Financial Cooperatives in Haiti

A Diagnostic Review of the Sector and Its Regulatory and Supervisory Framework

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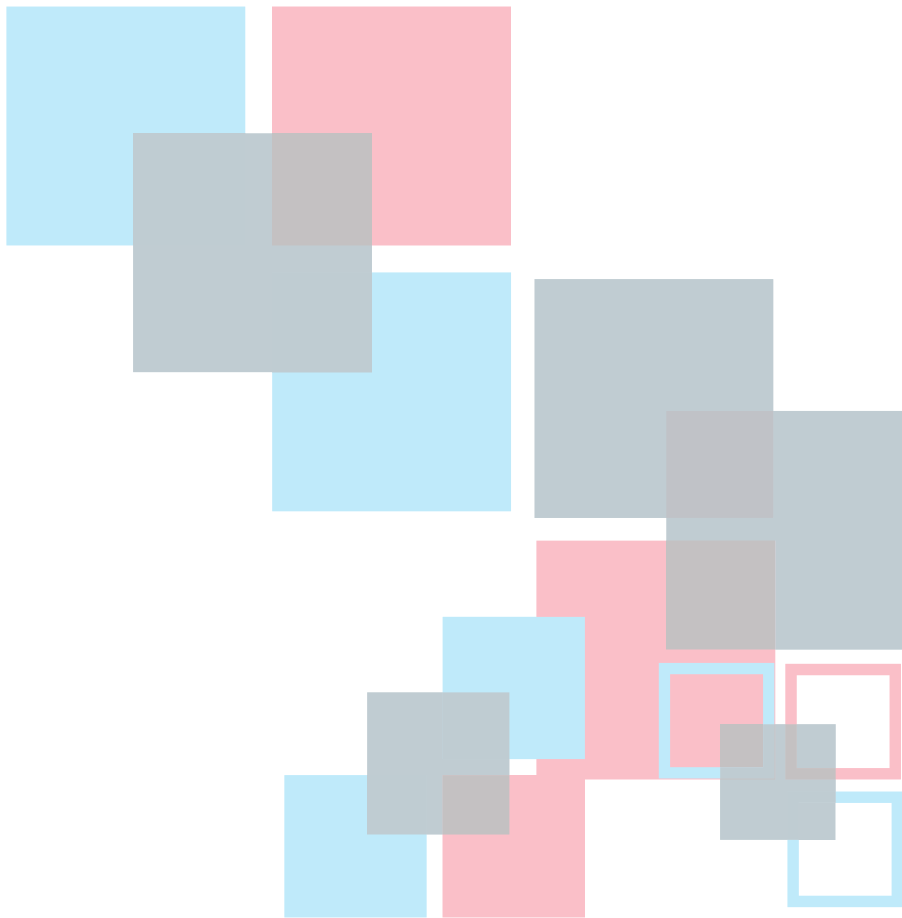

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Abbreviations and Acronyms

ANACAPH	National Association of Haitian Credit Unions
BRH	Central Bank of Haiti
CFI	Cooperative Financial Institutions
CNC	National Council of Cooperatives
DGRV	German Cooperative and Raiffeisen Confederation
DID	Canadian Cooperative Network Desjardin
DGICP	Cooperatives Supervision Department, Central Bank of Haiti
FIRST	Financial Sector Reform and Strengthening Initiative
FX	Foreign Exchange
GDP	Gross Domestic Product
HR	Human Resources
IT	Information Technology
MFI	Microfinance Institution
NFIS	National Financial Inclusion Strategy
NPL	Non-performing Loan
OC	Operational Costs
ROA	Return on Assets
ROE	Return on Equity
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions

Acknowledgements

The Diagnostic Review of the Haitian Financial Cooperative Sector and its Regulatory and Supervisory Framework was led by Juan Buchenau (Senior Financial Sector Specialist, Task Team Leader, World Bank), and conducted and written by Ilka Funke (Financial Inclusion Specialist, Mission Lead, Consultant, World Bank). Alvaro Duran (Financial Sector Specialist, Consultant, World Bank) joined the mission and provided analytical support for the report.

This assessment is based on findings from a World Bank scoping mission in June 2017 and an in-depth mission in September 2017. To conduct the diagnostic, the two consultants visited 11 financial cooperatives in 4 departments of Haiti in September 2017. meeting with the core stakeholders in the financial sector (see Annex 1). During these missions, a semi-structured questionnaire was developed and applied during each visit to a financial cooperative. The questionnaire included questions about the financial situation, governance structure, as well as operational aspects of the cooperative visited. In addition, the mission team reviewed a random sample of Board, Audit and Credit Committee Minutes at each cooperative, and assessed the available audited financial statements. Finally, the team received general financial information from the Central Bank regarding the consolidated sector. as well as on the financial cooperatives visited.

The team would like to express its deepest appreciation for the excellent support provided by the Central Bank of Haiti (BRH), in particular from the department in charge of regulating and supervising the financial cooperative sector (DGCPH). The department provided valuable insights into the sector's legal, regulatory and supervisory framework, facilitated the agenda for the field visits, supported the mission with general data on the sector, and provided excellent feedback throughout the diagnostic review.

