

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND
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Small Enterprise Development Facility
Line of activity for the Strengthening of Financial Institutions for Microenterprise

HAITI

LINE OF ACTIVITY MEMORANDUM

**Institutional Strengthening of ACME - «*ASSOCIATION POUR
LA COOPERATION AVEC LA MICROENTREPRISE*»
(TC-0302007-HA)**

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ABBREVIATIONS

ACME	Association pour la Coopération avec la Micro Entreprise
GDP	Gross Domestic Product
HTG	Haitian Gourdes
IDB	Inter-American Development Bank
LOA	Line of Activity for the Strengthening of Financial Institutions for Microentreprise
MCN	Micro Credit National
MIF	Multilateral Investment Fund
MFI	Micro Finance Institution
NGO	Non Governmental Organization
NPA	Non-Profit Association
UNDP	United Nations Development Programme
US\$	United States dollars

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Line of Activity for the Strengthening of Financial Institutions for Microenterprise

Line of Activity Memorandum

Project Title: Institutional Strengthening of ACME – «*Association pour la Coopération avec la Micro Entreprise*».

Project Number: TC-0302007-HA

Executing Agency: *Association pour la Coopération avec la Micro Entreprise* (ACME)

Execution period: 42 months.

Financing:

MIF – Non-reimbursable:	US\$175,000 (Facil. III-A)
ACME:	<u>US\$ 75,000</u>
Total:	US\$250,000

I. Frame of Reference

- 1.1. Haiti is the poorest country in the Western Hemisphere with a per-capita income of less than US\$500 and a vast proportion of its population living in poverty¹. The country's population of 8 million is young and rapidly urbanizing, with more than 2 million (25%) living in its capital city. An annual growth of 2% in the country's labor force has generated a high demand for jobs that the formal sector, constrained by a deteriorating business environment and a protracted political, social and economic crisis, has been unable to satisfy. As a consequence, a large number of individuals have been driven to the informal sector.
- 1.2. Presently, more than 70% of working-age Haitians are either self-employed or employed in non-registered micro and small enterprises. A large proportion of these individuals are engaged in service or commercial activities of informal character with strong linkages to the metropolitan area. It is estimated that around 300,000 micro enterprises operate in the country. Of these, a majority (80% by some estimates) is concentrated in the Port-au-Prince metropolitan area. Access to credit has been identified as a key element for the development of micro enterprises.
- 1.3. In spite of its importance for the economy, micro enterprises have a very limited access to financial services. A survey of the banking system shows that its loans are oriented principally to well-established businesses. Loan amounts above US\$33,000 comprise 77% of the 8 private banks' portfolios, which benefit a small universe of some 2,000 customers. Of the total number of micro businesses less than 80,000 are currently receiving formal credit.
- 1.4. Given the large untapped market, the micro finance industry in Haiti has been undergoing rapid growth in the last five years. Sector statistics² indicate that there are 81 micro finance institutions (MFIs) serving this market—which include 58 credit unions; 20 NGOs; and 3 commercial bank-affiliated initiatives—with an active credit

¹ The country ranks 146th among 173 countries in the human development index compiled by the UN.

² DAI/FINNET: « Project d'appui à la Microfinance»; December 2000.

portfolio of around US\$26 million. The new dynamism observed in the industry has been accompanied by a change of its key players. Up until the late 1990s, micro credit was dominated by multiservice NGOs. Although many of these remain active, most are small with very little prospect for rapid growth. Many are not financially sustainable. Since 1997, however, a new set of specialized MFIs has entered the market with a more professional view of the business, having established themselves as market leaders. The largest MFIs in terms of portfolio volume are: Micro Credit National (MCN) (US\$3.1 million), Sogebank/SogeSol (US\$2.2 million), *Fonds Haitien d'Aide a la Femme* (US\$1.4 million), *Banque de l'Union Haitienne* (US\$2.3 million), and *Association pour la Coopération avec la Micro Entreprise* - ACME (US\$1.4 million). The first two of these organizations received MIF support through the LOA: MCN (2002) to expand its credit services for rural micro finance markets in Haiti and Sogebank (1998) to set up and start its micro credit program, Sogesol. The latter has become an international model for commercial bank downscaling to microfinance and has already reached full break even point and expanded to reach more than 6.500 clients.

