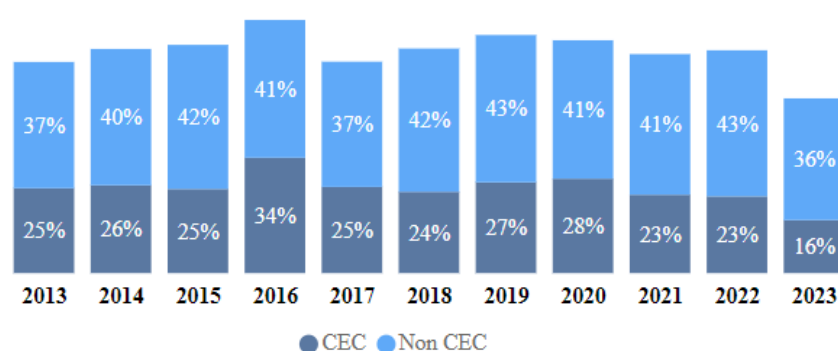


Sources: BRH and ProEco Haiti surveys

■ Portfolio Yield

This ratio is obtained by dividing the gross revenue by the gross loan portfolio. The yields of the portfolios of microfinance institutions, both for CECs and non-cooperative IMFs, have shown divergent trends from 2013 to 2023. Non-cooperative IMFs have maintained relatively stable yields, decreasing slightly from 37% in 2013 to 36% in 2023, indicating consistent management despite economic challenges. In contrast, CECs have experienced a significant decline in their yields, dropping from 25% in 2013 to 16% in 2023. **This decline is primarily due to the increasing difficulties faced by microfinance institutions in generating interest income from loans, given the deteriorating economic situation in the country.** Furthermore, the development of activities is also hindered by the inaccessibility of certain areas, preventing institutions from developing products with optimal yield.

Figure 14: Portfolio Evolution from 2013 to 2023

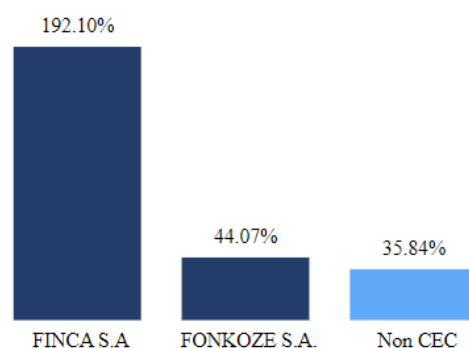


Sources: BRH and ProEco Haiti surveys

Although FINCA shows a high yield of 192%, this performance should be interpreted with caution. Their negative equity and substantial net losses indicated in their financial statements for 2023 suggest that this high yield does not reflect healthy financial or sustainable financial management, but rather excessive financial leverage and a risky lending strategy that may be unsustainable. Meanwhile, Fonkoze, with a yield of 44%, remains above the sub-sector average but also highlights the challenges faced in a precarious economic environment.

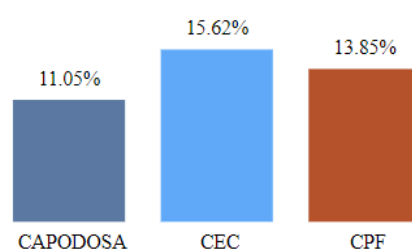
For the CEC sub-sector, the results are more uniform but remain weak. CPF, with a yield of 16%, and CAPODOSA, with 11%, show modest performances, reflecting the general challenges of the sub-sector, whose average yield is 14%. These low yields may illustrate the difficulties CECs face in effectively managing their loan portfolios or maintaining profitability in an unstable environment.

Figure 15: Performance of FONKOZE and FINCA in the non-cooperative MFI sub-sector as of Sept. 30, 2023



Sources: BRH and ProEco Haiti surveys

Figure 16: Performance of CPF and CAPODOSA in relation to the CEC sub-sector as of Sept. 30, 2023



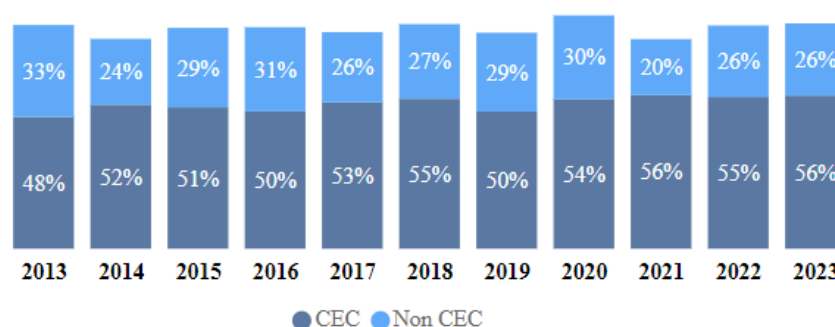
Sources: BRH and ProEco Haiti surveys

■ Operating Expense Ratio (OER)

The OER corresponds to the ratio of operational expenses to gross revenues. **This ratio shows a worrying trend, particularly for CECs from 2013 to 2023. For non-cooperative IMFs, this indicator is not very high and remains relatively stable over the years**, fluctuating slightly but staying around 26% since 2017. This suggests relatively efficient management of operational costs despite market fluctuations.

In contrast, for CECs, the OER has shown an upward trend, increasing from 48% in 2013 to 55% in 2018 before continuing to rise to 56% in 2023. This increase may indicate growing operational costs that are not proportional to the growth of the loan portfolio, potentially reflecting inefficiencies or increases in operating costs. These elements could affect the long-term viability of these institutions in an already difficult economic environment.

Figure 17: Trends in the sector's operating expense ratio from 2013 to 2023

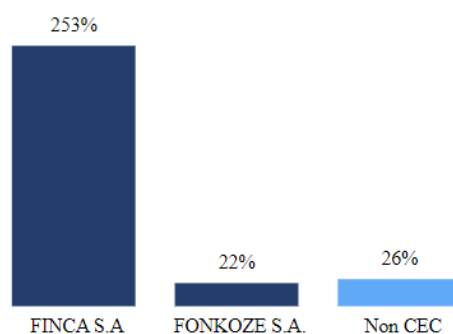


Sources: BRH and ProEco Haiti surveys

The analysis of the operational expense ratio for FINCA reveals concerning financial management. With operational expenses of 361.6 million gourdes and total revenues of only 143.1 million gourdes in 2023, the operational expense ratio stands at 252.8%. This figure indicates that for every gourde generated in revenue, FINCA spends about 2.53 gourdes, illustrating a significant disparity between operating costs and generated revenues. In comparison, Fonkoze, with a ratio of 22%, operates well below the sub-sector average, indicating more efficient management or a better-adapted cost structure.

