Cooperating for Financial Inclusion: A Case Study on The Federation of Haitian Credit Unions, Le Levier

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Glossary

DID: Développement Desjardins International

CIDA: Canadian International Development Agency

USAID: United States Agency for International Development

ANACAPH: Association Nationale des Caisses Populaires d'Haïti

MFI: Microfinance Institution

CPF: Caisse Populaire Fraternité

CPSA: Caisse Populaire Sainte Anne

CNC: Conseil National des Coopératives

BRH: Banque de la République d'Haïti

DIGCP: Direction Générale des Caisses Populaires

FECAPH: Fédération des Caisses Populaires Haïtiennes

HIFIVE: Haiti Integrated Finance for Value Chains and Enterprises

WOCCU: World Council of Credit Unions

DCA: Development Credit Authority

Part One

Haiti's Great Pyramid Scheme

As the sun rose over the Haitian capital of Port-au-Prince on a spring day in 2002, Cleomie set off on her weekly trip to the Coeurs-Unis savings cooperative. But as she navigated through a sea of street vendors and overfilled *tap taps*,[1] she could not help but feel uneasy. Recently, her neighbors had spoken of trouble at the cooperatives, which offered an enticing ten percent interest on deposits. Still, Cleomie reassured herself, in Haiti spreading rumors might as well be a national sport.

When she first heard about the new cooperatives on the radio, Cleomie was fascinated by the prospect of what seemed like free money. Her life savings in hand, she immediately rushed to the nearest cooperative to get in on the action. Like thousands of her fellow citizens, Cleomie had become an investor in what Haitians had affectionately labeled *les coopératives dix pourcent*, or ten percent cooperatives.

A year later, the decision to deposit her savings with Coeurs-Unis had already paid off. So far Cleomie had received over $40 in interest – more than many Haitians earned in a month of work. But as she clutched her passbook tight against her chest, Cleomie could not help but worry that the whole scheme might be too good to be true. Arriving at the cooperative, her heart stopped as she stared at the empty breezeblock building: the cooperative had vanished overnight, and her entire life savings had disappeared along with it.

Cleomie was just one of thousands of Haitians who lost their savings in the collapse of the *cooperatives dix pourcent* in 2002. Encouraged by radio advertisements and government officials who promised easy profits, these investors sold their cars and mortgaged their homes in order to deposit with the unregulated financial institutions.[2] From 1998 to 2002, more than 250 of these institutions relied on a steady stream of new clients, and by some accounts drug money, to sustain deposit interest rates that dwarfed the two percent offered by commercial banks.[3] But like all pyramid schemes, the good times could not last forever.

Before their collapse, then President Jean-Bertrand Aristide hailed the cooperatives as "the people's capitalism."[4] And with offers of interest rates as high as 15 percent, in addition to prizes like cellphones and compact disc players, it was no wonder why so many Haitians heeded the President's call. However, in spite of warnings from economists and bankers who were mistrustful of the premise that a financial institution could offer such high interest on deposits, the cooperatives' eventual collapse led to the loss of over $200 million of investors' money.[5]

Like Cleomie, Abidas also lost everything when the cooperative in his hometown of Carrefour closed without notice: "For seven straight months, I was making about 4,400 gourdes a month," he recounted as he held up his old deposit receipts. "I kept depositing more and more, until one day I went to place money in the cooperative and

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[1] *Tap Taps* are colorfully decorated and uniquely Haitian buses used for public transportation.
[2] David Gonzalez. "A Get-Rich Scheme Collapses, Leaving Haiti even Poorer." *The New York Times.* July 26, 2002.
[3] *Ibid*
[4] *Ibid*
[5] *Ibid*

no one was there to sign my receipt. The next Monday, I returned to the cooperative and it was closed. I lost $10,500."

While Cleomie and Abidas struggled to comprehend what had happened to their savings, the country entered a state of shock. The "people's democracy" had turned out to be just another scam designed to enrich the elites at the expense of the poor and vulnerable. Scared and disillusioned, Haitians suddenly began to question the system of cooperative finance that had thrived in Haiti for over fifty years.

The End of the Cooperative Movement?

On the other side of the capital, managers convened an urgent staff meeting at the headquarters of the Quebecois NGO Développement International Desjardins (DID). For years, DID had been working in Haiti to strengthen local savings and credit unions, or *caisses populaires*. As the international development arm of the Desjardins Group, Canada's largest cooperative financial organization, DID was familiar with the benefits of a strong cooperative finance system: from Europe to North America and beyond, the rise of credit unions has provided disadvantaged communities with access to secure, appropriate and diversified financial services.

With the support of the Canadian International Development Agency (CIDA) and the United States Agency for International Development (USAID), DID had already helped to transform its partner *caisses* into viable financial institutions. USAID's initial support to DID supported *caisses* was delivered through Project PRET, which encouraged the development of a Haitian microfinance sector. DAI, the implementer of PRET, believed that the *caisses* were ideal candidates to help push microfinance to new levels, as they were already major players in the country's financial services ecosystem.

However, prior to the arrival of DID and its backers, the *caisses* had operated with little to no government oversight, leading to concerns over institutional capacity, the security of deposits, and the profitability of lending activities. "Although many *caisses* existed, they had yet to develop the business side of their operations," explains Jocelyn Saint Jean, now director of Le Levier, a national federation of 24 *caisses populaires*. "They did not realize that they could make the venture profitable."

In order to avoid a collapse that could tarnish the reputation of cooperative finance in Haiti, DID received funding to provide training and technical support to the *caisses*. It also responded to concerns over lax oversight by creating an auto regulatory association that would provide financial oversight for member institutions. In 1998, the Association Nationale des Caisses Populaires d'Haiti (ANACAPH) was born.

Unfortunately, the *coopératives dix pourcent* had no such oversight mechanism. As the public began to turn against financial cooperatives, it seemed that the very collapse that ANACAPH was designed to prevent had nonetheless come to pass. Indeed, DID knew that the future of the *caisse populaire* movement in Haiti depended on the organization's response to the crisis. As staff members debated their strategy moving forward, some reflected on the long history of credit unions, and whether it held any lessons for their future role in Haiti.