- 1.5. Despite this trend, conservative estimates of the demand for micro credit services point to the fact that existing MFIs barely satisfy 4% of the potential market³. This indicates that there is still ample room for growth in the industry and that the market can accommodate the expansion of those organizations wishing to offer micro finance services. By some estimates the micro credit market divides roughly along the following categories: (i) the high end of the spectrum, representing 10 to 20% of the potential borrowers, requires loans greater than US\$1,000; (ii) the middle level, representing 30 to 40%, borrows amounts of US\$200 to US\$1,000; (iii) the low end, with around 50% of the demand, needs loans of less than US\$200.
- 1.6. In this phase of market growth and MFI development, most micro credit programs in Haiti are characterized by: (i) a predominantly urban concentration, mirroring the behavior of large banks, therefore staying away from non-traditional neighborhoods that are perceived to present higher risks; and (ii) the still limited range of products and quality of services they offer to their clients. In addition, except for those MFIs affiliated to banks, a large majority of these organizations suffer from limited access to financial resources, which severely restricts their growth prospects.
- 1.7. In general, in spite of recent in-roads made by some MFIs, **the supply of micro credit has tended to be limited** in terms of coverage, variety of products, loan sizes and client selection criteria to be able to satisfy the large mass of micro entrepreneurs and their heterogeneous characteristics. In addition, presently more than 95% of the loans are for short-term working capital, which shows a gap in product development, underlining the possibility to create yet more demand by designing financial products that accommodate micro entrepreneurs' other needs. Loans for household productive activities, as well as small-investment loans, for example, have been found to be a potential source of demand among micro entrepreneurs; however no institution currently offers these products.

³ DAI/FINNET: « Presentation de l'offre de Microfinance in Haiti », preliminary version; December 2002.

- 1.8. ACME, which is one of the pioneers in the new trend of *professionalization* of micro finances in Haiti, has been meeting the financial requirements of a large number of micro entrepreneurs through its credit services, having become in a short period of time one of the leading credit providers for this sector in the country. This institution has decided to take advantage of the opportunities currently being offered by a still underserved market and expand its credit operations to a larger number of micro entrepreneurs, taking the lead in reaching out to Port-au-Prince's more difficult neighborhoods and in the introduction of new financial products aimed at improving the range and quality of the services it offers to its clients. To this end it sought MIF support through the LOA to strengthen its institutional capabilities.
- 1.9. ACME's was selected among other possible candidates after an analysis of the financial situation, degree of sustainability and expansion potential of the universe of MFIs in Haiti. This analysis was based on information obtained from DAI/FINNET, the United Nations Development Programme (UNDP) and other sources, and on conversations with donors operating in the sector in Haiti. This operation will complement previous LOA or on-going efforts in the micro finance sector by strengthening and promoting the long term viability of an MFI (ACME) that focuses on the lower-end segment of Port-au Prince's urban and peri-urban micro credit market and in supporting its expansion to micro entrepreneurs living in neighborhoods and areas with scant access to sound financial services.

II. Executing Agency

- 2.1 ACME was created in 1997 with the mission to provide a large-scale, fast and convenient solution to the capital needs of informal micro entrepreneurs. Its creation was supported by funds provided by a group of private individuals and by USAID under its PRET project. ACME was established as a non-profit association (NPA) and is formally registered at the Municipality of Port-au-Prince. It has a five-person Board of Directors, composed of influential business leaders in Haiti. Organizationally, ACME has lean structure with two Departments that report to the Executive Director: (i) Credit, responsible for all loan operations, including agency management; and (ii) Finance, in charge of accounting, treasury, and systems support. It also has Legal and General Services units, and a newly established Internal Control unit reporting to the Executive Director. ACME has a staff of 60, including 34 credit officers.
- 2.2 As of June 2002, ACME had US\$1.7 million in total assets. Of this amount US\$1.4 million (84%) correspond to its net loan portfolio. Its total liabilities were US\$0.7 million; of which US\$0.67 correspond to loans received from Promobank, a local commercial bank. Most of its funding is paid at commercial interest rates (between 18%-24%). ACME's net equity of US\$0.96 million represents 58% of total assets, demonstrating a strong capitalization ratio and a potential to further leverage the entity for future growth. ACME was able to reach its break-even point and turn its financial operations profitable in 2000, reaching nominal returns of 7.5% in 2001 and of 14.2% in 2002. As of December 2002, ACME's net loan portfolio increased 16% in local currency. However, during that period the Gourde was devalued by 39%; as a consequence, ACME's net loan portfolio, expressed in US dollars, dropped to US\$1.2 million (representing 77% of total assets). ACME's total liabilities were US\$0.7 million and its net equity was US\$0.9 million.