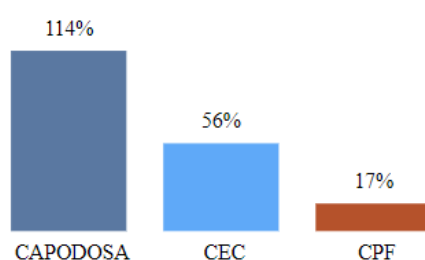
For the CEC sub-sector, CPF stands out with an operational expense ratio of only 17%, well below the sub-sector average of 56%. This suggests superior operational efficiency and an ability to generate sufficient revenue to cover operational costs more effectively than others. In contrast, CAPODOSA has a ratio of 114%, well above the average, highlighting significant challenges in cost management or low revenue generation. These discrepancies highlight the disparities in operational management and financial performance within Haitian IMFs.

Figure 18: Performance of FONKOZE and FINCA as of Sept. 30, 2023



Sources: BRH and ProEco Haiti surveys

Figure 19: Performance of CAPODOSA and CPF as of Sept. 30, 2023



Sources: BRH and ProEco Haiti surveys

■ Return on Assets (ROA)

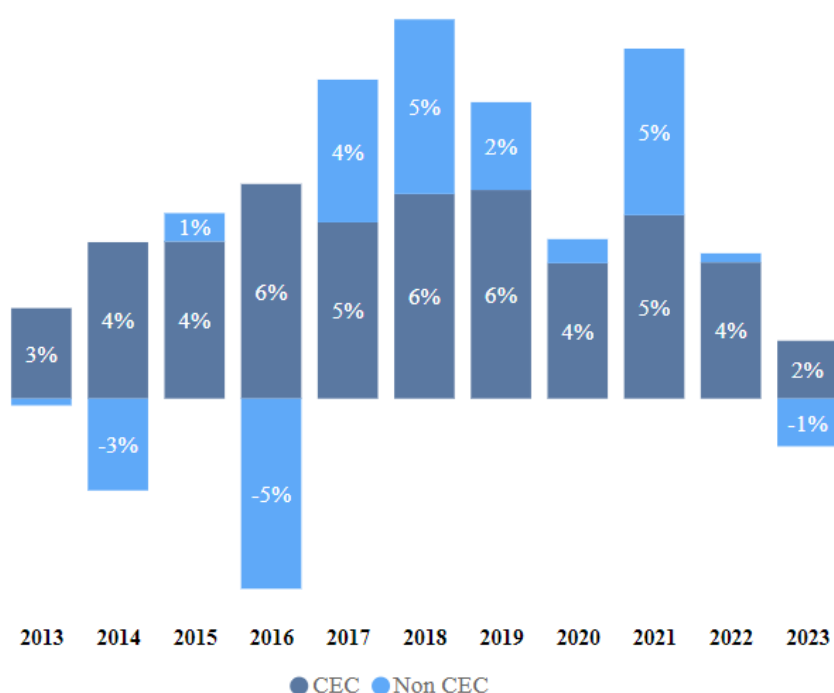
The analysis of the evolution of Return on Assets (ROA) for microfinance institutions (MFIs) in Haiti, distinguishing between CECs and non-cooperative MFIs (non-CECs) from 2013 to 2023, reveals distinct dynamics between the two sub-sectors.

The profitability of CECs generally showed an upward trend until 2019, peaking at 5.94% in 2016. After this period, a gradual decline in ROA is observed, reaching 1.60% in 2023. This decrease could be attributed to internal and external challenges, including possibly increased loan loss provisions and a more constraining unstable economic environment.

For non-cooperative MFIs, the picture is more varied. Starting with negative figures in 2013 and 2014, there was a significant recovery, with a maximum ROA of 4.83% in 2017. However, since then, performance has been uneven, culminating in a net loss of 1.32% in 2023.

In summary, CECs show an ability to maintain positive profitability over the long term despite recent declines, while non-cooperative MFIs demonstrate marked instability that could threaten their future viability without significant strategic adjustments. These trends suggest an increased need for regulatory oversight and strategic adjustments to strengthen the financial health of the sector.

Figure 20 : Trends in return on assets Sept. 30, 2013-2023

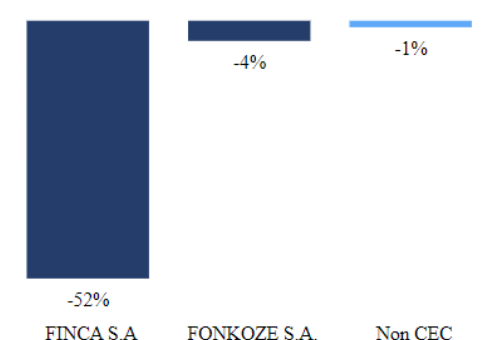


Sources: BRH and ProEco Haiti surveys

FINCA recorded a massive loss in terms of ROA, reaching -52%. This means that FINCA suffered enormous losses compared to the size of its assets, which would lead to its request for license withdrawal by the BRH. This move reflects the extreme challenges the company faces in the current economic context of the country. Fonkoze also posted a negative profitability of -4%, although less severe than that of FINCA, indicating difficulties but on a more manageable scale. Overall, the non-cooperative sub-sector showed an average profitability of -1%, suggesting that despite varied individual performances, the sector struggles to maintain its viability.

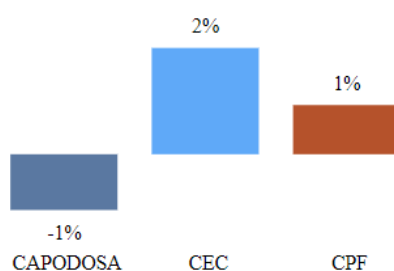
CPF recorded a positive return on assets of 0.74%, suggesting relatively efficient management and an ability to generate profits despite economic challenges. In contrast, CAPODOSA posted a negative profitability of -0.84%, indicating difficulties in covering operational costs and possibly less optimal risk management. Overall, the CEC sector has an average performance of 1.60%, reflecting heterogeneity in the ability of different institutions to navigate Haiti's unstable economic environment.