A special thanks also goes to the two peer reviewers of the report, John Pollner (Lead Financial Sector Economist, World Bank) and Juan-Carlos Izaguirre (Senior Financial Sector Specialist, World Bank). The team would also like to thank Zafer Mustafuoglu (Practice Leader Finance and Markets, Latin America and the Caribbean Region, World Bank) and Raju Singh (Sector Leader and Lead Economist, World Bank, Haiti) for their overall guidance and support. Finally, the team is grateful for all the valuable logistical support received from the World Bank Office colleagues in Haiti.

Executive Summary

The government and the Central Bank of Haiti (BRH) aim to improve financial inclusion to foster more inclusive economic growth. With the support of the World Bank, the government developed a National Financial Inclusion Strategy in 2014. Since financial cooperatives play an important role for financial inclusion, the Strategy calls for an assessment of constraints to their development, as well as the development of an action plan to strengthen and consolidate the sector. This diagnostic report aims to provide this assessment of the sector. It also offers recommendations for reforms that should be incorporated into a sector-wide action plan.

Overview of the Sector and Its Organizational Structure

Cooperative Financial Institutions (CFIs), or Financial Cooperatives, are important providers of financial services to the Haitian population. There are currently an estimated 85-180 financial cooperatives in Haiti. They are mostly located in urban and peri-urban areas of the country, and provide savings and loan services to their members, who are predominantly from the lower income segments of the population. Membership in the sector more than doubled since 2009, reaching roughly 1 million people in June 2017 (compared to an estimated 2 million bank customers). This represents about 15 percent of the adult population. If family members are included, it is estimated to link around 30-40 percent of Haitians to financial services. Some cooperatives also act as agents for Western Union, and offer transfer and payment services to non-members, some of whom would otherwise be financially excluded.

The assets of CFIs grew substantially over the past few years, but their financial intermediation levels remain low. The sector's assets currently account for 1.7 percent of gross domestic product (GDP), up from 0.9 percent in 2009. The growth of assets (which increased 101 percent between 2011 and 2016) was in part fueled by deposits (which increased 84 percent). However, it also stems from an increase in capital due to the solid profitability of most entities. The loan portfolio only increased by 66 percent during the same time period, which led to a decline in the loan-to-asset and loan-to-deposit ratios (49 and 72 percent, respectively). With less than 50 percent of assets currently being on-lent, the sector has a large unmet potential for supporting economic growth.

Second-tier organizations are in place to strengthen the sector, but they still depend on donor funding and need to clarify and prioritize their roles. There are currently two active sector organizations, the National Association of Haitian Credit Unions (ANACAPH) and the federation, *Le Levier*. They reach out to provide capacity-building and technical assistance to over 50 financial cooperatives, including all large ones. Another federation, *"Le Societaire,"* has recently been created, covering 11 financial cooperatives. In addition to capacity building, *Le Levier* also provides its affiliates with liquidity management, information technology (IT) and strategic support services. It also explores options for linking its members to the payment system of the country. Although the two existing organizations greatly help strengthen the sector, they lack financial self-sufficiency, and still depend on donor funding for delivering the full range of services. Furthermore, as 85 percent of *Le Levier's* members are also affiliated with the ANACAPH, the roles and services of both organizations need to be clarified to ascertain complementarity. Further, both need to prioritize and enhance their services to better fit the needs of the sector.

Observations Regarding the Financial and Operational Soundness of Financial Cooperatives

Since the occurrence of the pyramid scheme in 2002, the sector has made important progress toward profitability and improving its internal operations. According to BRH data, the authorized financial cooperatives increased their level of profitability since 2013, with returns on assets and equity reaching 5 and 21.7 percent, respectively (2016). The CFIs' capital-to-asset ratios appear adequate to absorb shocks (26 percent on average for the visited CFIs), and well above the 12.5 percent mandated by the BRH. A number of entities also introduced IT systems and improved their internal processes to enhance their performance. These are important improvements and have moved the sector in the right direction. Nevertheless, the overall level of sophistication in the sector continues to be rather basic, and some of the smaller entities still need to become financially sustainable.

Although the sector now appears to be financially sound, the quality of financial intermediation needs to improve so that CFIs can better face increasing competition in the financial sector. A number of the entities visited indicated that they had non-performing loans (NPLs) of over 10 percent of their loan portfolios, well above the maximum of 5 percent suggested by the World Council of Credit Unions (WOCCU). Furthermore, the mission noted the existence of market and foreign exchange rate risks that in some CFIs had already led to small losses. The financial cooperatives also had, on average, 35 percent of their assets in non-remunerated liquid assets — with some even up to 73 percent. Given these vulnerabilities in the quality of intermediation, the sector's profitability largely hinges on being able to charge a high financial intermediation margin of over 20 percent, as well as additional fee income for loan documentation, late fees and the provision of other services. Both are likely unsustainable in the medium term, when modern technologies reduce the costs of service provision of competitors and competition in the financial system intensifies. Thus, the sector urgently needs to increase intermediation levels, reduce non-performing loans and foreign exchange exposures, and enhance its operational efficiency.

