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# HAITI-DCA LOAN GUARANTEES

IMPACT BRIEF

On the Cover: Small loans help women entrepreneurs in Haiti. Madame Fanfan was able to purchase a stall in a prime location in a Haitian market thanks to receiving a loan and has diversified her wares beyond rice to include flour, coffee, oil and other products.

Photo Credit: USAID



## BACKGROUND

Haiti has been independent from France since 1804, and political instability has always been a constraint to its economy. As one of the poorest countries in the Americas, a majority of Haitians live on no more than 2 U.S. dollars a day. Most Haitians work in the agriculture and commerce. A large portion of this population is struggling to make a living from the informal sector of the economy, which is facing an acute lack of cash in spite of its entrepreneurial spirit.

By 2004, however, the dynamism of Haiti's informal sector had encouraged some local banks to develop new financial products adapted to the needs of the small, and medium enterprises (SMEs). In order to help mitigate critical risks, the U.S. Agency for International Development's (USAID's) Bureau for Economic Growth, Education and Environment's Office of Development Credit (E3/DC) signed a \$4 million multi-bank guarantee with Capital Bank and SOGEBANK in 2007 (implemented by Micro Credit Capital and SOGESOL) to assist SMEs in raising the necessary financing for working capital and capital investment for those engaged in productive activities.

## EVALUATION OBJECTIVES

USAID's Bureau for Economic Growth, Education and Environment's Office of Development Credit (E3/DC), which administers the DCA guarantees, commissioned the evaluation of the 2007 SOGEBANK and Capital Bank DCA guarantees. The four main objectives of carrying out evaluations, are: i) Communicate to DCA stakeholders (OMB, Congress, USAID Missions, etc.) and external partners about the development contributions of DCA loan guarantees; ii) Contribute to the dialogue about how to engage financial sector institutions as partners in development efforts; iii) Learn from the intervention's development efforts,

and to try to examine impact, and iv) Strengthen USAID's future application of DCA guarantees as a tool for achieving development results.

## EVALUATION METHODOLOGY

The evaluation methodology used a mix of qualitative and quantitative methods. It combined a short survey with interviews for the borrowers, in addition to the quantitative loan data provided by both lenders. Lender and Central Bank officials were also interviewed individually, along with other financial sector experts.

## EXOGENOUS FACTORS

The combined effect of natural disasters, political inertia, and economic and social instability has hindered the growth of the financial sector. Investors' confidence relies on economic stability. Whereas SOGESOL appears to have weathered the 2010 earthquake and subsequent events relatively unscathed, given the preponderance of factors working against it, the DCA guarantee likely helped the institution to do so. On the other hand, MCC used the guarantee to mitigate damage done especially by recent natural disasters.

## KEY FINDINGS AND CONCLUSIONS:

### INPUT LEVEL

**Conclusions:** Both lenders wanted to move down market to diversify their clientele. SOGEBANK took the lead by creating SOGESOL, as a subsidiary to deal with microenterprises. Capital Bank entered the competition by creating MCC as a subsidiary. Both banks realized that they could not import general banking procedures and operations to open up markets. As a consequence, their strategy included obtaining the necessary technical training in microcredit for key personnel.

## DCA LOAN GUARANTEES TO SOGEBANK AND CAPITAL BANK

| Partner            | Starting Year | Ending Year | Guarantee Ceiling | Number of Loans | Aggregate Loan Amount | Utilization Rate % of Ceiling | Average Loan Size \$ | Average Loan Tenor (months) |
|--------------------|---------------|-------------|-------------------|-----------------|-----------------------|-------------------------------|----------------------|-----------------------------|
| SOGEBANK / SOGESOL | 2007          | 2013        | 3,000,000         | 1,724           | \$2,947,890           | 98.26%                        | \$1,710              | 7                           |
| Capital Bank / MCC | 2007          | 2013        | 1,000,000         | 130             | \$985,373             | 98.54%                        | \$7,580              | 10                          |



**Findings in support of the conclusions include:**

- According to SOGESOL management, the DCA implementation occurred at the same moment the lender wanted to move more up market to meet the needs of the SMEs (graduated micro clients and/or new clients). There was a coincidence of interest between SOGEBANK and USAID, according to SOGESOL officials. USAID/Haiti offered technical assistance that allowed the partner lender to pay technical consultants to train loan officers. SOGEBANK has been receiving technical assistance and investment from the International Finance Corporation since 2009 to help the bank implement its SME lending arm.
- MCC's interest in SMEs dates back to November 2003, according to an MCC official. The lender's interest was to diversify its portfolio by expanding down market. Although the lender went into microfinance, its lending activities were concentrated more in small enterprises instead of microenterprises as such because the latter were considered too risky.
- Whereas SOGESOL granted loans smaller than \$600, MCC loans were between \$5-10,000.

**OUTPUT LEVEL**

**Conclusions:** SOGESOL used the DCA to reach out to other markets in the productive sectors, although it mitigated the potential risk involved by limiting the number of loans given to new borrowers. As such, the DCA fits into the partner's strategy to move into new markets in order to satisfy the demand for credit of many clients. MCC did not use the DCA to extend its market but rather as a reserve to cover a set of clients

who had problems paying back their loans. Neither lender bank seemed to change its loan terms for DCA-guaranteed borrowers.