- 2.3 Currently, ACME's services are targeted to the urban micro entrepreneurs of Port-au-Prince. ACME aims at the lower and medium segment of the informal sector with a credit methodology based on individual loans of US\$500 on average and a mean term of 6 months. Its gross loan portfolio has shown a steady expansion, reaching 4,546 active clients in December 2002, of which 67% are women. Of its clients, around 93% belong to the trade sector, 3% are engaged in the provision of services, and 4% to the production sector. ACME's portfolio at risk (>30 days) has remained at moderate levels in the past three years: 6.5% in June 2001, 4.5% in June 2002, and 8.8% in December 2002. It has a risk-coverage ratio of 62% of its arrears of more than 30 days and a loan loss ratio of no more than 2.5%. In addition, the rate of recovery of its write-offs in the past has been in the order of 20.5%.
- 2.4 ACME conducts its administrative operations from its main branch in Port au Prince and its credit operations from 6 agencies (three newly opened): Bois Patate, Delmas, Carrefour, Pétion-ville, Centre-Ville, Carrefour 2. ACME strategy has been to expand in a very careful manner, splitting an agency in two when the number of customers ensures profitability. In this way ACME has been able to move into very difficult neighborhoods while covering its operating costs. It plans to extend its reach to include surrounding areas and will open new outlets in Léogane and Croix-des-Bouquets.
- 2.5 ACME provides micro-loans up to the equivalent of 120.000 HTG (around US\$4 000), with an interest rate of 4.5% flat per month and a maximum loan term of 6 months for commerce and of 18 months for the purchase of fixed assets in the service of production sectors. As more than 90% of its portfolio is with commercial activities, most of its loans have a six month terms. While the average size loan is US\$506, 70% of its loans are less than US\$200.
- 2.6 ACME's immediate growth is currently not limited by lack of access to funds, since through its connection to local banks it has already negotiated lines of credit that could support a portfolio of up to US\$3.3 million, more than double its present size. These lines of credit represent recognition in the market of ACME's financial position. A recent assessment, sponsored by the IDB-CGAP MFI Rating Fund, gave ACME a final rating of A+⁴. Despite the gains made to date, however, the challenges laying ahead for ACME are still important in light of the large number of micro enterprises that demand financial services in the underserved neighborhoods of Port-au-Prince. There is a need for ACME to increase its loan portfolio while improving its methods of work, and to improve the skills of its upper management structure in order to attain better economies of scale and develop its product line.
- 2.7 In this context, ACME has devised a strategic plan (for 2002-2005) that lays out the specific challenges and priorities for the institution in the near future; these are: **(i)** to double its number of clients over the next years, while maintaining as its average loan size at about its present level; **(ii)** to extend its reach to unattended neighborhoods of Port-au-Prince and its surroundings areas; **(iii)** to improve customers' loyalty and retention by improving the quality of services and by developing new products; **(iv)** to become a model of good management and efficiency by: (a) reinforcing its

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management structure and internal control systems; (b) continuously improving the quality of its portfolio; (c) managing each agency as a profit center; (d) improving its management information systems; and (e) improving its human resources; and (v) to provide an appropriate legal structure and strategic alliances that would support its long-term growth and its capacity to access more varied sources of funding.