Figure 21: Profitability of FONKOZE and FINCA assets compared to the non-cooperative MFI sub-sector as of Sept. 30, 2023



Sources: BRH and ProEco Haiti surveys

Figure 22: Profitability of CAPODOSA and CEC assets in relation to the CEC sub-sector as of Sept. 30, 2023



Sources: BRH and ProEco Haiti surveys

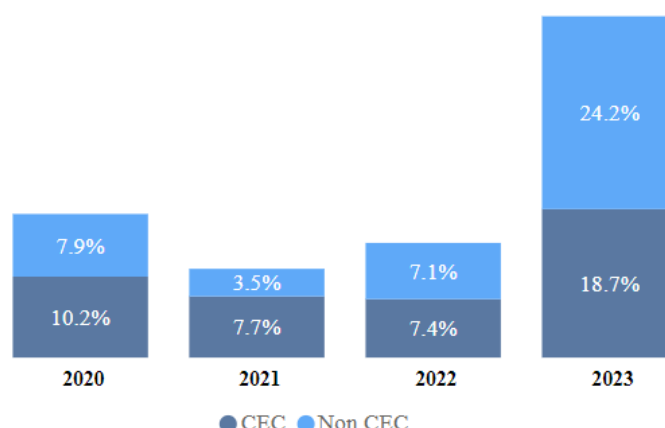
3. Risk Analysis of the MFI sector

■ Delinquency Rate of Overdue Payments Exceeding 30 Days (PAR 30)

The analysis of the delinquency rate for credits exceeding 30 days (PAR 30) for the CEC and non-CEC sub-sectors in Haiti shows a significant increase in delinquency in 2023, directly reflecting the impact of socio-political unrest and rising insecurity. In 2023, the delinquency rate for non-CECs climbed to 24%, compared to only 19% for CECs, suggesting that non-CEC institutions are more affected by the current instability, likely due to their exposure to regions particularly impacted by gang activities.

The challenges faced by FINCA, especially in the agricultural sector in Les Cayes, illustrate this phenomenon. The loss of 80 million gourdes and the write-off of 90% of the remaining portfolio following Hurricane Matthew in 2016, compounded by the events of July 2018, marked the beginning of an economic decline, severely impacting their financial stability. This situation exposes the MFIs to increased risks, necessitating adjustments in their credit risk management and business continuity strategies. These implications include an increase in financial losses, a deterioration in the quality of the credit portfolio, and a negative impact on profitability, underscoring the need to strengthen risk management strategies in a volatile economic environment.

Figure 23: Trend in overdue payments in excess of 30 days between 2020 and 2023



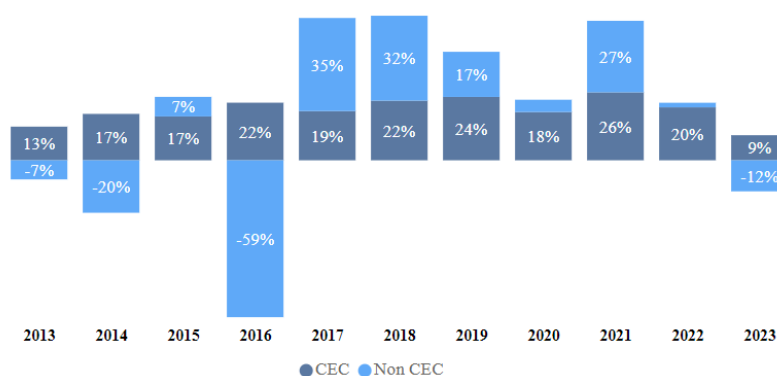
Sources: BRH and ProEco Haiti surveys

■ Equity Return Risk (ROE)

The return on equity (ROE) for MFIs in Haiti has shown significant variation from 2013 to 2023, illustrating notable instability in the sector. For non-cooperative institutions (non-CEC), ROE exhibited extremes, dramatically dropping to -59% in 2016 before recovering to 35% in 2017. This sharp fluctuation highlights the sub-sector's vulnerability to economic and political crises. In contrast, the CEC maintained a more stable trajectory, with ROE starting at 13% in 2013, peaking at 26% in 2021, but declining to 9% in 2023, indicating ongoing challenges yet relative resilience.

Statistical analyses reveal that the non-CECs have a standard deviation of ROE of 25.85% with an average ROE of only 2.45%, while CECs have a standard deviation of ROE of 18.77% with an average ROE of 4.55%. **These significant fluctuations signal a high volatility in profitability, exposing institutions to elevated financial risks.** This volatility necessitates prudent risk management to preserve solvency and long-term viability in such a fluctuating environment.

Figure 24: Evolution of ROE from 2013 to 2023



Sources: BRH and ProEco Haiti surveys

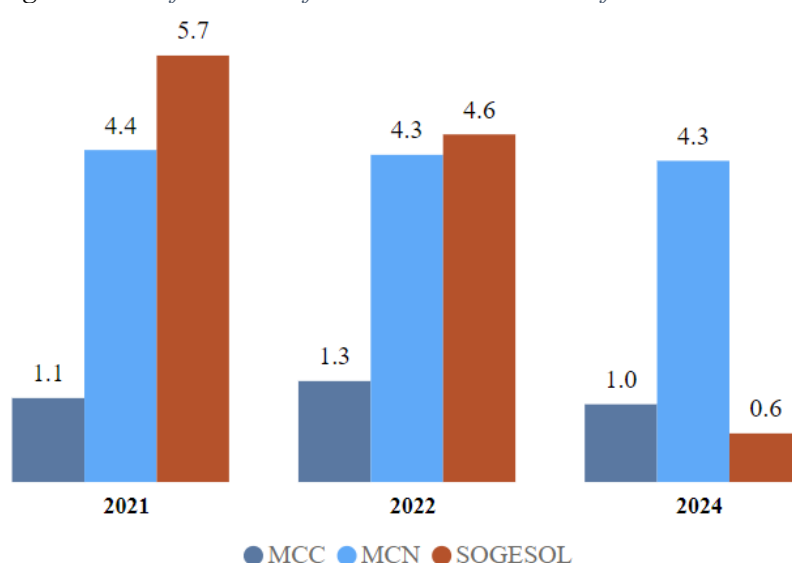
4. Overview of the performance of banks' microcredit institutions

Analysis of the microcredit activities of the three (3) subsidiaries of Haitian commercial banks (MCC, MCN, and SOGESOL) reveals significant trends between 2021 and 2024.

MCC showed modest growth from 1.11 billion gourdes in 2021 to 1.34 billion in 2022, but suffered a decline to 1.03 billion gourdes in 2024, representing a decrease of 23% from its peak in 2022. MCN saw a slight drop from 4.41 billion gourdes in 2021 to 4.27 billion gourdes in 2024, reflecting a 3.2% decline over the period.

SOGESOL's situation is particularly worrying, with a drastic reduction in its credit portfolio, from 5.66 billion gourdes in 2021 to just 0.65 billion gourdes in 2024, representing a fall of almost 89%. The drastic reduction in SOGESOL's portfolio would be one of the reasons behind the institution's major strategic changes. Indeed, SOGESOL is in the process of moving out of the "microfinance" sector and transforming itself into a microcredit institution fully incorporated by SOGEBANK.

Figure 25: Performance of microcredit institutions from 2021 to 2023



Sources: BRH and ProEco Haiti surveys

III. OPERATIONAL IMPACTS OF THE CRISIS ON MFIs

In addition to the impact on their financial situation, the socio-political and economic crisis is having a negative impact on the operation of microfinance institutions (MFIs). This section presents the findings of the surveys conducted.