The quality of governance also needs to be strengthened. Core governance structures are in place, and CFIs are formally required to adhere to core cooperative principles and focus on members' economic well-being and education. However, the tenure and quality of Board members is not adequately covered in the by-laws and legal framework, and the transparency of information vis-a-vis members is not sufficiently mandated. Furthermore, the quality of governance is weak in practice. There is limited strategic guidance and oversight provided by the Boards and Committees, the tenures of Board and Committee members tend to be long, and participation in General Assemblies is low (less than 5 percent). In addition, the depth and quality of information provided to members appears limited, including the range and pricing of financial products. The noted deficiencies in the governance structures of CFIs need to be addressed as they can facilitate fraudulent activities/capture by small elites, thereby reducing the attractiveness of CFIs for members.

The operational efficiency of CFIs remains low. Almost all financial cooperatives visited show elevated operational costs, with 5 of the 9 entities barely able to cover their operational costs through net interest income. Although the provided data was not sufficiently detailed to assess the core drivers of operational expenses, the mission identified credit risk management and inefficient internal credit processes as core deficiencies. For instance, the loan files reveal substantial gaps in the capacity of CFIs to assess and document a borrower's true repayment capacity, with the credit appraisal process taking several weeks and mostly relying on the availability of cash collateral and a client's previous credit history. A brief assessment of internal processes also points to substantial gaps in internal accounting practices, a lack of internal controls to foster adherence to policies and manuals, and the limited capacity of managers to assess core financial and operational indicators. Finally, automation in the sector is limited, with the IT system provided by the federation *Le Levier* in need of modernization. In this context, the vast majority of entities are only partly or not automated.

Together, the observed gaps in intermediation and efficiency negatively affect the value proposition of cooperative membership, reducing the sector's role in supporting inclusive economic growth. Currently, most members receive little or no remuneration for their deposits and social capital. On the other hand, interest and fees for loans are on the high side and require elevated levels of cash collateral. Only around 10 percent of members have a loan, although most managers indicated that the prospect of receiving a loan is the prime motivation for becoming a member. Also, most CFIs do not provide their members and communities with any additional social benefit, leaving the member with limited incentives to actively participate in "their" cooperative and contribute to its oversight. All of this lowers the attractiveness and role of financial cooperatives, making them vulnerable to increased competition in the sector.

The Legal, Regulatory and Supervisory Framework

A dedicated legal framework for CFIs is in place, allotting the BRH substantial powers to regulate and supervise the sector. The dedicated law for financial cooperatives was put in place after the emergence of the pyramid scheme in 2002. It places a strong focus on the governance of CFIs and in many instances follows international best practice. It also assigns a clear role to the Central Bank for regulating and overseeing the sector, and calls for the creation of a dedicated unit within the Central Bank to fulfill this role. This unit has been created, and regulations have been issued pertaining to the administration and risk management of CFIs. The legal framework also provides for the creation of a stability fund by the BRH, which has not yet been created.

Nevertheless, the legal framework has a number of shortcomings, which particularly impede the effectiveness of oversight. Most importantly, the BRH does not have the power to issue monetary sanctions for non-compliance of CFIs.[1] Under the current law, the implementation of remedial actions largely hinges on moral suasion, as well as on the BRH's willingness to directly intervene in the management of an entity. In addition, the legal framework has shortcomings regarding the registration, authorization and liquidation of sector entities. The foreseen division of labor between the registration of CFIs by the National Council of Cooperatives (CNC) and the authorization through the BRH is not working well, leaving an unknown number of active cooperatives operating without authorization. Furthermore, liquidations are cumbersome to carry out and involve various players, and have not yet been initiated. These deficiencies have contributed to a lack of consolidation in the sector.

The BRH regularly conducts on- and off-site supervision, and through this has greatly helped the sector improve its operations. In addition to monthly off-site supervision, on-site supervision of the authorized financial cooperatives is carried out every 18-24 months. Furthermore, the BRH's strong focus on governance structures and internal operations is to be commended. Standardized procedures and reporting tools are in place to guide the supervision process and staffing of the dedicated unit for CFI oversight appears adequate for the current scope of supervision. A much-needed IT system to enhance automation of oversight is currently under development. Overall, the streamlined supervision process appears efficient, and the unit regularly follows-up on the implementation of recommended actions. This hands-on approach to supervision has greatly helped enhance discipline in the sector, improving internal procedures and standards. However, supervision should place a stronger emphasis on the quality of governance as well as the risk and efficiency aspects of CFIs. Furthermore, the BRH should enforce the requirement for all entities to become authorized or be liquidated. This would help to maintain solid growth in the sector.