From Europe to Haiti: The History of Credit Unions

In 1852, a century and a half before the collapse of the *cooperatives dix pourcent* in Haiti, a German banker by the name of Hermann Schulze-Delitzsch established what would become the world's first modern savings and credit unions. Unlike the commercial banks of the time, Schulze-Delizsch's credit unions operated according to what he called the "bond of association", under which members of a common community pool their capital and lend it to one another on the basis of collective responsibility.[6] Schulze-Delizsch explained this bond of association as a structure in which,

> Your own selves and character must create your credit, and your collective liability will require you to choose your associates carefully, and to insist that they maintain regular, sober and industrious habits, making them worthy of credit.[7]

Building on the success of Schulze-Delizsch's model, Friedrich Wilhelm Raiffeisen decided to bring credit unions to the German countryside. Following the emancipation of the serfs during the first half of the 19th Century, Germany's rural agricultural communities were impoverished and relied on smaller, more seasonal and less predictable income flows than their urban counterparts. Recognizing the risks of lending in such a setting, Raiffeisen revised the bond of association concept to better reflect the rural context. Unlike Schulze-Delizch's commercial approach to lending, Raiffeisen sought to leverage the strong bonds of solidarity and religious values that existed in rural villages. In what is now seen as the precursor to Grameen Bank's "solidarity lending" methodology, Raiffeisen's rural credit unions, staffed by unpaid volunteers, relied on community members to guarantee one another's loans.[8]

Sixty years after Schulze-Delizsch launched the movement, credit unions in Germany boasted over two million members, the overwhelming majority of whom lived in small towns and villages.[9] This was a vindication for Raiffeisen, whose critics had argued that lending to the poor could never be profitable. However, his small credit unions were faced with limited human resources, making them vulnerable to fraud and mismanagement. In response, the credit unions formed auditing associations to help monitor the institutions' finances and instill public confidence in their stability. These auditing associations, which were funded through dues paid by member institutions, took on many of the responsibilities of a modern credit union federation, including the provision of materials and training courses for managers.[10]

Soon, the credit union concept had spread beyond Europe to Quebec, where Alphonse Desjardins started the parish-based Caisse Populaire de Lévis in 1900. Before his death in 1920, Desjardins had personally founded 150 *caisses populaires.* In 1932 they were brought together under a federation known today as the Desjardins Group. It is this *caisse populaire* model, inspired by the ideas of Raiffeisen and Schulze-Delizsch, that would emerge in Haiti with the arrival of Canadian missionaries. With

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6 J. Carroll Moody & Gilbert C. Fite. *The Credit Union Movement: Origins and Development 1850 to 1980.* Kendall/Hunt Publishing Co., Dubuque, Iowa, 1984, p. 4
7 *Ibid*
8 Timothy Guinnane. *Co-operatives as Information Machines: German Rural Credit Co-operatives, 1883-1914* Journal of Economic History, Vol. 61, No. 2 (June 2001), p. 370.
9 *Ibid*
10 Timothy W. Guinnane. *A 'friend and advisor': management, auditors, and confidence in Germany's credit cooperatives, 1889-1914.* Economic Growth Centre, Yale University, 2001, p. 34.

their support, the country's first *caisse populaire*, Pétite Épargne ("Small Savings"), opened in Vallé de Jacmel in 1946. Sixty-two years later, the movement had grown to encompass more than 100 *caisses* representing $64,790,297 in assets.[11]

A Cooperative Solution to an Enduring Problem

According to the World Bank, approximately 80 percent of Haitians lack access to credit. Half of those without access to credit, especially those living in rural areas, live on less than one dollar per day (purchasing power parity), and most live under the poverty line of two dollars per day.[12] Their cash flow is seasonal and often variable within a season. Access to formal loans is almost nil for rural agricultural communities, with commercial banks devoting less than 2 percent of their credit portfolios to agriculture. Even within the MFI sector, loans to production (including agriculture) represent only 4.5 percent of total lending.[13]

Unable to qualify for credit from the banks, and faced with high interest on loans from MFIs and moneylenders, most Haitians find themselves excluded from credit markets. Even MFIs, which feature less onerous requirements than commercial banks, charge interest as high as 55 percent, and sometimes more.[14] Supply is also an issue, particularly in rural communities where banks and MFIs do not operate. In fact, the amount of available credit in rural areas is estimated to meet just 15-20 percent of total demand.[15]

It is within this context that Haitians turned to client-owned financial institutions as a solution to their financial woes. Unlike commercial banks and MFIs that must answer to shareholders and donors, members of a credit union have a say in the management and operation of their institution. And by joining together to assume the costs and risks of lending in poor communities, many Haitians found that credit unions were more willing to take a chance on their economic success. By 2008, financial cooperatives were responsible for 69 percent of all deposits in the country and 38 percent of all loans,[16] making the sector the most important formal financial service provider in Haiti.

The Crisis After the Collapse

Just as DID had feared, the fallout from the collapse of the *coopératives dix pourcent* had a devastating effect on Haiti's *caisses populaires*. With Haitians increasingly mistrustful of financial cooperatives, clients flooded into ANACAPH member *caisses* across the country demanding the return of their deposits. At Caisse Populaire Fraternité (CPF) in Cap-Haïtien, mass withdrawals forced management to seek out loans to maintain liquidity. And despite employee efforts to differentiate between legitimate credit unions and the now defunct cooperatives, years of growth in deposits and membership suddenly ground to a halt. No one wanted to be fooled again, and even existing members were wary of adding to their savings in the *caisses*.

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[11] WOCCU (2010), 2009 Statistical Report, Washington DC, World Concil of Credit Unions, 4 pages.

[12] Grant documents

[13] USAID/Haiti (2012). *Evaluation of the USAID/HAITI Integrated Financing for Value Chains and Enterprises (HIFIVE) Program*.

[14] *Ibid*

[15] *Ibid*

[16] USAID (2008), Recensement sur l'industrie de la microfinance haitienne 2006/2007, Port- au-Prince, Haiti-MSME.

According to director of Caisse Populaire Sainte Anne (CPSA), an ANACAPH member and one of the country's oldest credit unions, staff knew early on that the *coopératives dix pourcent* were dangerous. When members came to withdraw their savings in order to invest in the unregulated cooperatives, *caisse* employees cautioned them against risking their money: "We warned our clients," Director Marjorie Louissant remembers. "But they thought we were just trying to hold onto their deposits." Some members even sold their homes or took out loans from the *caisse*, only to reinvest the money with the *coopératives dix pourcent*.