1. Differentiated impacts

The socio-political crisis is having differentiated non-financial impacts on players in the microfinance ecosystem –depending on whether they are non-cooperative or cooperative MFIs, MUSOs, groupings of MFIs or Electronic Payment Service Providers (FSPs) also called Digital Finance Services (DFS).

■ *Non-cooperative MFIs*

- FINCA's situation illustrates the difficulties faced by non-cooperative MFIs. **In February 2024, FINCA formally requested the withdrawal of its agreement from BRH.** The main reason reported was that the institution, due to the risks associated with the country's worrying general security situation, felt unable to continue its financial intermediation operations (receiving deposits and granting loans) in accordance with the requirements of the June 2020 decree on MFIs.
- GAFME, approved in 2023, is a new player in the ecosystem. In 2023, the institution achieved a positive net profit. However, there has been a decline in certain activities, such as the number of loans to micro-businesses and the number of credit applications. These are undoubtedly the consequences of the socio-political crisis that has prevailed for over three (3) years. The institution's portfolio increase can mainly be attributed to the higher average loan amounts granted to customers.
- The main operational difficulties faced by non-cooperative MFIs include: a) Impossibility or difficulty in continuing operations in certain offices, b) Impossibility or difficulty in meeting customers, c) Impossibility or difficulty in collecting repayments as usual, d) Reduced staffing levels, e) Impossibility or difficulty in ensuring the safe transport of funds.

■ *Cooperative MFIs*

- As part of the study, out of a sample of 70 CECs contacted, 10 reported having been vandalized between 2018 and 2024 or temporarily closed due to widespread insecurity.
- The CNC reported numerous operational difficulties faced by CECs in these times of crisis. These include forced relocations, partial or total closures, difficulties in reaching work sites, and the loss of critical personnel.

■ *Groupings situation*

- The difficulties faced by cooperative and non-cooperative MFIs are having a negative impact on grouping operations. Due to the consequences of the socio-political situation, a relatively large number of CECs will be unable to meet their obligations to their Federations in particular during the 2023-2024 financial year.
- **ANIMH, founded in 2002 and in difficulty for five years, closed its doors in February 2024 following financial difficulties.** In 2010, ANIMH comprised fourteen (14) non-cooperative microfinance institutions. Of these, nine (9) have ceased operations and five (5) are still active in the industry in 2023. ANIMH's situation is a direct consequence of the difficulties inherent in the crisis. However, some MFIs that would have gone out of business (including FINCA) seem to have not said their last word, as they await a significant improvement in the business climate.
- **AHFI can be seen as a new player in the ecosystem.** It brings together players such as MFIs, MFI associations, FSPs and insurance institutions. It was created less than five (5) years ago with the

"main objective of working towards financial inclusion in order to facilitate the creation and equitable distribution of wealth in Haiti".

- KOFIP was set up in 1997 "on the initiative of organizations such as Caisse d'Épargne et de Crédit (CCG), Fonhades, Fonkoze, Coopérative Solèy Leve and resource persons close to grassroots organizations". Recognized as an association by the Ministry of Social Affairs and Labor (MAST), KOFIP brings together MUSOs throughout the country, providing them with training services. It also acts as a second-tier (informal) microfinance institution, refinancing MUSOs in need.

▪ *FSP situation: the case of MonCash*

- While the country is in the midst of a crisis, five (5) FSPs have received their approval between 2021 and 2023 following the publication of the June 2020 decree on MFIs.
- Of the five (5) FSPs, two (2) are fully operational: **MonCash** and **NatCash**, according to information received from BRH. Other information indicates that a third one (HaitiPay) has begun operations and has even established partnerships with microfinance players, including AFIH.
- According to the information gathered, as at April 30, 2024, only one (1) FSP was reporting regularly to BRH (MonCash). Operational difficulties linked to the country's socio-political situation and the setting up of reporting infrastructures at FSPs are preventing them from complying with requirements.
- It is important to mention that, alongside the FSPs approved by the central bank, other electronic payment initiatives exist in Haiti –including *LajanCash* (a remote bank launched by the National Credit Bank using cell phones as electronic wallets), *Mannitòks* (a private company playing an interoperability role by enabling account holders in Haiti's private banks to transfer funds to MonCash accounts) and *Paon Bleu* (a digital platform evolving in the credit granting field).

2. Entry/Exit dynamics in the MFI sector since 2010

Table 2: Movements of players in the MFI sector since 2010

	STRUCTURE	NEW ACTOR	EXIT	EXPLANATION
ANIMH members in 2010.	ANIMH		✓	On hold since February 2024.
	FINCA		✓	Request for withdrawal of its approval.
	ACLAM		✓	
	GTHH		✓	
	FHAF		✓	
	GRAIFSI		✓	
	FONDESPOIR		✓	
	ID		✓	
	BUH		✓	
	BPH		✓	
	ACME	-	-	
	FONKOZE/SFF	-	-	
	MCN	-	-	
	MCC	-	-	
	SOGESOL	-	-	Member of ANIMH until the association's closure in February 2024.
	AFIH	✓		Set up less than 5 years ago.
	GAFME	✓		Approved by BRH in 2023.
	CEC	✓		On July 31, 2017, 59 CECs were approved, and by September 30, 2023, the number had risen to 74.
	Approved FSP	(15 new registrations) ✓		All 5 FSPs have been approved between 2021 and 2023.

3. Considerations on the resilience of the microfinance sector

The microfinance sector generally proves resilient in the face of socio-political unrest. According to a study by Ciguino and Paul (2022), microfinance organizations in Haiti are at least moderately resilient. According to the study, the majority of MFOs investigated (63.3%) are moderately resilient, and over a third (36.7%) are highly resilient.

The analyses carried out in this study show that the microfinance industry in Haiti is indeed resilient. Considering two (2) of the three (3) variables considered in Ciguino and Paul's methodology (the continuation or cessation of activities during the shock period and the level of decline in activities²), it is easy to see the relatively strong capacity of MFIs to resist socio-political shocks.

■ *Continuation/cessation of activities during the shock period*

The continuation of credit activities during and after a shock testifies to the resilience of MFOs (Soumaré et al., 2020; Khan et al., 2022). Cessation, on the other hand, reflects non-resilience.

- **CEC:** As mentioned in the previous section, out of 70 CECs contacted, only 10 reported having been vandalized or closed due to socio-political and security shocks. In other words, the majority of CECs have continued their activities despite the difficult situation that has prevailed in Haiti since 2018.
- **Non-cooperative MFIs:** As far as the four (4) non-cooperative MFIs approved by BRH are concerned, there has been no complete cessation of activity. One (1) of the four (4) is a newcomer to the sector.
- **Groupings:** Federations continue to operate despite difficulties. Of the five (5) MFI associations, only one (1) ceased operations in February 2024. A new arrival in the industry has also been noted.