Whereas the legal framework mandates external audits, the underlying accounting plan and the quality of the external audits need improvement. The accounting plan issued by the BRH is adapted to the more basic level of operation and automation of the sector. However, it does not require the reporting of non-performing loans. Instead, it only captures information on the net loan loss provisions held.[2] Given the rapid write-offs observed in the sector[3] and the limited transparency regarding the level of those write-offs during the year, the information is not adequate to reveal the true level of delinquency. Regarding the external audits, the law mandates the federation to carry out external audits of its affiliates. Non-affiliated CFIs are required to use external auditors. This is adhered to in practice. However, in addition to conducting the external audits, *Le Levier* also provides managerial counseling and support services to its affiliated CFIs. This duality of roles of a federation can create a conflict of interest situation that can impede the quality of the external audits. Therefore, firm barriers ("Chinese walls") should be put in place separating the two functions with different staffing and coordination. The quality of work of the external auditors for the non-affiliated CFIs appears poor, as evidenced by mistakes

[1] The law allows the BRH to request remedial actions and the development of action plans, as well as to intervene in individual entities.

[2] Provisioning rules are stricter than those suggested by the financial ratios of the WOCCU's PEARLS. (PEARLS is a framework to measure the soundness of operations of a credit union, and includes indicators on Protection, Effective financial structure, Asset quality, Rates of return and cost, Liquidity and Signs of growth). It is required that 100 percent of the unsecured loan balance be provisioned after a delinquency of 180 days, and that a 1 percent general provision be held for the performing part of the portfolio. The WOCCU PEARLS calls for a full provisioning after 360 days overdue, encourages write-offs after one year, but suggests that younger non-performing loans should not be written-off.

[3] Some visited entities write-off non-performing loans after less than 180 days.

identified in audited financial statements. Overall, all external audits stop short of providing a summary of findings and recommendations, and only attest in general terms to the overall compliance with existing norms.

A new draft law has been developed that includes some important revisions in the legal framework; however, it falls short of addressing some key issues identified above. The new draft law introduces important measures to enhance transparency and consumer protection in the sector. It also calls for external auditors to be pre-approved by the BRH. These are important reforms that merit approval. However, the draft law does not yet resolve the fragmentation of the registration, authorization and liquidation processes, and it does not provide the BRH with the tool to issue monetary sanctions. Furthermore, the draft law allows financial cooperatives to issue subordinated debt, which given the state of the sector appears premature. More attention also needs to be placed on eliminating conflict of interest situations between the various roles of the federations, and ascertaining that federations have adequate institutional capacity and integrity for fulfilling their respective roles. Furthermore, the federations' internal regulations and oversight should be mandated to be consistent with all BRH rules. Finally, neither the federations nor the external auditors appear currently suitable for a delegation of supervision, as Article 130 of the draft law will make possible.

Recommendations

To bring the sector to a higher level of sophistication and further enhance its performance and services, it is paramount that a holistic and consolidated reform effort be undertaken. Reforms are urgently needed to safeguard the medium-term profitability of the sector, as the current high intermediation margin will likely not be sustainable over time. Cooperatives will increasingly be confronted with competition from other financial service providers, who are now starting to reach out to unbanked segments of the population through innovative delivery mechanisms (that is, mobile wallets and non-bank agents), and who are also able to provide payment services to their clients. In addition, the reforms are needed to help deepen financial intermediation in the country and support economic growth, particularly of lower income groups.

Table 1 summarizes the recommendations of the report and aims to provide a basis for the development of a sector-wide internal vision and reform strategy. It will be important for the sector to come together in the next few months to develop a joint vision of the sector's outreach, performance and product mix to be achieved in the next 5 to 10 years, as well as to determine the reform path and sequence to get there. This should ideally be done in collaboration with the government and the BRH, as well as with other national and international stakeholders. For the reform process to be cost efficient and sustainable in the long term, attention will have to be placed on fostering a financially viable support system in the sector's second and possibly third tier, and to consolidate the sector.

Table 1: Summary of Recommendations

Recommendations	Time-frame	Implementation Agency
Reforms to consolidate and strengthen the financial cooperatives sector		
Sector to develop a holistic strategy to strengthen/consolidate the sector and clarify internal organization.	ST	CFIs, sector organizations[a]
CFIs to conduct assessment of their income and expenditure structure and develop/implement action plan to reduce costs and enhance efficiency.	ST/MT	CFIs, sector organizations, donors
CFIs to strengthen their focus on member needs and enhance transparency vis-a-vis members.	MT	CFIs management/ governance bodies
Sector organizations to review their division of labor and funding structure, and adjust their services to better align with sector requirements.	ST/MT	Sector organizations
CFIs and sector organizations to define, purchase and maintain IT systems that fit their needs, and launch a massive capacity-building program for staff.	MT/LT	CFIs, ANACAPH
Introduce a stability fund and/or deposit insurance scheme for authorized and qualifying entities.	LT	BRH/sector organizations
Reforms to strengthen the legal, regulatory and supervisory framework		
BRH to bring unauthorized CFIs into compliance: (i) Carry out stocktaking exercise of unauthorized CFIs, and issue a regulation to enforce the legal requirement to become authorized or cease operations; (ii) Conduct due diligence of unauthorized CFIs to assess their future viability and options; and (iii) Develop a scheme to support the orderly exit of unviable, unauthorized entities.	 ST MT MT/LT	BRH (DGICP), donors
Congress and BRH to adjust and approve the revised draft law on CFIs: (i) Introduce revisions in the area of minimum capital, governance, capital, transparency and member orientation of CFIs; (ii) Provide BRH with the sole role in registering, authorization and liquidation of CFIs, as well as the ability to issue monetary sanctions; (iii) Address conflict of interest issues between the promotional and oversight functions of federations; and (iv) Establish a tiered supervisory approach.	ST/MT	BRH, Congress
BRH to revise prudential regulations to introduce a stronger focus on quality of risk management and regulate foreign exchange and term management.	ST/MT	BRH (DGICP)
BRH to (i) enhance accounting and auditing rules, (ii) introduce a certification process for external auditors, and (iii) maintain a list of certified CFI auditors.	ST MT	BRH (DGICP)
BRH to strengthen its internal capacity to switch from compliance to risk-based supervision, introduce an off-site early warning system and enforce liquidations.	MT	BRH (DGICP)