Worse still, some *caisses* had actually entrusted members' deposits to the *coopératives dix pourcent*. Like other investors, they were attracted by promises of high returns at a time when banks offered only two percent interest on deposits. Despite warnings from DID not to deposit with the *coopératives dix pourcent,* these *caisses* not only lost clients, but their client's money as well.

With deposits in decline and borrowers defaulting en masse, ANACAPH member *caisses* were in danger of collapsing. But it was a crisis of confidence that posed the greatest threat: "The events of 2002 truly hurt the sector, because the people lost confidence," says Louissant. "Even to this day, potential clients come into our branches to ask if we were one of the *coopératives dix pourcent*."

The Government Responds

After the collapse of the *dix pourcenteurs,* the Haitian government suddenly found itself faced with a serious political and economic crisis. Angry investors demanded a bailout, even as the cash-strapped government struggled to find financing for basic needs like schools and hospitals. However, without a legal structure in place to regulate financial cooperatives, officials lacked the authority necessary to prevent a repeat of what the media had by now taken to calling the "*dix douze*" scandal (*dix douze* means "ten twelve," in reference to the cooperatives that offered ten and twelve percent interest).

Until 2002, responsibility for the oversight of cooperatives was assigned to the Conseil National des Coopératives (CNC), which in theory was supposed to give government approval to new cooperatives. Yet, the CNC lacked the authority to audit or even shut down cooperatives, thereby leaving it with no real regulatory powers. Moreover, many cooperatives that could not meet the body's accreditation requirements simply operated outside of the law, choosing to skip the application process altogether. As a result, financial cooperatives in Haiti were largely left to their own devices, opening the door to mismanagement, fraud and corruption.

Eager to demonstrate that it was addressing the crisis, and recognizing the potential for future problems, the government finally took action in the summer of 2002. The result was the Law of June 26, 2002, which aimed to stabilize the cooperative sector by placing it under central bank oversight. Under the new law, cooperatives were still expected to register with the CNC, after which they became subject to regulation by Haiti's central bank, the Banque de la République d'Haïti (BRH). In its capacity as regulator, the newly created Direction Générale de l'Inspection des Caisses Populaires (DIGCP) at the BRH was now able to audit cooperatives and close them down if it found violations. Additionally, the law allowed for cooperatives to organize themselves into a federation, which the government hoped would increase their collective capacity, while also helping to simplify BRH oversight of hundreds of individual institutions.

In light of the new law on cooperatives, DID began to plan its next steps. Since the collapse of the *coopératives dix pourcent,* DID had devoted most of its energies to containing the damage caused to its partner *caisses*. However, the new law presented an opportunity for the country's *caisses populaires* to repair their image, and perhaps even rebuild stronger than before. At their office in Port-au-Prince, DID staff considered their strategy moving forward.

Teaching Questions:

1. If you were a lawmaker, how would you respond to the collapse of the *coopératives dix pourcent*? Is it feasible to require the BRH to regulate so many small, semi-formal financial institutions?
2. In light of the new law on cooperatives, how should DID project managers respond in order to restore confidence in the *caisses populaires*?

Part Two

A Federation is Born

As time passed and the *caisses populaires* recovered from the 2002 crisis, DID quietly began work on a plan to fundamentally transform cooperative finance in Haiti. Although ANACAPH had been successful in joining its *caisses* together under a common purpose, DID remained troubled by the sector's continued fragmentation: "The *caisses* were isolated," explains Guy Vaillancourt, the director of DID's projects in Haiti. "The principle of a credit union is to lend locally with savings deposited by community members. But most of these *caisses* were small, which limited their ability to grow their portfolios."

Following the *dix douze* scandal, DID also understood that one bad institution could tarnish the reputation of the entire sector. However, without deposit insurance or government guarantees, there were no safeguards in place to protect depositors from a potential meltdown. Therefore, DID knew that it was essential for the *caisses* to develop a mechanism that protected clients' savings.

In the face of political uncertainty, growing competition from MFIs and increasing client demand for credit, DID looked to its own history for inspiration. Decades earlier, Quebec's *caisses populaires* had overcome similar challenges by organizing themselves into a federation called the Desjardins Group. With federations of credit unions now permitted under the new law, DID saw an opportunity to replicate the conditions that had allowed its parent organization to thrive.

By 2003, DID was already in discussions with its partners at CIDA, USAID, ANACAPH and the BRH about the possibility of creating a federation of *caisses populaires* in Haiti. Two years later, after CIDA agreed to extend its support through 2015, DID formally submitted an application to the CNC and DIGCP proposing the formation of the Fédération des Caisses Populaires Haïtiennes (FECAPH). But as is often the case in Haitian politics, infighting between the leaders of the CNC and the newly created DIGCP prevented DID from moving forward with its plans.

The CNC, reluctant to share its oversight authority with the DIGCP, had attempted to undermine its BRH counterpart by blocking government approval for *caisses* that had already been cleared by regulators at the central bank. Under the 2002 law, federations are required to include at least ten registered *caisses*. However, in 2006 the government had yet to register a single *caisse populaire*, leaving DID grasping for a solution to the impasse.

A year and a half later, under pressure from DID and international donors, the CNC finally agreed to approve the applications for DID's partner *caisses.* After establishing the criteria for admittance into the federation (including profitability, quality of services and effective management), DID invited fourteen *caisses* that met the standards to join FECAPH as its founding members. In 2007, these fourteen *caisses* officially accepted the membership offer and agreed to abide by the rules and regulations of the new federation. On June 30, 2007, the Fédération des Caisses Populaires Haïtiennes held its first assembly meeting and agreed on a name: Le Levier.

At the end of 2009, the federation's second full year in operation, Le Levier had grown to 16 federated *caisses* with nearly 1.5 billion gourdes ($34.6 millon) in assets. These *caisses* were present in 9 out of 10 Haitian provinces, and 10 of the 16 were interconnected through the Internet and standardized management information systems (MIS). Le Levier's InterCaisse service, which was made possible by a grant from the USAID project Haiti MSME, allowed *caisse* members to deposit and withdraw their funds from any federated institution, thereby turning each *caisse* into a point of service for the federation. Additionally, DID helped Le Levier create a liquidity fund and a website. They also laid the groundwork for an international money transfer service between federation members and Desjardins *caisses* in Canada.