■ *Level of business decline*

Based on the above-mentioned authors' methodology, a decline in business is considered "significant" if credit activity has fallen by more than 25% of normal activity. Otherwise, it is considered "insignificant".

In the context of this study, between 2013 and 2023, credit activity in the microfinance sector rather increased considerably. Indeed, as already analyzed, the CECs saw their portfolio increase from 3.04 billion gourdes in 2013 to 15.28 billion in 2023, representing a 402% increase. Simultaneously, the non-cooperative institutions (non-CEC) also recorded substantial growth, with their portfolio rising from 1.04 billion to 4.82 billion gourdes, an increase of 364% over the same period.

All in all, we can conclude that the microfinance sector appears resilient to macroeconomic and socio-political shocks.

² The "rebound two (2) years after the shocks" variable taken into account by the authors is not considered, given that the country was still in crisis at the time the report was prepared.

IV. MOBILE MONEY, MFIs AND FINANCIAL INCLUSION

1. MFIs in the National Strategy for Financial Inclusion

The microfinance sector has a considerable role to play in promoting financial inclusion in countries with high levels of financial exclusion. Microfinance is particularly useful in rural areas, where financial inclusion is generally lower and conventional financial institutions are often absent.

In Haiti, according to *FinScope* 2022, financial exclusion affects around 30% of the population. In other words, almost a third of the population is excluded from the formal and informal financial system. According to the study, in rural areas, the exclusion rate is 33%. This means the need for action is urgent.

In the SNIF (National Strategy for Financial Inclusion), authorities attach considerable importance to MFIs because of their proximity to low-income rural populations generally excluded from the formal financial system. The fact that microfinance institutions are mainly located in rural areas is an asset for the sector. The banking system is concentrated in Port-au-Prince (Haiti's capital), where 67% of its 175 branches and 75% of its 53 Automated Teller Machines (ATMs) operate. By contrast, 80% of the 400 branches of Saving and Credit Cooperatives (CEC) and non-cooperative MFI are located outside the capital (SNIF, 2014).

All in all, the promotion of financial inclusion in Haiti must inevitably involve cooperative and non-cooperative MFIs, which are reputed to be closer to households. With this in mind, the SNIF rightly provides for a series of actions aimed at strengthening them and making them more efficient. These include consolidating CECs through Federations, strengthening the regulation and supervision of CECs, strengthening the regulation and supervision of non-cooperative MFIs to encourage their consolidation, and improving the efficiency of CECs and non-cooperative MFIs through the use of new information and communication technologies (NICTs). In short, the plan is for MFIs to be given high priority in the SNIF.

2. Mobile money and financial inclusion

▪ *The explosion of mobile telephony*

Since mobile telephony exploded in the country, it was expected that the technology would facilitate access to a whole range of services. In 2023, the records of the two (2) telecoms operators present on the market show that over 64% of the population aged over fifteen have a cell phone, with coverage of around 95% of the national territory.

Technological innovations related to cell phones are seen as a major factor in global efforts to extend microfinance services to rural areas. Haiti is no exception. The cell phone has become an integral part of people's daily lives, replacing other devices and providing access to financial services. The use of electronic wallets has redefined financial intermediation through the MonCash and NatCash platforms set up by telecom operators DIGICEL and NATCOM respectively.

▪ *The development of digital finance*

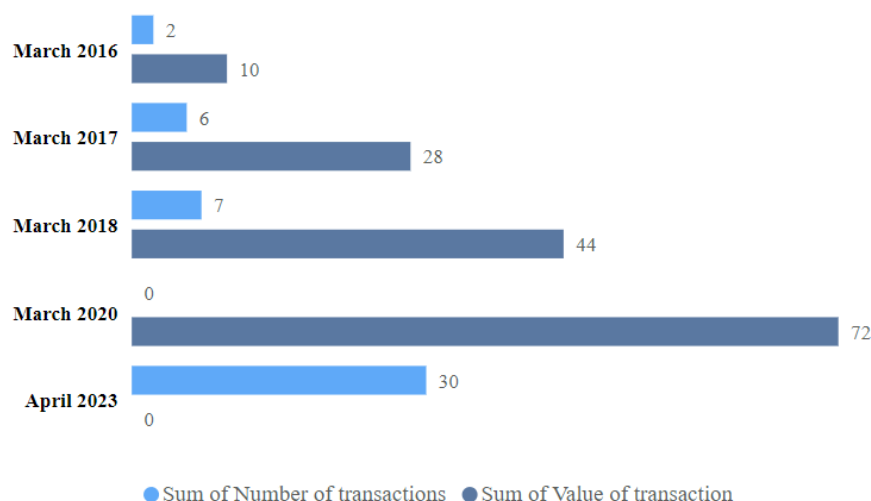
In the wake of the digital revolution, BRH has issued Circular N° 121, which applies to FSPs. This circular, dated December 6, 2021, sets the rules of the game. However, other conditions are essential to take advantage of online and mobile payment infrastructures: the interoperability of the mobile services market, the implementation of widely accessible digital identification systems, and consumer protection.

The data obtained from the study demonstrate the full potential of digital finance in terms of financial inclusion. In this respect, they confirm the continuing penetration of cell phones, whose use is becoming increasingly widespread, and the growing demand for financial services.

In the case of MonCash³, the number of transactions recorded by the company is increasing daily. Indeed, from 2.2 million in March 2016, the number of transactions rose to 5.6 million in March 2017, 7.1 million in March 2018 and over 30 million in April 2023.

The value of approved transactions ranges from US\$9.7 million in March 2016 to US\$28.4 million in March 2017, US\$44 million in March 2018 and US\$72 million in March 2020.

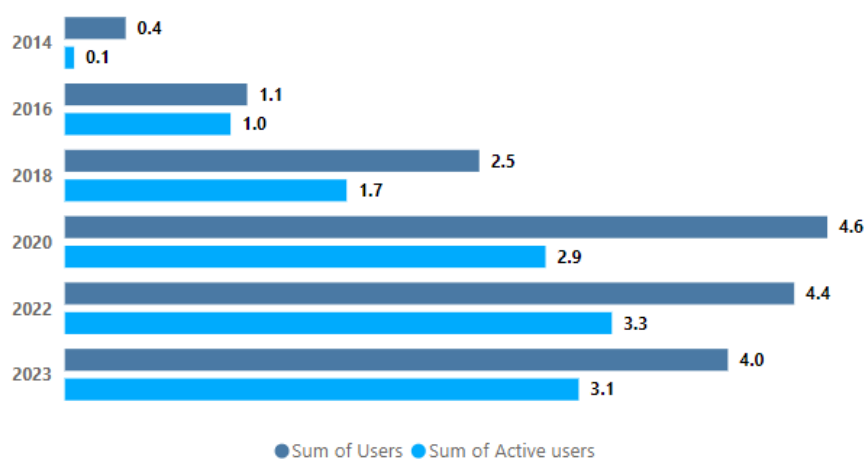
Figure 26: Number of transactions (millions) and transaction values (millions USD) approved by MonCash from March 2016 to April 2023



Combined sources AFI, BRH, Digital Financial Services (2018) and company documents

As for MonCash users, they have risen from 367 thousand in 2014 to 4 million in 2023. Those considered active have risen from 56 thousand to 3.1 million in 2023. The number of service points has also risen, from 600 in 2014 to 7.9 thousand in 2023.