**Findings in support of those conclusions include:**

- For SOGESOL, the number of loans to the productive sector increased by 171 percent and the total loan value by 57 percent. Although the rest of SOGESOL's portfolio also grew, the growth in number of loans was far below that for the target sector.
- The borrowers under the DCA guarantee account for 23 percent of the loans to productive sectors and 53 percent of their value by SOGESOL during the guarantee period. Similarly, the percentage of new borrowers covered by the guarantee was 19 percent—almost one fifth of all the loans conceded to this sector. However, only 3 percent of the DCA guaranteed loans and 31 percent of their value went to first-time borrowers.
- According to MCC officers, the lender placed clients under the guarantee after they spend five to six months without being able to make their monthly payments and needed to have their loans restructured.

**OUTCOME LEVEL**

**Conclusions:** SOGESOL did, indeed, increase credit to the target sector outside of the guarantee in terms of number of loans, but not loan value. They used the guarantee as a catalyst to lend to more borrowers in a greater variety of productive sectors. The DCA allowed SOGESOL to gain a better knowledge of sectors by taking the risk to explore them.

**BORROWERS' USE OF THEIR GUARANTEED LOANS BY BOTH LENDERS**

| Borrowers' Use of the loan   | SOGESOL (N=20) |             | MCC (N=9) |             | TOTAL (N=29) |             |
|------------------------------|----------------|-------------|-----------|-------------|--------------|-------------|
|                              | #              | %           | #         | %           | #            | %           |
| <b>Working Capital</b>       | 8              | 40%         | 3         | 33%         | 11           | 38%         |
| <b>Purchase of inventory</b> | 15             | 75%         | 9         | 100%        | 24           | 83%         |
| <b>Investment capital</b>    | 11             | 55%         | 1         | 11%         | 12           | 41%         |
| <b>Domestic Needs</b>        | 9              | 45%         | 3         | 33%         | 12           | 41%         |
| <b>Social Obligations</b>    | 6              | 30%         | 3         | 33%         | 9            | 31%         |
| <b>TOTAL</b>                 | <b>20</b>      | <b>100%</b> | <b>9</b>  | <b>100%</b> | <b>29</b>    | <b>100%</b> |

MCC did not proceed the same way. Although there was post-earthquake an increase in the volume of money borrowed and the number of clients that it put under guarantee, the lender did not extend credit to any new sector outside the guarantee. MCC used the guarantee as a reserve for the lender. It granted guaranteed loans to borrowers whose businesses were in trouble, in an attempt to restructure the loans (an acceptable use of the guarantee following an amendment to the guarantee agreement after the earthquake in 2010).

Borrowers from both partner lending banks used their own money to enter business instead of borrowing from friends or family or from other credit sources. They became more willing to seek credit after they had received their first loan. The fact that borrowers obtained additional loans suggests they likely increased their business sales, since the lenders would not have approved the additional loans if the businesses' financial data could not support approval. The DCA guarantees definitely contributed to improving the interviewed borrowers' willingness to seek credit from the partner lenders.

*Findings in support of those conclusions include:*

- Although both SOGESOL's portfolio of loans to the productive sector and the rest of its portfolio grew during the DCA guarantee period relative to baseline, the number of loans to the productive sector grew almost twice as much as the number of loans in the rest of the portfolio.
- Looking at new borrowers, the percentage of new borrowers in the target sector during the baseline period was 31 percent, compared to 44 percent during the guarantee period—another indication of SOGESOL's increased focus on the target sector during the DCA guarantee.
- According to MCC officials, the lender granted guaranteed loans to borrowers who were on the verge of losing their businesses because of fire or robbery, in an attempt to restructure. Many of those borrowers still could not use their loans to

restart their business.

- The guaranteed loans represented only 1-2 percent of MCC's loan portfolio in 2007-2012.
- Data analysis shows that the majority of returning borrowers were able to borrow larger sums of money in current loans compared to previous loans.

## IMPACT LEVEL

**Summary:** Banking in the informal sector is challenging at many levels. Present field data pre- and post-earthquake have clearly demonstrated capital deepening, whereby the banking system has ventured into business sectors that are in a new territory. With further incentive—namely, a guarantee mechanism from a major donor such as USAID—banks are more likely to push the barrier of lending. In order to bring financial institutions and MSMEs together, in addition to more availability of credit, training is needed to help them meet each other's needs. It does not appear that the guarantees to SOGESOL and MCC influenced the behavior of other lenders.

*Findings in support of those conclusions include:*

- Other institutions aiming at extending or supporting credit to SMEs already existed before the existence of both SOGESOL and MCC, such as SOFIHDES and MCN. They have also benefited from assistance from DCA and USAID, and contribute to the dynamism of SME sector lending.
- Interviews with other institutions identified no demonstration effects from those guarantees to the rest of the lending market.
- Currently, a bill that will allow the Central Bank to exert control over the informal sector has been presented in Parliament, according to Central Bank officials. By establishing a legal framework for this sector, these officials believed they are improving its access to credit.

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