Note: ANACAPH = National Association of Haitian Credit Unions; BRH = Central Bank of Haiti; CFI = Cooperative Financial Institution; DGICP = General Inspection of the Credit Unions; MT = medium term; LT = long term; ST = short term.

[a] Sector organization refer to the ANACAPH, the federation Le Levier and the new federation / sector entity that was recently created.

1. Diagnostic Review of the Financial Cooperative Sector in Haiti

The government and Central Bank of Haiti aim to improve financial inclusion as a means of fostering inclusive economic growth. As confirmed by a recently conducted Financial Capability and Inclusion Survey of the World Bank (FINCAP 2017), only 27.5 percent of the population has access to a savings account, and only 10 percent to a loan at a formal financial institution. To increase the population's access to formal financial services and foster economic growth, the government developed a National Financial Inclusion Strategy (NFIS) in 2014 with the support of the World Bank. The strategy laid the basic framework for financial sector reforms. It is currently being implemented and updated.

As financial cooperatives have a strong presence throughout the country and a substantial membership base, the NFIS includes measures to strengthen and consolidate the sector. The NFIS provides for: (i) an assessment of constraints facing the development of financial cooperatives; (ii) the development of a technical assistance program to strengthen and consolidate the sector; and (iii) a review of the regulatory and supervisory framework to create a conducive environment for the sector's sound growth. Some reforms to strengthen the sector and improve the regulatory framework were ongoing at the time the NFIS was drafted. However, a holistic assessment of the sector had not yet been conducted.

In line with the measures suggested by the NFIS, this diagnostic review assesses constraints to the development of financial cooperatives. It is part of a technical assistance program financed by the Financial Sector Reform and Strengthening Initiative (FIRST) and managed by the World Bank Group, which aims to increase access to responsible financial services in Haiti and to support the implementation of the NFIS. The objective of the review is to provide guidance on cost-effective non-regulatory and regulatory reforms to strengthen and consolidate the sector. For the assessment, the World Bank team reviewed the current legal and regulatory framework, conducted a desk review of available literature and data on the sector, and met with the core sector stakeholders. Furthermore, in June and September 2017, the team visited 11 financial cooperatives in 4 departments of Haiti (see Annex 1). During the visits, the World Bank team used a semi-structured questionnaire to guide the interviews, and reviewed the available Board and Committee minutes, annual reports, loan files and audited financial statements. The World Bank team is grateful for the excellent support received from the BRH for arranging and conducting these visits.

The report is structured as follows: Chapter 2 provides a brief overview of the sector, its evolution and organizational structure. Chapter 3 reviews the core regulatory and supervisory framework of the sector and discusses its implementation. Chapter 4 assesses the sector's financial soundness, governance, and operational efficiency. This Chapter is based on findings from the field visits to the 11 financial cooperatives. Finally, Chapter 5 summarizes the findings and lays out the core recommendations for reform, which should be included in an action plan for the sector.

2. Sectoral Overview

2.1 Evolution of Financial Cooperatives in Haiti

The number of financial cooperatives in Haiti is estimated to range between 85 to 180 entities. The National Cooperative Council (CNC) does not have any available data about the sector, but the Central Bank of Haiti (BRH) collects data from the supervised sector on a quarterly basis. In addition, the sector organizations collect some data on their affiliates, albeit in a sporadic manner. However, neither the BRH nor the sector organizations publish their data, (see also Chapter 3.2), leading to a dearth of information about CFIs. As a result, the following assessment of the sector's evolution relies to a large extent on data received on the 59 financial cooperatives, that have been authorized by the BRH to date. These are the most significant, with the BRH estimating that the 30 largest account for 86 percent of the sector's assets, and 84 and 89 percent of deposits and credits, respectively.[4]

CFIs have a strong presence in urban and peri-urban areas of the country, and provide savings and loan products to people of all income groups. Based on available data,[5] the sector is widespread throughout Haiti, with headquarters situated in all 10 departments and in 53 locations. The authorized CFIs now have an average of 1.5 branches, of which 18 percent are estimated to be in rural areas.[6] CFIs offer savings and loan products to their members, and some also provide payment and transfer services as agents of Western Union. The average deposit balance is small, ranging around 5,000 Haitian Gourdes (~US$ 80) compared to around 45,000 Gourdes (US$ 676) for savings accounts in banks. For loans, the average remaining loan balance is 49,000 Gourdes (US$ 770) per borrower, compared to Gourdes 587,830 (US$ 9,200) for commercial banks.[7] These averages indicate that the financial cooperatives cater to a different population

[4] BRH (2014).
[5] Information regarding the 66 cooperatives and their headquarters was received from the BRH, the CNC and the sector organizations.
[6] See Phareview (2015).
[7] Based on Phareview (2015), the market segmentation is also reflected in the average loan size for non-bank/cooperative microfinance institutions (22,000 Gourdes) and microfinance institution (MFI) subsidiaries of banks (99,000 Gourdes).

segment, in particular, the population with moderate to low-income levels. The vast majority of deposits are short-term in nature.