- 2.8 Increase penetration of the Port-au-Prince market and its surroundings areas: In order to meet the challenge of portfolio growth through penetration of the Port-au-Prince market, ACME's aims to diversify its physical presence in the metropolitan areas. Until the last quarter of 2002, ACME served the entire metropolitan zone from only three branches. Recently, it opened three new branches, which it still needs to consolidate, and intends to establish two additional ones in the next two years (in Léogane and Croix-des-Bouquets) for a total of 8 agencies. This network should provide a much better coverage of the territory; reduce operating costs, and enable better canvassing of prospective customers. To operate efficiently however, the process will require a higher degree of **decentralization**, than is currently in place of policies and procedures, and **improved communication** systems (as many of the new market areas lack reliable communication means). ACME also needs to **consolidate its management information system** in order to obtain quality indicators about its portfolio and integrated data about its branch and consolidated operations in real time. Currently its accounting system is not integrated. ACME would require to carry out its transition to a new banking software which it has already purchased and which handles its portfolio data but not yet its accounting.
- 2.9 Enhancement of the range of products to support growth and client retention: ACME currently offers almost exclusively short-term working capital loans aimed at commercial activities. In order to tap the different segments of micro entrepreneurs that it needs to support its expansion strategy, ACME will require to expand its present range of services, **introducing new loan products** that respond to its clients' needs. ACME is exploring to design and launch the following new loan products: small business loans (designed for its most developed clients) and loans for household activities (which would incorporate family rather than individual cash-flow analysis to the loan evaluation process, and which would enable micro entrepreneurs to liberate savings for business activities). ACME intends to also develop other credit products demanded by its clients, which are being identified in a study currently underway.
- 2.10 Strengthening management and operational capacities: In order to improve the quality and efficiency of its operations, especially in light of its expansion plans, ACME will require strengthening its management and operational capacities. ACME needs also to improve the efficiency of its operations to improve the quality of its services and maintain the quality of its portfolio. To this end ACME intends to **develop a procedures manual** and to **train its upper and middle management**, particularly in its finance and credit departments, as well as in its new branches. Improving its **administrative and control mechanisms** and strengthening the new internal control unit is also critical due to rapid growth of operations and branch network.
- 2.11 Provide better legal structure for financial expansion: Its current status as NPA presents several limitations to ACME in terms of legal recognition and access to commercial financing especially from local banks. It also inhibits ACME from

potentially accessing private deposits. In order to improve its long-term access to appropriate sources of funding, and facilitate its expansion, ACME is considering to seek the **transformation of its present status of NPA** into that of a commercial entity, having included it in its strategic planning. The options currently being considered include its transformation into: (i) a non-regulated corporation (“Société Anonyme”) dedicated to micro finance (following the model adopted by MCN) or (ii) a full-fledged commercial bank. Haitian legislation does not presently envisage any special provision for regulated micro finance providers, short of a commercial bank). ACME could also remain as a NPA. Each of these options entails benefits and costs, opportunities and threats that will need to be carefully evaluated before ACME can decide on the most appropriate institutional structure for its activities (i.e. actual potential of access to investors and savings; tax effects on net income, reporting costs, etc.). If a decision is made to change its legal structure, ACME intends to proceed on the transformation path.

- 2.12 The purpose of the project will be to strengthen ACME in its efforts to expand and improve the quality of its micro credit services to underserved clients. The project will generate a demonstration effect for other local MFIs by using a legal structure more conducive to financial autonomy and rigorous credit and management practices, in a still emerging micro finance market.

III. Project Description

A. Objectives

- 3.1. The project’s general objective is to expand credit services to micro entrepreneurs in Haiti, particularly in underserved areas of Port-au-Prince, by strengthening the technical, operative and institutional capacity of ACME to expand and improve the quality of its services.