Needless to say, things were looking better than ever for DID and its partner *caisses.* And with an additional 34 *caisses* working to meet the requirements for full membership, it seemed possible that the federation could someday have a presence in every corner of the country. As profits, loan portfolios and membership continued to rise, the future seemed bright for Le Levier.

Exhibit 1: Le Levier Statistics for 16 Federated Caisses 2008/2009 (In Haitian Gourdes)

	2008	2009	Variation
Assets	1,273,809,478	1,488,953,020	16.90%
Cash and Securities	468,434,105	584,803,117	24.80%
Loan Portfolio	664,049,358	760,658,898	14.50%
Deposits	883,445,584	1,034,744,511	17.10%
Debt	62,350,104	62,553,634	0.30%
Equity	289,278,163	366,990,522	26.90%
Net Income	33,858,291	62,236,874	83.80%

Source: Le Levier Annual Report 2009

A Disaster Shakes the Foundations of the Federation

On the afternoon of January 12, 2010, Marjorie Louissant stepped out of the office for some fresh air after a long day of work at Caisse Populaire Sainte Anne. Outside, the sounds of Haitian life permeated the popular Port-au-Prince neighborhood: car horns blaring, vendors shouting and the booming bass line of *kompa*[17] music emanating from a nearby shop. It was just another Tuesday afternoon in the country's busy capital.

But as she stood in front of her *caisse*, the familiar sounds of the street were suddenly drowned out by a deafening roar. Stunned, Louissant could feel the ground beneath her feet shaking violently as a nearby house was transformed into a pile of rubble. "At first, I didn't know that it was an earthquake," she remembers. "But then I ran into the *caisse* and saw that all of the furniture and filing cabinets had been turned over."

Back inside CPSA, staff and clients rushed around in a frenzied panic. Although the office itself had withstood the violent tremors, the school next-door had toppled over and destroyed the building's rear wall, leaving the *caisse* exposed. Hoping that the quake's damage had been limited to the immediate area, Louissant grabbed the institution's database and instructed her staff to lock the doors and move outside.

Stepping outside, the air was thick with dust as dazed survivors began to absorb the extent of the disaster. The sun was setting, and Louissant and her staff made their way through darkened streets filled with the mangled bodies of quake victims. Tens, if not hundreds of thousands had been killed, and many more injured. The once lively capital now resembled a war zone.

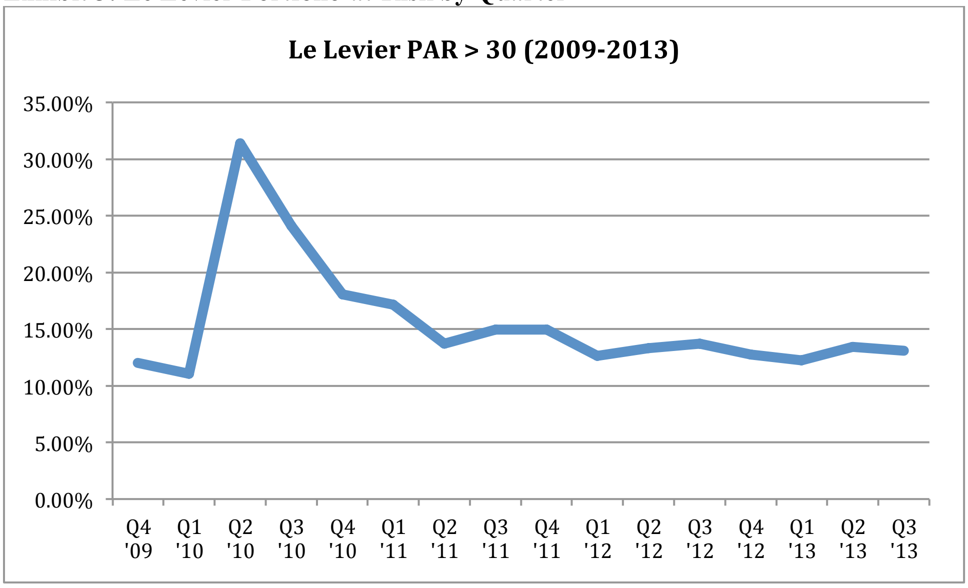
The next day, Louissant returned to CPSA, only to find a fresh scene of destruction. With no security or staff to protect the building, looters had made off with everything but the office's heavy desks. Even the safes had been pried open and emptied of their contents. Looking over the remains of the 60-year-old credit union, Louissant wondered if they would ever open their doors to the public again.

In total, seventeen *caisse populaires* in the Le Levier network were directly affected by the earthquake, including two that were completely destroyed. These institutions lost cash, equipment and employees, some of whom had been killed or injured. Even outside of the quake zone, *caisses* were faced with a spike in non-performing loans as economic activity came to a standstill. As Dominique Dumas, the director of Caisse Populaire Fraternité in the northern city of Cap-Haïtien explained, "Many of our members lost money in Port-au-Prince. They lost their supplies and merchandise, and this left them unable to repay their loans." (For full financial statements see Exhibit 8)

[17] *Kompa* is a modern form of Méringue, a Haitian music genre that originated in the 19th Century.

Exhibit 2: A Le Levier Caisse After the Earthquake

Exhibit 3: Le Levier Portfolio-at-Risk by Quarter



Source: HIFIVE Internal Statistics

Exhibit 4: Le Levier Statistics for 20 Federated Caisses 2009/2010 (In Haitian Gourdes)

	2009	2010	Variation
Assets	1,579,387,529	1,842,589,183	16.70%
Cash	619,938,345	789,979,226	27.40%
Loan Portfolio	806,574,067	866,528,930	7.40%
Deposits	1,098,645,945	1,326,585,708	20.70%
Debt	62,553,634	48,259,855	-22.90%
Equity	391,640,755	425,188,392	8.60%
Net Interest Revenue	219,375,689	242,909,824	10.70%
Other Revenues	49,984,204	51,744,682	3.50%
Loan Losses	36,681,628	89,085,899	142.90%
Operating Expenses	168,220,799	177,137,999	5.30%
Net Operating Revenues	67,187,681	21,522,451	-68%

Source: Le Levier Annual Report 2010

Teaching Questions:

1. As an international donor, how would you prioritize your aid after the earthquake? Would you help to support financial institutions like the Le Levier network? Or would you direct aid to other, more pressing concerns?