The assets of the financial cooperative sector in Haiti have grown substantially in the last few years. The sector has now fully recovered from the financial and reputational crisis in 2002, during which a number of sector entities were discovered to have been pyramid schemes and failed.[8] As can be seen in Figure 1, the assets of authorized entities have grown rapidly since 2011, and have more than doubled in both nominal and real terms. While the sector's assets are not yet systemically important in terms of GDP, they now account for 1.7 percent of GDP (compared to 0.9 percent in 2009). The growth was in part due to a substantial increase in deposits (84 percent in real terms), but also due to retained earnings and third-party contributions to the sector, which boosted the balance sheets. The credit portfolio grew at a lower rate (66 percent in real terms), and now only accounts for 49 percent of assets (compared to 59 percent in 2011). Most loans are for commercial purposes (and are estimated to be between 40-60 percent of total loans), but increasingly also include housing loans. The latter currently ranges about 30-50 percent of loans (in volume) in 6 of the 11 cooperatives visited.

With the recent growth, the financial cooperative sector in Haiti now compares well in terms of share of assets and membership with other countries in the region. As can be seen in Table 2, financial cooperatives account for 2.9 percent of the assets of the national financial system in Haiti, comparable to the asset shares of financial cooperatives in Peru and Colombia. A membership of 15 percent of the economically active population is also close to the median level in the region. However, the individual financial cooperatives are very small in comparison to the size of assets reached in other countries. For example, the largest cooperatives in the Dominican Republic, Honduras and Guatemala have between US$179 to 220 million in assets, compared to US$12 million for the largest financial cooperative in Haiti.

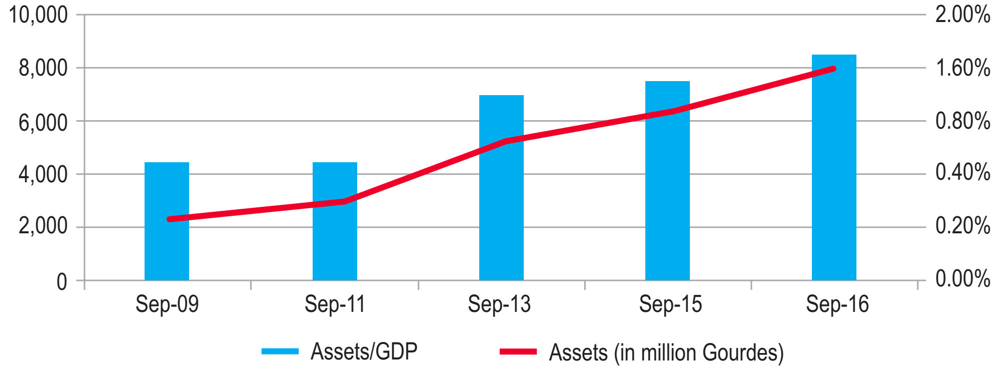
Although membership in financial cooperatives has reached significant levels, the sector has not yet achieved its full potential role in supporting economic development. Despite its comparatively small volume of assets, the sector caters to a large number of people. In 2015, the sector had already over 800,000 members, up by 136 percent since 2009 (see Figure 2).[9] As of September 2017, membership had reached around 1 million. This represents about 15 percent of the adult population, and indirectly links an estimated 30-40 percent of the population to financial services.[10]

Yet, the sector is highly fragmented, and the majority of entities are small. The size of cooperatives varies greatly, ranging from the largest financial cooperative with over 100,000 members and assets of over US$12 million to many smaller cooperatives with less than 1,000 members and assets below US$1 million. The assets of the largest cooperative are equivalent to only 17 percent of the assets of the smallest bank in the system. Furthermore, financial intermediation is low, as the loan portfolio declined to less than 50 percent of assets and 72 percent of deposits. Only around 10 percent of members have a loan, with the growth of the loan portfolio mostly reflecting larger loans (both in nominal and real terms) and going to existing borrowers rather than a deepening in financial intermediation (Figure 2).