B. Activities

- 3.2. To achieve its objective, the project will help ACME with the following activities:
- 3.3. **Improvement in communication and information systems:** the project will support ACME’s efforts to improve its managerial and control capacities and its strategy to expand its branch network coverage by: (i) providing technical advice for completing the integration of its accounting and loan-tracking systems, into an upgraded version of the banking software presently used only partially by ACME; (ii) putting in place a comprehensive management information system integrating operations of all branches, which would include essential computer equipment for the new agencies; (iii) installing a telecommunication system linking all agencies in a network so that data is available in real time; and (iv) providing training to its staff to maximize the use of the information system and loan performance software.
- 3.4. **Improvement of credit methodology and development of new micro finance products:** In line with its mission to offer better tailored credit products to micro entrepreneurs while maintaining a low rate of default, ACME will contract specialized technical assistance services to: (i) review and improve its existing credit methodology and its customer base in order to improve quality of service and client retention; (ii)

evaluate client needs and market conditions in the newly-opened agency zones for the introduction of credit products; (iii) develop and implement new credit products better tailored to the needs of its existing and potential customers, including loans for production micro enterprises with longer maturities; loans for household activities (which will incorporate the evaluation of the customers' family cash-flow) and a third product to be identified by ACME as a result of a study under way; and (iv) train credit personnel in the mechanics and market introduction of the new products. Surveys will be developed to measure the quality of ACME's services and client satisfaction with the new products.

- 3.5. **Strengthening of management and operational capacities:** ACME will receive technical assistance in establishing operational, administrative, human resources and control mechanisms that would enable it to adequately sustain the expansion of its credit activities. Specialized consultants will help to train ACME's personnel, implementing a training program for its key managerial and operational staff (including the newly created internal control department). A financial specialist will train and provide advice to the new finance director and help put in place financial analysis tools (such as the formulation of financial projections and development of a system of indicators to help monitor the organizations' financial position in a period of high inflation and currency devaluation). Technical assistance services will be also employed to develop ACME's operational and administrative procedures manuals, and a manual with procedures for its internal control unit.
- 3.6. **Strengthening ACME's legal structure for financial intermediation:** ACME will receive technical assistance in: (i) clarifying and evaluating the options available for undertaking its legal/institutional transformation; (ii) making a formal decision on the best transformation strategy; (iii) refining its legal transformation strategy; and (iv) carrying out the process of implementing the legal, financial and institutional transformation.
- 3.7. During the first year of project execution, a study will be conducted to analyze the options available for ACME's transformation, their costs and benefits and to demonstrate the economic feasibility of such transformation. Based on this study ACME will make a formal decision on whether to undergo a transformation process and on the best legal figure to which to transform. This study (estimated in US\$16,500) will be funded principally with local counterpart funds and up to 30% with MIF/IDB funds. The use of the rest of MIF/IDB's contribution to this activity will be conditioned upon ACME's decision to transform its legal structure. The transformation strategy should be acceptable to IDB.
- 3.8. Once ACME's General Assembly, or equivalent governing body, decides to proceed with the transformation, project funds will be used to finance specialized legal and technical consulting services to support this process.

C. Estimated cost and financing

- 3.9. The total cost of the project will be US\$250.000; of that amount IDB/MIF will provide a non-reimbursable grant of US\$175.000 (70%) and ACME will contribute US\$75.000 (30%) as counterpart, of which at least 50% will be in cash.

Description	IDB	ACME	Total
Improvement in communication and information systems	45,500	30,000	75,500
Technical assistance services	8,000	3,000	11,000
Equipment and software	37,500	27,000	64,500
Improvement of credit methodology and development of new	43,500	12,000	55,500
Technical assistance services	30,000	9,000	39,000
Training services	13,500	3,000	16,500
Srenghthening management and operational capacities	39,500	9,500	49,000
Technical assistance services	29,000	6,000	35,000
Training services	9,000	3,000	12,000
Equipment and software	1,500	500	2,000
Strengthening ACME's legal structure	36,000	23,000	59,000
Technical assistance services	36,000	23,000	59,000
Evaluation and other expenses	10,500	500	11,000
Mid-term evaluation	3,000		3,000
External audit	5,000		5,000
Project launching workshop	500	500	1,000
Translation services	2,000		2,000
Total	175,000	75,000	250,000
	70%	30%	100%

D. Environmental considerations

- 3.10. Project activities are aimed at providing technical assistance, training and software for strengthening the institutional capacity of ACME and will not have a direct effect on the environment. Its impact on the environment is thus neutral.