The Long Road to Recovery

At the headquarters of USAID's Haiti Integrated Finance for Value Chains and Enterprises (HIFIVE), Chief of Party Greta Greathouse arrived to find her office in ruins. With their houses destroyed and nowhere else to go, Greathouse and her staff spent the night in the parking lot. As the aftershocks continued through the night, the HIFIVE team huddled together and contemplated the long recovery ahead.

Launched in 2009 after the end of the Haiti MSME program, HIFIVE had been eager to work with DID and Le Levier to increase the institutional capacity and product offerings of Haiti's *caisses populaires*. However, in the wake of the devastating earthquake, Greathouse moved quickly to organize an emergency response that would prevent Le Levier from collapsing along with its members. Her first move was to send vehicles to Haiti's border with the Dominican Republic, where the World Council of Credit Unions (WOCCU), one of the HIFIVE implementing partners, had arranged for the delivery food and tents from Dominican credit unions. HIFIVE sent these supplies to Le Levier's headquarters, where the staff was working day and night to restore the IT systems upon which member *caisses* depended.

In the days following the earthquake, HIFIVE intensified its efforts to help the federation's *caisses* recover from the disaster. While the international community concentrated on providing healthcare, shelters, food and water to the hundreds of thousands of Haitians who had been displaced, HIFIVE and its partners recognized the important role that the *caisses populaires* could play in helping communities to rebuild their lives. Thousands of members had lost their homes and livelihoods, and their survival depended on their *caisses* providing them with access to savings and credit.

In order to help the *caisses* resume normal operations, HIFIVE provided Le Levier employees with temporary shelters and psychological counseling. Additionally, HIFIVE, WOCCU and DID pledged a total of $1 million for a stabilization fund that would allow Le Levier member *caisses* to meet their deposit liabilities and resume lending operations, even as loan losses and deposit withdrawals threatened to provoke a liquidity crisis. The liquidity cushion created by the stabilization fund not only prevented the collapse of certain *caisses*, but was also crucial to their ability to refinance and extend emergency loans to their clients for the purchase of food and shelter. Guy Vaillancourt of DID argues that none of this would have been possible without the federation:

> If each *caisse* had been forced to ask the international community for aid as an individual institution, it would have been hard for them to all receive assistance. Also, thanks to the federation, we were better able to coordinate the aid and the overall recovery effort.

At the same time, the Le Levier network lived up to its motto as "the network that brings together its members." In some cases, the *caisses* that had been lucky enough to survive the earthquake allowed their damaged or destroyed counterparts to temporarily use their space so that they could resume operations. Furthermore, in a demonstration of their commitment to the cooperative mission, employees of the member *caisses* volunteered their time to distribute aid to their respective communities.

On February 1, 2010, less than a month after the earthquake, Marjorie Louissant proudly announced the reopening of CPSA's office in Port-au-Prince. Soon after, clients began flooding into the *caisse* seeking not only loans, but also hoping to deposit their savings. Louissant recounts that many members who had been hesitant to save before the earthquake suddenly started depositing. They understood the value of securing savings at a financial institution after losing their cash when their homes collapsed. Others, who had previously kept savings at commercial banks, came to place their savings at CPSA. They were tired of facing daylong waits and violence at bank branches.

Asline, a CPSA member who joined in 2010, recalls how she did not even have a savings account before the earthquake:

> I just reinvested all of my earnings into my business selling clothes. But then during the earthquake I lost my business and had nothing left. I realized that if I had a savings account, I would have at least had something to help rebuild my life.

Another CPSA member named Cleomie, who had been with the *caisse* since 2002, admits that she had kept her savings in a bank account before the earthquake. However, when her husband was nearly killed by thieves while trying to withdraw money during the post-quake chaos, Cleomie decided to keep her savings at CPSA, which she considers more secure, particularly because the small, unassuming credit union has not attracted the attention of criminals.

And then there is Felicia, who also lost everything in the earthquake, but who has been able to use credit from CPSA to reestablish her business raising chickens. Now on her second loan cycle, she admits that starting over from scratch has not been easy. Still, Felicia contends that, "It could have been so much worse without the *caisse*."

Teaching Questions:

1. What role do financial institutions play in helping communities to recover from disasters?
2. How did the federation structure help the individual *caisses* to quickly resume normal operations? Do you agree with Guy Vaillancourt that this would not have been possible without Le Levier?
3. How did the cooperative structure affect the way that the *caisses populaires* responded to the crisis?

Part Three

Le Levier Recovers

After suffering a steep decline in profitability in 2010, the federation's *caisses populaires* underwent a dramatic recovery in the years following the earthquake. Between September 2011 and September 2012, Le Levier achieved a 25 percent increase in deposits and an 11 percent increase in its loan portfolio, which allowed the federation to transition from a loss of 1.5 million gourdes in 2010 to profits of over 1 million gourdes in both 2011 and 2012 (see Exhibit 8 for detailed financial statements).

Exhibit 5: Le Levier Consolidated Finances for 24 Federated Caisses 2011/2012 (In Haitian Gourdes)

	2011	2012	Variation
Assets	2,396,311,129	3,050,286,065	27.30%
Cash	881,849,712	976,570,099	10.70%
Loan Portfolio	1,269,633,455	1,712,013,263	34.8%
Deposits	1,665,967,120	2,085,266,179	25.20%
Debt	76,278,641	121,415,828	59.20%
Equity	555,911,797	720,481,839	29.60%
Net Interest Revenue	307,791,527	418,939,104	36.10%
Other Revenues	66,962,367	97,747,579	46.00%
Loan Losses	51,085,946	90,580,305	77.30%
Operating Expenses	220,333,407	302,581,363	37.30%
Net Operating Revenues	103,777,289	122,415,340	18.00%

Source: Le Levier Annual Report 2012

While the support of Le Levier's international partners was vital to the federation's recovery, strong growth numbers also attest to Haitians' continued trust in their *caisses*. In the words of Director Jocelyn Saint Jean, the earthquake "proved the ability of the *caisses* to remain resilient." It also demonstrated the importance of the Le Levier network, which Saint Jean credits with ensuring stability even as member institutions faced the threat of insolvency.

With recovery well under way, Le Levier and its partners turned toward the future. In order to develop an agricultural lending program, USAID provided Le Levier with $7.5 million in partial guarantees for loans to agriculture and rural enterprises under its Development Credit Authority (DCA) program. At the same time, HIFIVE and DID worked with the *caisses* to develop agricultural credit products, train loan officers and improve risk management. "We felt that it was important to keep an eye on the future," Greathouse remembers. "So we pushed them to implement agricultural lending and to develop new markets and new products."