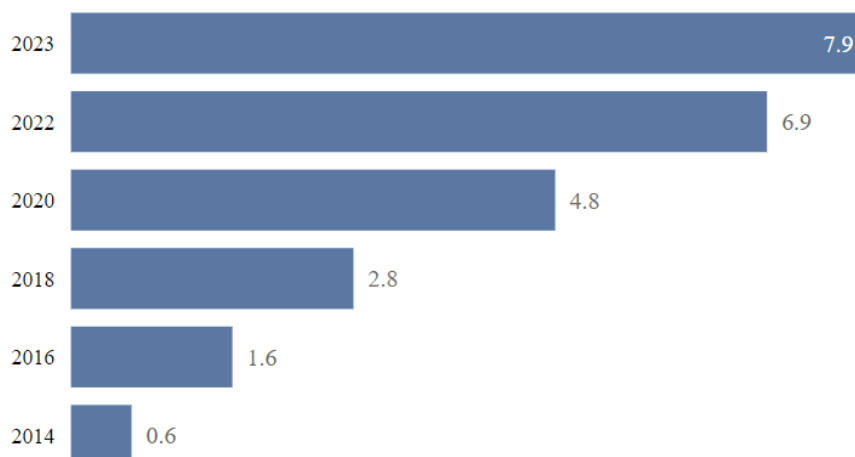
Figure 27: MonCash users in millions from 2014 to 2023



Source: Data obtained from Digicel

³ Data is not available for the other four (4) FSPs, which have not yet submitted reports in due and proper form to BRH, which issued an administrative reminder in December 2023.

Figure 28: Number of MonCash service points in thousands



Source: Data obtained from Digicel

For MFIs of all categories, technological adaptation projects have been put on hold due to the persistence of the crisis. In this sense, they continue to carry out microfinance activities in the traditional way. However, FINCA's unique experience should be highlighted as an interesting start. Since 2014, it has carried out a significant proportion of its operations using the MonCash platform. Credit disbursements peaked at one hundred million (100,000,000) gourdes per month, and repayments were as high as forty million (40,000,000) gourdes.

As observed in Kenya with M-PESA, *fintechs* can enter the microfinance market and establish themselves as major players. It's a fact that mobile money providers are able to handle large volumes of small transactions more easily, facilitating access to financial services for the most vulnerable. The time has come for Haitian MFIs to embrace digital credit.

V. LEGAL FRAMEWORK EXAMINATION AND BENCHMARKING

In this part of the report, we first present and examine the legal framework of the microfinance sector. Next, the legal framework of the microfinance sector in Haiti is compared with those of Peru and the Dominican Republic. A SWOT analysis is also carried out for Haiti. Finally, certain MFI financial indicators are compared with BRH regulatory ratios.

1. The June 2002 law on CECs

Until 2002, the core activities of cooperatives were governed by the decree of April 2, 1981, which set out the general status of cooperatives. The legal framework also included the decree of March 31, 1981, on the organization of the CNC, which was responsible, among other things, for issuing official approval. This framework met the classic requirements for cooperatives.

The need to amend legislation relating specifically to CECs arose, in the early 2000s, against the backdrop of the collapse of the pyramid-shaped structures that were improperly operating under the name of "cooperative". At the time, the concerns expressed by the public authorities were limited to the desire to place CECs under the supervision of BRH and to strengthen control over their activities to ensure the security of depositors' interests.

Although not unanimously endorsed initially the law on CECs was well received by the main players in the sector. The objective was therefore achieved, insofar as swift action was needed to restore public confidence in the cooperative movement.

As with all cooperative legislation, the June 2002 law on CECs responds to a twofold requirement: a demand for recognition of the cooperative specificity on the part of cooperators, and a demand for control on the part of the State to ensure that this recognition and the associated advantages are not used to the detriment of society and the players directly involved in the sector.

Far from taking stock of twenty (20) years of application of the CEC legislation, the review required as part of this study aimed to determine whether or not it promotes the development of CECs or the well-being of members. In this respect, the strengths and weaknesses of the law were identified in the light of the recommendations of the International Cooperative Alliance (ICA) and the positions expressed by the various cooperative microfinance players we met.

Strengths

1. Access to the BRH clearing house through the Federation.
2. Setting up a cooperative support fund.
3. Creation and integration of the supervisory body (DIGCP) at BRH.
4. Incentives to promote affiliation.
5. Supervision mandate delegated to CEC Federations.
6. Free access to the annual report at the request of any member.
7. CEC autonomy and independence.
8. Recognition of cooperative specificity.

Weak points

1. Overlapping powers of BRH and CNC with regard to registration and approval.
2. Critical decisions not subject to BRH's no-objection opinion.
3. CNC to replace BRH in issuing approvals to Federations.
4. Establishment of a quorum of 2/3 of members for general meetings.
5. State intervention mechanisms to provide effective support to unplanned CECs.
6. Regression in tax and customs benefits compared with the decree of March 31, 1981
7. Requirements not relaxed for newly created CECs.
8. Power granted to BRH to determine the limits within which credit may be granted, as a percentage of equity capital.
9. Free of charge for the performance of certain essential functions.

Generally speaking, the main players in the cooperative microfinance sector are convinced of the need to amend current cooperative legislation. That said, they have already drawn the necessary conclusions in terms of weak points, i.e. problems of coherence, essential provisions that are not foreseen or are confusing, and provisions that are not applied or inapplicable. For the time being, the main question surrounding the prospect of an objective and consensual revision of the June 2002 law is not so much the "why" but the "when".

2. The June 2020 decree on MFIs

▪ *The late arrival of the law*

The challenges posed by the existence and institutional development of this vast sector of non-cooperative MFIs have grown significantly since the early 1990s. The sector's rapid and significant expansion has been achieved with virtually no effective support or guidance from the Haitian state. Until the introduction of the June 5, 2020 decree governing its organization and operation, the non-cooperative microfinance sector therefore evolved in an indeterminate legal environment.