E. Justification and risks

- 3.11. **Justification:** Supporting ACME's institutional strengthening is justified for the following reasons: (i) one of IDB's objectives is to promote the provision of micro finance services through strong private institutions in order to contribute to the sustainability of these services to micro entrepreneurs; (ii) ACME has made a clear and definite decision to become a regulated micro finance institution: this demonstrates a serious commitment to operating according to market principles, and under full supervision and regulation; (iii) ACME's strategic plan demonstrates its commitment to significantly increase loans offered to micro entrepreneurs; (iv) as a leading micro finance institution in Haiti, the transformation of ACME will not only make it easier to mobilize more funds but will also have a high profile demonstration effect; (v) the project will help ACME expand financial services to underserved sections of town; (vi) the project will help improve on an inadequate management information system and provide communications software which currently restrict operations and potential for growth; and (vii) the project will help improve the skills of upper management so that they can become more proficient in managing a fast growing institution.
- 3.12. **Risks:** ACME will have the challenge to carry out its strategy of portfolio growth and institutional transformation. There is a risk that the growth will strain both management and operational systems capabilities and that the institutional transformation may prove to be more prolonged and difficult. The project will mitigate this risk by helping ACME to: (i) improve the management information and communication system; (ii) improve

the senior management capabilities; and (iii) provide technical and legal assistance to undergo its institutional transformation.

- 3.13. Another risk is the precarious economic situation of the country. The GDP contracted 1.1% in 2001 and has been stagnant since then. There has been a great pressure on the exchange rate with an increasing rate of devaluation in the first few months of 2003. Annual inflation has reached 29% (January 2003). In addition for the last three years, there has been an embargo on economic aid as a result of the government's failure to address international concerns with its election process. In spite of this situation, for the last two years, ACME has been thriving and consolidating its position among Port-au-Prince's growing number of micro enterprises. A related risk, especially in a weak macroeconomic environment would be that ACME is not able to renew the commercial lines of credit (or have them cancelled) on which it is relying to continue its portfolio growth. ACME will continue to aggressively look for new sources of funding, which should be aided by its strategy of legal transformation supported by the project.

IV. EXECUTION AND MONITORING

- 4.1 **Responsibilities:** The Executing Agency of the operation will be ACME, with whom the IDB will sign a technical cooperation agreement for the execution of the project. ACME will hire the consultants and training services that will implement the activities provided for in this document, as well as procure the software or hardware provided for in the budget.
- 4.2 **Procurement of goods and services:** Consulting, training and audit services, as well as equipment and software, for the project's activities will be contracted in compliance with the corresponding IDB/MIF standards, procedures, and policies.
- 4.3 **Execution and disbursement:** The project execution period will be 42 months and the disbursement period, 48 months. MIF contributions to the project will be disbursed through a revolving fund of up to 10% of its contribution. MIF/IDB contributions and local counterpart cash contributions will be administered in separate special accounts.
- 4.4 **Project launching workshop:** A project-launching workshop will be conducted on at the outset of the project, to review MIF/IDB procurement, disbursement, and reporting procedures, as well as to review the project's implementation plans.
- 4.5 **Monitoring and evaluation.** Funds have been provided to contract specialized services for project monitoring and evaluation. These funds will be executed by the IDB. ACME will contract periodic assessments of its performance to a Rating Agency (see paragraph 5.5) that will contribute to monitor the achievement of project's indicators.

V. SPECIAL CONTRACTUAL CONDITIONS

- 5.1. As a condition to the first disbursement, ACME will submit to IDB's satisfaction: (i) a work plan for the activities of the first year of the project, including semiannual targets for the performance indicators mentioned in Annex I, (ii) the terms of reference for the consultant and training services to be contracted in this period. ACME; and (iii) evidence of its ability to make counterpart funds available to the project.