In addition to agricultural credit, Le Levier also introduced new credit products for education and housing, expanded its offerings of remittance services and increased the interconnectivity of member *caisses*. Additionally, the federation embarked on an ambitious media campaign aimed at raising the profile of its *caisses populaires* and positioning them as an alternative to commercial banks. Having survived the most serious crisis since its founding in 2007, Le Levier prepared to take a greater role in the economic recovery of post-quake Haiti.

The Federation Looks to the Future

Upon entering the bright offices of Caisse Populaire Fraternité in Cap-Haïtien, it is nearly impossible to distinguish the credit union from a conventional bank. Clients line up neatly behind teller windows, while smartly dressed staff meet with potential borrowers and rush hurriedly between offices featuring new computers and Internet connections. Sitting at his desk, CPF director Dominique Dumas smiled widely as he recounted his institution's transformation from a 25-member cooperative in 1983 to a 23,000-member engine of economic development in 2013. A large, gregarious man with a deep voice and booming laugh, Dumas explained why his members preferred CPF to competing banks and MFIs operating in the region: "When they come here, they feel at home."

Le Levier members throughout Haiti echoed a similar sentiment. "In the banks there is too much bureaucracy and they ask for too much," one member insisted. "At the *caisse* it is much easier. They actually listen to you." The director of a federated *caisse* in Port-au-Prince ascribed members' affinity for the *caisses populaires* to their cooperative methodology, pointing out that, "The *caisses* are different from other financial institutions. Our clients are members, managers and owners, and can influence the policies and operations of the *caisse*. In the end, we are accountable to our members."

In 2013, this combination of stability and social cohesion has transformed Le Levier and its *caisses* into a nationally respected chain of financial institutions. With 26 federated members and 20 additional *caisses* seeking full membership, the federation now serves over 450,000 members through 71 points of service located in cities, towns and villages throughout the country. And with more services and improved product offerings, Jocelyn Saint Jean claims that, "We are breaking down the barriers to *caisse* membership."

However, looking to the future, Le Levier's continued success is far from assured. Donor support, which has been instrumental to the federation's development, is currently scheduled to end in 2014, leaving the responsibility for funding Le Levier to its member *caisses*. Moreover, member institutions have expressed reservations about the growing financial burden and increasing centralization of authority at the federation level.

Back at Le Levier's headquarters in Port-au-Prince, Jocelyn Saint Jean sat at his desk and considered the challenges facing his organization. The director knew that unless another donor stepped up to fill the void left by CIDA and USAID, the ability of Le Levier to survive absent external support would soon be tested. Leaning back in his chair, Jocelyn Saint Jean reflected on how far Le Levier had come in just six short years, and whether it was prepared for what would almost certainly be the greatest challenge yet for the young federation.

Le Levier Today, and Prospects for the Future

Decades before Mohammad Yunus revolutionized lending to the poor, the *caisses populaires* pioneered the concept of microfinance in Haiti. Half a century later, the sector has grown into a multimillion-dollar industry encompassing diverse players from commercial banks to international NGOs. However, even as the microfinance market has matured, Le Levier believes that it is still well positioned to retain its position as a leader in providing financial services to the poor.

Le Levier has significant advantages over Haitian MFIs in terms of its product offerings and institutional strength. Interest rates at federated *caisses populaires* are highly competitive when compared to those offered by the MFIs, which range from 30 to 55 percent (see Exhibit 5). Moreover, with the exception of Fonkoze, MCN and Sogesol, MFIs are currently prohibited from accepting deposits, which not only deprives their clients of savings products, but also prevents the institutions from using deposits as collateral for loans. Yet another advantage lies in Le Levier's ability to provide money transfer services both domestically and to Desjardins *caisses* in Canada, as the law prevents MFIs from handling such transfers. Finally, because the federation now has access to the central bank clearinghouse, member *caisses* can offer check-cashing services, which are also unavailable at the MFIs.

Exhibit 6: Overview of Le Levier Product Offerings

Credit Products

Interest Rate: 30% (declining)
Duration: 1 to 36 months
Amount: 750,000 gourdes maximum
Application Fee: 3%
Cash Collateral: 10-33% of loan amount
Credit Products Offered:

- Education
- Consumption
- Housing
- Production
- Small Business
- Agriculture

Savings Products

Current Account:

- No Interest
- Fees for withdrawals
- No limits

Specialized Savings:

- Minimum deposit of 5,000 gourdes
- 1% interest
- No fees
- No limits

Time Deposits:

- Minimum deposit of 10,000 gourdes
- 1 to 3% interest (depending on deposit amount)
- Minimum term of 3 months
- No fees

Money Transfers

To/From Canada (VFI):

- $7CAN for up to $2,500CAN in transfers
- Between Le Levier caisses and Desjardins caisses

Domestic (InterCaisse):

- 10,000 gourdes maximum
- No fees
- Must be sent and picked up at a Le Levier caisse

Le Levier has also benefited from government regulation under the 2002 law on cooperatives, leading Guy Vaillancourt to boast that, "The members of Le Levier have the most secure deposits of any financial institution in Haiti." In contrast, Haiti's MFIs remain in a state of legal purgatory, as the government struggles to pass a new law that would bring the microfinance industry under central bank oversight. Although it remains illegal for MFIs to accept deposits, some institutions, like Fonkoze, provide clients with savings accounts. According to Evans Jerome at the BRH, "These accounts are completely unregulated. We are just begging for a crisis."

However, significant concerns remain as the federation faces the prospect of losing donor support. High liquidity requirements (25 percent of deposits) have limited the lending operations of Le Levier *caisses populaires*, thereby preventing them from meeting an increasing demand for credit. Approximately 10 percent of *caisse* members are active borrowers, and those seeking loans must sometimes wait to receive credit because of liquidity constraints. With some *caisses* maintaining liquid assets well in excess of BRH requirements (in 2012 the combined liquid assets of the *caisses* amounted to 47 percent of deposits), the federation has struggled to fulfill its responsibility to manage liquidity and provide funds to *caisses* in need. While centralized liquidity management did allow Le Levier's 2012 credit portfolio to surpass the previous year by an impressive 34.8 percent, the *caisses* still fell nearly 100 million gourdes short of their obligation to deposit liquid funds with the federation.