The long-debated issue of regulation for this category of MFIs should not have suffered from any ambiguity, given the clearly expressed demands on their part and the willingness of the public authorities to provide the microfinance sector with a national policy as well. The regulatory framework for MFIs was therefore created before the policy announced in 2010⁴. Recognizing two (2) categories of MFIs, established in 2020, by virtue of the legal forms prescribed, it inaugurates the integration of non-cooperative MFIs into the national financial system, placed under the supervision of the BRH.

▪ *Implementation of the June 2020 decree*

The present study takes place as we approach the end of the fourth year of application of the above-mentioned decree. Its implementation has therefore been launched in a context marked by a long period of disruption of all kinds likely to upset the timetables of stakeholders. This is the case at BRH, for example, where the implementation of supervisory activities is still in progress. The most significant regulatory impact stems from the share capital requirements for the registration of two (2) types of MFI, the microcredit enterprise and the microfinance company. Set at twenty-five million gourdes (25,000,000.00 HTG) and fifty million gourdes (50,000,000.00 HTG) respectively, the share capital required to register a microcredit enterprise and a microfinance company is deemed prohibitive. It would appear, therefore, that these requirements are not accompanied by any accommodation for institutions that define themselves, for example, as social businesses generating no profit for private shareholders.

Impact of regulations

- As a result of these regulations, some MFIs are reluctant or unwilling to regularize their operations.
- Banks have transformed subsidiaries that carried out microcredit activities into internal divisions rather than taking the required legal form.
- Banks that had already entrusted microcredit activities to an internal division set up for this purpose consider that they can continue to carry out such activities without obtaining official approval.
- MFIs operating as associations perceive the requirement that directors of a microcredit company must serve free of charge as an irritant.

⁴ Ronald Bodin 2010. "Allocution du Ministre de l'Économie et des Finances (MEF)", Actes du colloque sur la microfinance, Port-au-Prince, September 28-29, 2010, MEF.

After more than twenty (20) years of widespread, uncontrolled activity by MFIs, the entry into force of the first regulatory framework concerning them is crucial. One thing is certain: microcredit, so widely developed in the country, had no official definition until then. It is easy to see that, historically, there have been problems with the orientation, control and reporting of the activities of MFIs, which have independently adopted practices reflecting a wide range of approaches.

The decree of June 5, 2020, defines microcredit as "*a loan below a threshold set by BRH regulation granted to natural or legal persons who cannot access conventional bank loans*". As with other restrictive provisions, this reflects a new situation that MFIs must now face. Bringing MFIs into compliance would raise the problem of continuing to operate under the aegis of a legal framework that may not legalize existing practices.

More specifically, banking companies are being brought into compliance outside the provisions of the June 2020 decree. Because they already hold a universal banking license covering all banking and related operations, a second license to conduct microcredit activities is deemed unnecessary. As a result, they are currently undergoing internal transformation.

The results of this impact assessment raise important questions about the prospects for applying the regulations and strengthening the sector. These questions include the following:

- After the crisis, can we expect some MFIs that are still standing to be able to raise the share capital required for regularization?
- How will the supervisory authority deal with the case of banks that have repatriated microcredit activities from their subsidiaries?
- How can the continuation of microcredit operations across the country simply be halted if the important role played by MFIs in the fight against poverty and financial exclusion is ignored?
- How will MFIs that have obtained official approval evolve in the absence of a national microfinance development policy?

3. Benchmarking: Haiti, the Dominican Republic and Peru⁵

■ *Financial inclusion scores in Haiti remain low*

The report "Comparative Study to Benchmark Haiti's Microfinance Decree and Relevant DFS Regulations Versus Regulations in the Dominican Republic and Peru, Haiti Microfinance Industry Study" (IFC-World Bank, August 2022) highlights elements of comparison between Haiti's microfinance sector and those of the Dominican Republic and Peru.

The report shows that in Haiti, despite an improved regulatory environment with the June 2020 decree on MFIs, financial inclusion scores remain low: 35, compared with 53 for the Dominican Republic and 82 for Peru. The average loan size is notably lower in Haiti (USD 780) than in the Dominican Republic (USD 973) and Peru (USD 2,560), reflecting limitations in available loan products and access to capital for borrowers (table 3).

■ *SWOT analysis of the microfinance sector in Haiti*

The SWOT analysis shows that although regulatory progress has been made in Haiti, much remains to be done to strengthen the microfinance sector and achieve the level of financial inclusion and regulatory development seen in the Dominican Republic and Peru.

⁵ This analysis is based on the 2022 IFC-World Bank report.

Figure 29: SWOT analysis of the microfinance sector in Haiti

SWOT ANALYSIS			
Strengths	Weaknesses	Opportunities	Threats
Strengthened regulatory framework: Haiti's recent microfinance decree of 2020 seeks to improve access to financial services, marking a step towards more robust regulation compared with earlier periods, although it still lags behind that of the Dominican Republic and Peru, which benefit from more mature and integrated regulations (table 4) Resilience of MFIs: These institutions have continued to operate and serve their communities despite recurring socio-economic and natural challenges.	Limited infrastructure and support: Despite regulatory advances, Haiti still suffers from weak financial infrastructure and limited government support, in contrast to the more developed framework and stronger government support in the Dominican Republic and Peru. Market access and penetration: The small size of loans and the low percentage of the adult population with access to MFI loans point to a less penetrated microfinance market in Haiti.	Development of digital services: The potential for expanding digital financial services is significant in Haiti, especially with the growing adoption of mobile connectivity. This offers an opportunity to catch up with similar advances already well established in neighboring countries. Strengthening the MSME and SME market: As the decree specifically aims to improve access to financial services for MSMEs and SMEs, there is a significant opportunity to stimulate entrepreneurship and small businesses, a sector still underdeveloped compared to the robust markets of neighboring nations.	Political and economic instability: Ongoing instability in Haiti may compromise progress in the regulation and adoption of financial services, a problem less pronounced in the Dominican Republic and Peru. Regional competition: With more developed regulatory frameworks and microfinance markets in neighboring countries, Haiti risks lagging behind in terms of financial innovation and attractiveness to foreign investment.