- 5.2. The use of MIF/IDB funds earmarked for strengthening ACME's legal structure, above and beyond the amount needed to co-finance the study to analyze ACME's transformation options and their costs and benefits, will be conditioned upon ACME's decision to undergo a transformation process, with a strategy acceptable to the IDB (see paragraphs 3.7 and 3.8.)
- 5.3. Within 60 days of the completion of each six-month period, ACME will present a report to the IDB containing, at a minimum: (i) a description of progress in project execution that includes: (a) a description of the technical assistance and training received and the outcome; (b) information on the progress made in meeting project objectives; (c) a summary of budget execution and the counterpart contributions made by ACME; and (d) statistical and financial information on ACME's and project's performance indicators; (e) a comparison of the actual results with the established indicators in Annex I; and (f) an updated work plan for the next 12 months, with the expected goals and results; including semiannual targets for the quantitative indicators set forth in Annex I. The progress reports will also include reference to: (i) the proportion of women in ACME's loan portfolio; (ii) any loan reprogramming carried out by the institution, if applicable; and (iii) any change in its credit policies that might affect the calculation of the projects performance indicators. IDB may require additional financial and operational indicators.
- 5.4. ACME will ensure that the progress of this project will be in line with the target performance indicators of Annex I. In the event that there are unfavorable deviations in the fulfillment of any of the following three quantitative indicators (below the minimum acceptable levels stipulated in Annex I), the IDB may suspend disbursement of project funds: (i) number of active clients; (ii) total portfolio at risk (>30 days); and (iii) operating efficiency. If these indicators are found to have deteriorated significantly, ACME will have 30 calendar days to agree with IDB on measures to correct its performance. Once that period has expired, or if the situation has not improved to IDB's satisfaction, IDB may suspend or cancel future project disbursements. IDB and ACME might agree to new parameters for the indicators at the end of the second year, provided that a revision of Annex I, due to changes in the economic-financial context, is justified.
- 5.5. ACME will contract out periodic assessments of its performance to a Rating Agency, at least on a bi-annual basis. These assessments will be funded by the CGAP-IDB fund on a declining basis. In addition one assessment will be funded with counterpart funds provided for in this operation's budget. A copy of these assessments will be sent to IDB's Haiti Representation. These assessments will help to monitor ACME's financial situation, completion of financial indicators and its institutional strengthening process.
- 5.6. Ninety (90) days after the last disbursement, ACME will submit to the Bank a Project Completion Report (PCR) in order to help assess and share the project's final results, identifying the best practices and lessons learned from the project. This report will be prepared with the assistance of the IDB's Country Office in Haiti (COF/CHA).
- 5.7. Within 120 days of the end of each fiscal year, ACME will provide the IDB a set of its independently audited financial statements.

- 5.8. An external audit of the project will be conducted at the end of the project. ACME will present its results to the IDB within 90 days of the last project disbursement.

A. QUANTITATIVE PERFORMANCE INDICATORS

Indicator		Reference Level	Historical data			Projections												
			June 2001	June 2002	Dec 2002(p)	June 2003 (p)	June 2004		June 2005		June 2006		December 2007					
							Minimum acceptable	Project Target	Minimum acceptable	Project Target	Minimum acceptable	Project Target	Minimum acceptable	Project Target				
Contractual indicators	Number of active clients	> 2,000	2,501	4,283	4,546	5,000	6,000	-	7,500	6,500	-	9,500	7,500	-	10,500	8,500	-	11,000
	Portfolio at risk (> 30 days)	<3%	6.5%	4.5%	8.80%	7.50%	(a)	-	7%	(a)	-	6%	(a)	-	4%	(a)	-	4%
	Operating Efficiency	<25%	29%	34%			34%	-	27%	30%	-	25%	27%	-	23%	25%	-	21%
	Micro credit portfolio (HTG millions)	> 2	19	39	46	52		-	70		-	115		-	168		-	194
	Number of clients – new products/region																	
	Productive loans							-			-	75		-	300		-	500
	Family loans							-			-	100		-	200		-	300
	New credit product							-			-	75		-	150		-	300
	Other new loan products							-	50		-	250		-	750		-	1,200
	Number of decentralized fully established branches		3	3	6	6		-	7		-	8		-	9		-	9
	Risk coverage ratio	>90%	61%	57%	60%	60%		-	70%		-	80%		-	90%		-	>90%
	Return on equity	>10%	10%	26%	10%	15%	(b)	-	10%	(b)	-	12%	(b)	-	13%	(b)	-	15%
	Debt/Equity ratio	1 - 7	0.6	0.7	0.8	1		-	<5			<5		-	<5		-	<5
Clients/credit officer, end of period		147	179	180	180		-	190		-	205		-	220		-	230	
Average loan size	<150		506		500		-	500		-	500		-	500		-	500	

(p): Preliminary information.