Members' savings habits are also part of the problem, explains Jocelyn Saint Jean: "Most members simply want credit and have no interest in savings. We need to teach people that savings lead to credit." In addition, members who do save regularly often choose to deposit with commercial banks rather than their *caisse populaire*. Although post-quake insecurity and a desire for credit has led some of these members to move their savings from the banks, many still prefer the social status afforded to bank account holders. Le Levier employees attribute this to Haitians' pursuit of foreign visas, most of which require proof of savings at a financial institution. Saint Jean insists that is changing as Le Levier gains international recognition, but absent subsidized credit from international donors, liquidity requirements will continue to constrain portfolio growth.

Increasing opposition to centralized authority among member *caisses* also presents a challenge as Le Levier contemplates a future without subsidies. In some cases, *caisses* that were seeking to join in the federation have withdrawn their candidacy. Members had complained about the costs of membership. In other cases, Le Levier has been forced to expel aspiring members who refused to submit themselves to the federation's rigorous standards. The payment of membership dues, which help to pay for Le Levier's operations and maintain a security fund, is also a point of contention. It is likely to become more so if the *caisses* are forced to make up for the withdrawal of donor support.

Explaining his unease with the federation's increasing authority, an employee at one federated *caisse* complained that the federation structure threatened the autonomy of individual institutions:

> The tendency is that once we are part of the federation, administrators become more concerned with the interests of Le Levier than those of their own *caisses.* It creates a conflict of interest."

Continuing, the employee argued that paying dues to Le Levier could actually undermine his institution's social mission:

> If we have to pay more and more to the federation, we will have to compensate by increasing the price of our services. It is impacting our ability to fulfill our social mission, which is to improve members' quality of life.

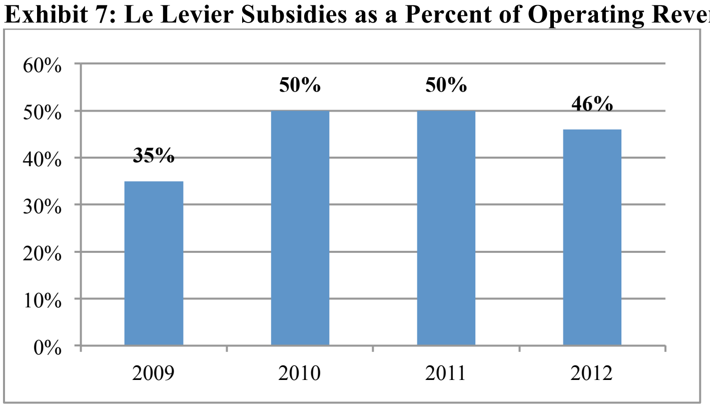
DID disagrees with this view, pointing out that the federation has increased the profitability of the *caisses*, in turn allowing them to better fulfill their social mission: "Once the *caisse* is profitable, it can do more to advance its social mission," says Vaillancourt.

> Take the example of credit for education. It is an extremely risky product and not very profitable, but Le Levier *caisses* are able to provide this credit because of their strength as members of the federation.

Although he rejects the contention that the costs of federation membership outweigh the benefits, Vaillancourt admits that, "By their very nature, humans do not readily submit themselves to external control." Thus far, the most tangible benefit of federation membership has been technical support in the form of training and the provision of technology. For example, federated *caisses* have received management information systems worth up to $300,000, in addition to Internet connections and training for managers and credit officers. However, absent donor support, it will be difficult for Le Levier to continue to offer these services to its *caisses*. Therefore, it remains to be seen whether the federation's promise of long-term stability and profitability can outweigh short-term disagreements over membership dues and centralized authority.

The loss of donor funds also raises concerns over Le Levier's continued viability. Following the 2010 earthquake, subsidies increased to approximately 50 percent of the federation's total operating revenues, before experiencing a modest decline in 2012 (See Exhibit 7). Even as Le Levier prepares for the withdrawal of these funds, it is also facing growing operating expenses, which in 2012 increased by 37.3 percent. Personnel costs represent by far the largest expense for Le Levier, accounting for 41 percent of total expenses. This increase is being driven by the need to replace highly trained employees, many of whom are leaving Le Levier for jobs in the private sector. In light of these costs, as well as the need to fund training for new employees, the end of donor support will no doubt have an important impact on the financial health of Le Levier.

Exhibit 7: Le Levier Subsidies as a Percent of Operating Revenues



Source: Le Levier Financial Statements

When asked about his organization's reliance on subsidies, Jocelyn Saint Jean insisted that these funds are not used to support Le Levier's core operations. However, he also conceded that Le Levier would likely need financial support until at least 2015, when membership growth and increasing dues will make up for the lost subsidies. At DID, Guy Vaillancourt also acknowledges that Le Levier needs more time before it can stand on its own: "The earthquake had a negative impact on the normal process of setting up a federation," he explained. Still, both men were confident that Le Levier would survive, with or without external support.

The Million Dollar Question

Thousands of miles from Haiti, a manager at a major donor organization was sorting through a pile of grant applications when an intriguing proposal caught her eye. The proposal, submitted by a Canadian organization working in Haiti, asked for funding to sustain its support for a network of Haitian credit unions. As she read the description, the manager asked herself whether the grant would appeal to her superiors. The project had a long record of success in Haiti and boasted impressive results. Yet, the manager also feared that if the credit unions still needed funding after years of effort and millions of donor dollars, the project might never reach sustainability. Placing the grant application on her desk, she paused to think before making a final decision.

Teaching Questions:

1. Do you believe Jocelyn when he says that Le Levier will survive without donor funding?
2. If you were a donor, would you approve a new grant to fund Le Levier?
3. Is formalization and the federation structure at odds with the social mission of the *caisses populaires*? If not, at what point does a *caisse* become just another bank? If so, what can be done to balance stability and social impact?