Source: ProEco Haiti

Table 3: Indicators for microfinance institutions by country

Indicators	Haiti	Dominican Republic	Peru
Overall Microscope Scores (2020)	35	53	82
• Government and policy support	31	51	90
• Stability and integrity	36	54	82
• Products and outlets	64	47	93
• Consumer protection	27	74	93
• Infrastructure	46	71	78
Number of MFIs	65 (2021)	46 (2020)	90 (2020)
Number of borrowers from MFIs compared to the adult population (%)	3.9 (2017)	15.6 (2020)	21.0 (2021)
Total MFI loan portfolio compared to the total loan portfolio (%)	13.0 (2018)	3.4 (2020)	3.2 (2021)
Average loan size (USD)	780 (2017)	973 (2020)	2,560 (2020)
Number of microcredits compared to the number of total credits (%)	12.1 (2016)	1.9 (2016)	3.7 (2016)

Source: IFC-World Bank

Table 4: Types of microfinance institutions

Type of institutions	Haiti	Dominican Republic	Peru
Full-fledged commercial banks	Licensed Bank	Licensed Bank	Licensed Bank
Deposit-taking microfinance providers	Microfinance companies	• Savings and credit banks • Saving and Loan Associations • Public Entities	• Financial Companies • Municipal Savings and Loan Banks • Rural Savings and Loan Associations
Non-deposit taking microfinance providers	Microcredit Enterprises	Credit Corporations	Entities for the Development of the Small Microenterprises
Non-regulated microfinance providers	All microfinance providers must be regulated	Cooperatives NGOs	NGOs

Source: IFC-World Bank

4. BRH regulatory ratios vs. MFI performance

The table below shows a general downward trend in certain key performance indicators for microfinance institutions in Haiti between 2020 and 2023. Asset capitalization fell over the period, from 19.37% to 16.00% for CECs and from 14% to 11% for non-cooperative MFIs, signaling increased dependence on external financing, despite the fact that capitalization remains above BRH's minimum standard of 12.5%. The liquidity ratio also fell, indicating liquidity risks, with both sub-sectors failing to meet the 25% standard and highlighting vulnerability to mass withdrawals. At the same time, return on assets (ROA) has fallen considerably, particularly for CECs whose ROA has dropped from 3.75% in 2020 to 1.60% in 2023, reflecting reduced operating efficiency and rising costs not covered by revenues. Loan loss provisions have increased for non-cooperative MFIs, suggesting a deterioration in loan portfolio quality.

Table 5: BRH's compliance with prudential standards as of September 30, 2023

Indicator	CEC			Non cooperative IMF			BRH Standards
	2023	2020	% Variation	2023	2020	% Variation	
Capitalization (Equity/Total Assets)	16.00%	19.37%	-17%	11.00%	14.00%	-22%	≥12.5%
Liquidity Ratio (Liquid Assets/Deposits)	50.37%	54.07%	-7%	26.00%	32.00%	-21%	≥25%
Liquidity Ratio (Liquid Assets/Deposits)	6.91%	7.28%	-5%	8.00%	7.00%	20%	≥1%
Credit Risk Limitation (Total Credit/Total Assets)	54.11%	53.26%	2%	45.00%	51.00%	-13%	≤70%
Return on Assets (ROA)	1.60%	3.75%	-57%	-1.32%	0.67%	-298%	>0%

Sources: BRH and ProEco Haiti survey

CONCLUSIONS AND RECOMMENDATIONS

The persistent socio-political and economic crisis that Haiti has been experiencing since 2017 is having critical consequences on developments in all sectors of national life. Microfinance institutions (MFIs), which are particularly essential for generally vulnerable rural communities and crucial in promoting financial inclusion, face consequent problems.

The crisis has radically changed the way MFIs operate. Surveys have shown that it has caused major operational difficulties and even led to cases of cessation of activities among key stakeholders in Haiti's microfinance industry.

On the financial side, the study reveals that the microfinance sector demonstrated impressive growth in assets and equity between 2013 and 2023, despite an unstable socio-political and economic context. However, this expansion is contrasted by a worrying increase in provisions for bad debts and a significant drop in net profits in 2023 resulting from weaknesses in risk management and costs clearly linked to the country's difficult socio-political and economic situation.

In addition, performance indicators on a global scale reveal worrying trends, which call for better management of cost structures and increased support from regulatory authorities to ensure the sector's stability and continued development.

In the light of the resilience indicators considered, the study reveals that MFIs in general remain rather resilient despite financial concerns. However, unlike non-cooperative MFIs, financial cooperatives are rather well-established and have the capacity to continue providing services to their members despite the difficult economic climate. Indeed, it has been shown that even during the long crisis period, they are generally more stable than other financial institutions.

Regulatory aspects. Although the law on savings and credit cooperatives (CECs) has existed since 2002, it was during the crisis that the legal framework governing the operation of non-cooperative microfinance institutions was introduced. Alongside other instruments, this framework forms the national corpus governing the industry. The overall regulatory framework has its strengths. It also has its pitfalls, which are likely to hold back MFIs in their development or in the race for institutionalization. Moreover, the SWOT analysis conducted as part of a Benchmarking exercise shows that although regulatory progress has been made in Haiti, much remains to be done to strengthen the microfinance sector and achieve the level of financial inclusion and regulatory development seen in the Dominican Republic and Peru.

The findings have led to the following recommendations:

- **Development and professionalization of the microfinance sector**

1. One of the actions needed to develop the sector in Haiti would be to define a National Microfinance Development Strategy (NMDS). This would require collaboration between the sector's development partners, MFIs, MFI Federations and Associations, BRH and ministries such as MEF and MPCE.
2. Stakeholders in the microfinance sector must work to make the legal framework for MFIs compatible not only with the objectives of financial viability, but also with the constraints of the context in which they operate, as well as the aims of microfinance.
3. The BRH's supervisory framework for microfinance companies is not yet fully developed. Strengthening this framework at the central bank level is an obvious priority.
4. It is important that MFIs, Federations and Associations work together to produce annual reports on the performance indicators of the MFI network, in order to promote financial transparency and professionalization of the sector.

- **Resilience of the microfinance sector**

5. In the current context, it would be appropriate for the sector's development partners to consider strengthening the sector's resilience by injecting fresh funds on the basis of buying back part of the stock of bad debts, or by implementing loan guarantee programs to stimulate credit for vulnerable categories, including women.
6. Promote the role and autonomy of CEC Federations by involving them as intermediaries in microfinance investments for the management of funds supporting CEC loan portfolios, by capping management fees.

- **Risk management and recovery**

7. Given the often-high country risk associated with granting credit in Haiti, MFIs need to strengthen their due diligence processes to better assess customer creditworthiness. Along the same lines, MFIs should consider implementing more efficient collection systems, including flexible payment options tailored to customers' economic situation.

- **Financial inclusion**

8. To further promote financial inclusion, MFIs can define a product diversification strategy as part of the extension of services, with a view to developing products backed by international transfers or adapted to the conditions of the recipients of such transfers.
9. Encourage non-cooperative MFIs with microfinance company status or appropriate BRH approval to receive customer savings and offer other related products, including Term Deposits (DAT).
10. The digital shift of MFIs has not yet begun institutionally and would be further delayed by the crisis. There is a need for stakeholders to further promote the development of digital financial services (DFS) in the microfinance sector.

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- **Institutions contacted or involved in exchange**

INSTITUTIONS

ACME
AFIH
ANACAPH
ANIMH
BRH / DIGCP
BRH / Supervision

CNC

FINCA

FONKOZE/SFF

KNFP

KOFIP

MCC

MCN

SOGESOL

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