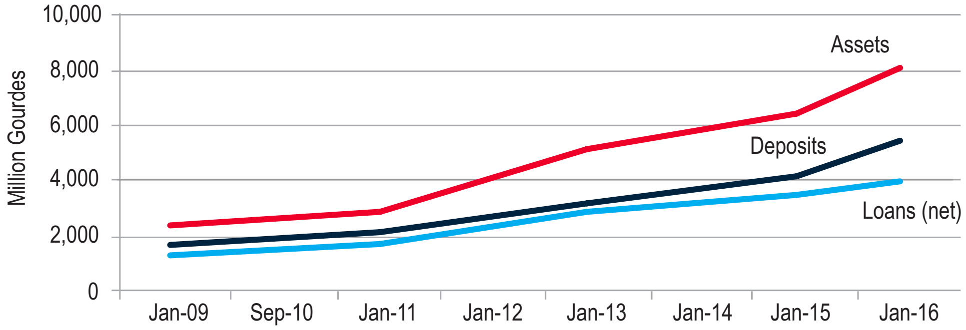
[8] For a description of the pyramid scheme, see for example Mattern and Wilson (2013).
[9] Phareview (2015).
[10] This also accounts for indirect effects on family members of this account.

Figure 1: Evolution of the Assets of Financial Cooperatives (%, Gourdes millions)

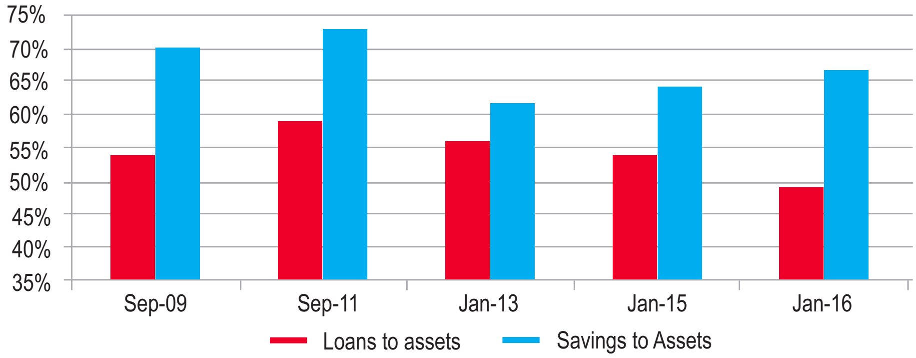
Having grown by over 100 percent in real terms since 2009, CFI assets now reach 1.6 percent of GDP



The growth in assets reflects an increase in deposits, as well as retained profits…



…which was not matched by the growth of the loan portfolio.

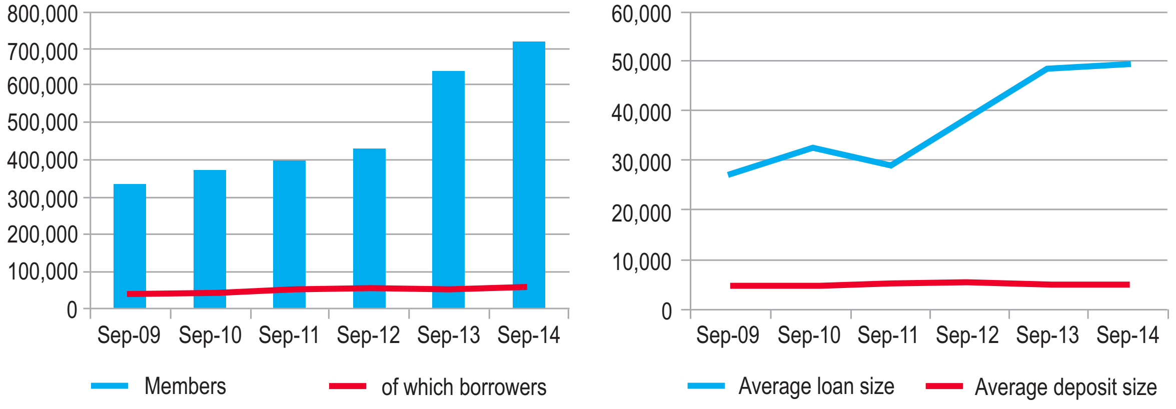


Sources: BRH for 2015-2016; Phareview (2015) for 2009-2014; and author's own computations.

Benefitting from substantial donor support and moderate competition, the sector has increased its profitability over the years, but weaknesses in intermediation and operational efficiency persist. A number of donors have supported the sector over the years. The Canadian Cooperative Network Desjardin (DID) provided ongoing financial and technical support to the sector until 2013.[11] The United States Agency for International Development (USAID) provided support through its Haiti Integrated Financing for Value Chain and Enterprise (HIFIVE) Initiative. This initiative has helped individual entities and the sector organizations to automated and cater to agricultural value chains. Given the ongoing support and a high net interest margin of over 20 percent, the sector has increased its profitability over the years. Table 3 shows the rate of return on assets (ROA), which increased from 3 percent in 2013 to 5 percent in 2016 — despite a lower loan-to-assets ratio, high levels of liquidity, elevated levels of non-performing loans,[12] and gaps in operational efficiency. This will be analyzed and discussed in more depth in Chapter 3.

Figure 2: Evolution of CFI Membership and Selected Member-related Ratios

Although membership and loan sizes grew, only a few members have a loan and per person savings remained low.



Sources: Author's computation; Phareview (2015).

[11] The Support to Haitian Savings and Credit Cooperatives (ACOOPECH) project spanned 18 years. It provided technical and financial support to help create a second-tier Le Levier federation, introduce an IT system for affiliated entities, and strengthen individual entities on an ongoing basis, including also special support after the earthquake in 2010.