Exhibit 8: Le Levier Financial Statements (Source: Le Levier Annual Reports 2011-2012)

Le Levier Balance Sheet 2010-2012 (In Haitian Gourdes)			
	2010	**2011**	**2012**
Assets			
Cash	7,067,194	19,446,353	35,139,120
Short-term Securities (1)	213,000,000	281,000,000	297,000,000
Dues Receivable (2)	3,538,696	4,242,973	4,054,114
Total Current Assets	**223,605,890**	**304,689,326**	**336,193,234**
Fixed Assets (3)	2,259,019	1,770,656	2,941,829
Other Assets (4)	4,249,047	7,512,291	55,628,773
Total Assets	**230,113,956**	**313,972,273**	**394,763,836**
Liabilities			
Member Deposits	202,029,594	232,355,285	283,868,936
Creditor Projects (5)	15,194,052	67,902,125	41,878,792
Other Liabilities (6)	9,690,901	8,837,486	25,836,423
Total Liabilities	**226,914,547**	**309,094,896**	**351,584,150**
Equity			
Social Capital (7)	900,000	1,100,000	1,200,000
Legal Reserves (8)	236,700	236,700	482,321
Other Reserves (9)	1,350,000	1,650,000	1,800,000
Contingency Funds (10)	2,125,828	731,266	2,941,857
Stabilization Funds (11)	-	-	35,750,815
Retained Earnings	(1,413,119)	1,159,411	1,004,693
Total Equity	**3,199,409**	**4,877,377**	**43,179,686**
Equity + Liabilities	**230,113,956**	**313,972,273**	**394,763,836**

Notes:

(1) BRH bonds
(2) Unpaid dues owed by member caisses
(7) Member Shares. One share = HTG50,000
(8) Reserves deposited with the BRH
(9) HTG 75,000/member paid by caisses to join the Federation
(10) Funds set aside for loan loss provisions of individual caisses
(11) Funds used to ensure adequate liquidity at member caisses

Note 3: Fixed Assets			
	2010	**2011**	**2012**
Furniture and Office Equipment Unsubsidized	9,291	60,073	47,601
Furniture and Office Equipment Subsidized	-	204,709	154,021
Computer Hardware Unsubsidized	10,754	121,138	400,775
Computer Hardware Subsidized	-	34,948	72,016
Electronics	258,307	157,638	30,864
Software Unsubsidized	10,577	-	54,876
Vehicles Unsubsidized	1,749,381	1,192,150	1,117,169
Vehicles Subsidized	-	-	703,735
Property Improvements	-	-	360,771
Total	**2,038,310**	**1,770,656**	**2,941,829**

Note 4: Other Assets			
	2010	**2011**	**2012**
ACOOPECH	119,809	3,724	-
Education Credit	319,285	54,900	36,974
Gates	19,625	-	-
DAI-FIP	-	-	30,300
Loans to Federated Caisses	500,000	4,445,710	52,446,026
Bills Receivable	2,599,486	2,095,910	2,051,132
Ria Envia	-	78,545	53,525
Prepaid Expenses	253,805	512,824	844,063
Other Loans	437,036	59,953	63,444
Office Supplies	253,805	260,724	103,306
Total	**4,249,047**	**7,512,290**	**55,628,772**

Note 5: Creditor Projects*			
	2010	**2011**	**2012**
Education Credit	14,500,315	13,444,223	13,850,552
DAI-FIP	467,679	316,486	1,105,425
Interamerican Development Bank	-	4,015	531,170
Quebec Ministry of International Relations	-	15,054,429	22,973,148
WOCCU/HIFIVE	-	2,043,710	846,440
ACOOPECH	26,790	26,790	26,790
Gates	21,332	-	-
Stabilization Fund	177,936	35,511,747	2,341,426
Local Initiatives	-	1,484,393	186,930
Subsidies to Federation Employees	-	16,332	16,910
Total	**15,194,052**	**67,902,125**	**41,878,792**

*"Creditor projects" consists of subsidies from donors to help develop and professionalize the caisses.

Note 6: Other Liabilities			
	2010	**2011**	**2012**
Interest Payable	792,522	249,331	481,374
Salaries Payable	463,898	537,647	671,653
Profits Payable	839,093	915,153	1,143,230
Inspection and Verification Payable	938,590	878,795	909,927
Accrued Payroll Taxes	132,403	638,402	132,946
Deferred Revenues	755,868	488,761	666,466
Accrued Income Taxes	76,714	76,714	99,940
Subsidies to Fixed Assets	230,000	204,710	906,807
Other Loans Payable	5,461,814	4,847,973	20,824,079
Total	**9,690,901**	**8,837,486**	**25,836,423**

Le Levier Income Statement 2010-2012 (In Haitian Gourdes)			
	2010	**2011**	**2012**
Operating Revenues			
Net Dues and Contributions	14,856,599	18,857,089	22,559,108
Operating Subsidies	15,300,808	19,682,349	22,956,475
Financial Products	161,030	600,459	4,243,172
Total Operating Revenues	**30,318,437**	**39,139,897**	**49,758,755**
Operating Expenses			
Personnel	19,078,474	21,747,521	25,672,203
Selling, General and Administrative Expenses	13,560,722	17,072,796	19,169,235
Amortization	680,666	789,523	982,183
Financing Expenses	45,894	330,029	4,637,906
Total Operating Expenses	**33,365,756**	**39,939,868**	**50,461,527**
Earnings Before Taxes and Other Revenues	**(3,047,319)**	**(799,971)**	**(702,772)**
Other Revenues	**1,634,200**	**1,959,382**	**1,730,691**
Earnings Before Taxes	**(1,413,119)**	**1,159,411**	**1,027,919**
Income Taxes	-	-	23,226
Net Income	**(1,413,119)**	**1,159,411**	**1,004,693**

Le Levier Cash Flow Statement 2010-2012 (In Haitian Gourdes)			
	2010	**2011**	**2012**
Beginning Cash		7,067,194	19,446,353
Operating Activities			
Net Income		1,159,411	1,004,693
Amortization		789,523	982,183
Operating Revenues		1,948,934	1,986,876
Change in Payables		47,887,136	(56,952,020)
Cash Flows from Operating Activities		**49,836,070**	**(54,965,144)**
Investment Activities			
Investments in Titles		(68,000,000)	(16,000,000)
Investments in Fixed Assets		(301,160)	(2,153,356)
Cash Flows from Investment Activities		**(68,301,160)**	**(18,153,356)**
Financing Activities			
Deposits		30,325,692	51,513,651
Social Capital		200,000	100,000
Other Reserves		300,000	150,000
Stabilization Funds		-	35,750,815
Adjustments from Previous Year		18,557	1,296,801
Cash Flows from Financing Activities		**30,844,249**	**88,811,267**
Increase (Decrease) in Cash		**12,379,159**	**15,692,767**
Ending Cash	**7,067,194**	**19,446,353**	**35,139,120**