(a): 20% deviation from private commercial banks' average portfolio at risk (>30 days) rate.

(b): 20% deviation from private commercial banks' average

Assumptions: That adequate training will generate the gains in efficiency as expected. That ACME through its present banking arrangements and other sources, will be able to access the funds to match the growth in loan portfolio. Annual Gourde devaluation rate: 13%-15%.

B. QUALITATIVE PERFORMANCE INDICATORS

Indicator	Present situation	Situation at end of project
<p>1. The project will impact branch expansion in two ways:</p> <p>1) The existing three agencies and the three newly created ones</p> <p>2) New agencies</p>	<p>There are now six existing or newly created agencies. They are operating at roughly half of their capacity.</p> <p>Market studies have yet to be done to determine the potential.</p>	<p>The six agencies will have doubled their portfolio.</p> <p>3 additional agencies opened with productivity comparable to the existing ones.</p>
<p>2. The project will impact the size of the loan portfolio while maintaining its quality by helping to provide an appropriate MIS and, to a lesser extent, by creating new products better adapted, both in duration and usefulness, to the needs of the customers.</p>	<p>Presently, none of the agencies are connected to the head office and information is not available in real time, making it very difficult to manage in an optimal fashion the operations.</p> <p>The agencies lack the necessary computer equipment to properly manipulate vital data.</p> <p>In addition, there is only one category of loans—individual loans of US\$500 on average with an average term of 6 months – —short-term working capital loans.</p> <p>Client satisfaction with service quality is currently not being monitored systematically through surveys.</p>	<p>Management will have access to all the necessary information in real time.</p> <p>All agencies will be equipped with adequate hardware.</p> <p>Three new loan products have been developed and implemented.</p> <p>Client satisfaction with the quality of ACME's services and new products will be high, as measured through surveys conducted by ACME, in formats acceptable to the Bank.</p>
<p>3. The project will impact staff the following way:</p> <p>1) Training of senior management: credit director, finance director, and head of internal audit.</p> <p>2) Software for financial analysis</p>	<p>The three most senior posts have just been created and filled. All head of departments lack experience and sophisticated knowledge.</p> <p>The senior managers do not have the tools to optimize ACME's performance.</p>	<p>Management will be able to understand the key variables of their institution and take the necessary action to improve and optimize the performance.</p> <p>The finance manager will have at his disposal an adequate instrument to analyze ACME's performance.</p>
<p>4. ACME's expansion will require the hiring of a large number of new employees, especially credit officers. The project will impact the quality of those employees by helping in the creation of training manuals, and in the development of better methods and processes.</p>	<p>New loan officers learn by watching old officers do the work. There is no standardized approach to training.</p>	<p>Better training for existing staff, at least 20 new loan officers trained and 6 agency managers.</p>
<p>5. The project will impact future growth by helping to transform ACME's NGO status into that of a legal structure that would enable it to access financial markets to support its operations. A decision on whether to transform will be made after a thorough analysis and evaluation of the options available to ACME, to be made with project support.</p>	<p>As an NGO ACME gets most of its funds from short-term borrowing with local banks. ACME finds it difficult to access new sources of capital. Although ACME's strategic plan envisions such transformation, the options available, as well as the cost and benefits of them are not yet fully clear.</p>	<p>Based on a study, ACME will have made an educated decision, evidenced by a resolution of its General Assembly or equivalent body, on whether to transform its legal structure and established a coherent strategy in accordance to its decision.</p> <p>If the decision to transform is positive, ACME will have changed its legal structure to one conducive for financial operations.</p>