[12] See Chapter 3.1.

Table 2: Haitian CFI System in the Regional Context

Countries	Total Financial System Assets (US$, millions)	CFI Assets (US$, millions)	Share of National Financial System (%)	CFI Membership	Members/ Labor Force (%)
Ecuador	50,632	9,300	18.4%	5,300,000	79.6%
El Salvador	19,224	2,571	13.4%	1,213,192	43.4%
Paraguay	23,142	2,507	10.8%	1,488,548	44.0%
Costa Rica	54,186	5,469	10.1%	850,000	38.0%
Honduras	21,766	1,147	5.3%	843,854	22.7%
Bolivia	29,609	1,448	4.9%	1,200,000	22.1%
Guatemala	40,546	1,602	4.0%	1,661,080	25.2%
Dominican Republic	29,992	1,032	3.4%	708,330	14.5%
Haiti	**4,366**	**129**	2.9%	800,000	**15.0%**
Peru	120,509	3,486	2.9%	1,663,480	9.7%
Colombia	187,328	4,640	2.5%	2,708,428	10.7%
Brazil	2,527,209	47,342	1.9%	8,861,040	8.2%
Panamá	122,976	1,900	1.6%	203,055	10.6%
México	423,140	6,459	1.5%	7,262,024	12.5%
Nicaragua	8,301	113	1.4%	70,000	2.5%
Chile	320,163	2,872	0.9%	1,301,180	14.3%
Uruguay	37,681	315	0.8%	700,000	39.5%
Total	4,199,539	92,345	(Average 4.8%)	41,822,697	(Average) 24.3%

Source: DGRV (2017).

Table 3: Evolution of Selected Performance Indicators (2013–2016) (%)

	Sep-13	Sep-14	Sep-15	Sep-16
Return on assets (ROA)	3	4	4	5
Net Interest income / total income	82	82	80	83
Provisions / total loans	5	5	4	6
Operational expenses / assets	8	9	9	10
Operational expenses / net interest income	72	74	73	70

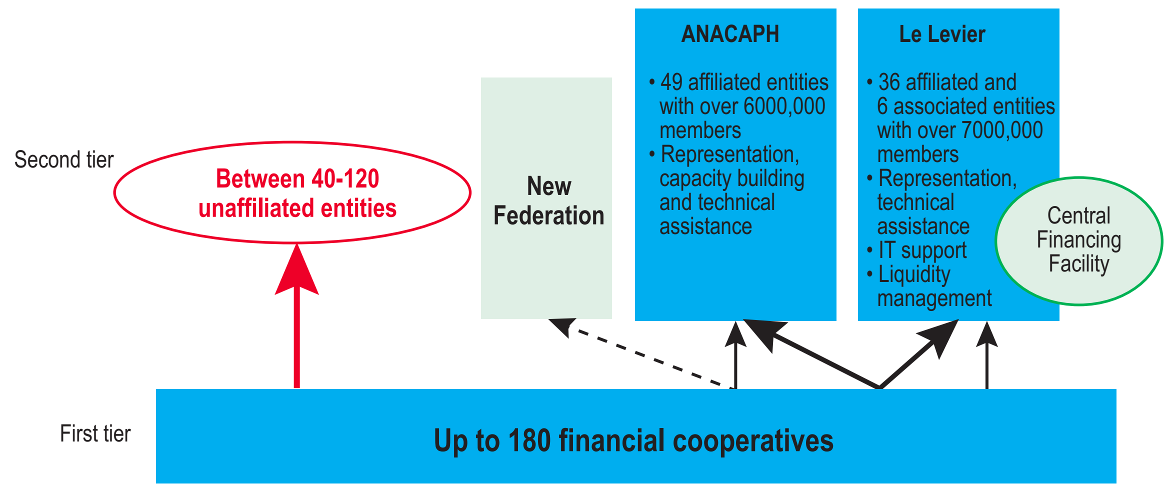
Source: Authors' computation based on BRH data.

2.2 Organizational Structure of the Sector

Most countries with large and modern financial cooperative systems have a strong second tier structure that helps the sector to innovate and reap potential economies of scale. Countries such as Brazil, Canada, Germany, and Guatemala have an elaborate system of federations and other second tier support structures in place. Such structures help to manage liquidity and foster innovation, improving the soundness of individual entities. In addition, second tier institutions in those countries also monitor the soundness of sector entities to contain the risk of the second-tier services they offer, thereby reducing the reputational risk to the sector if one entity fails. Similar developments are underway in other countries in the region.

In Haiti, the legal framework for financial cooperatives already provides for a strong organizational structure of the sector and includes incentives to federate. The law of 2002 specifies that federations should: (i) help represent the interests of their affiliates and promote their development; (ii) conduct oversight of the affiliates to ascertain their liquidity and solvency; (iii) provide capacity building, technical assistance and other support to affiliates; and (iv) support the integration of the sector. According to the law, a federation can be created by 10 or more financial cooperatives. It should conduct the external audits of the affiliated members and is subject to the accounting and other rules of the BRH. As an incentive to become federated, the law provides for federations to be part of the chamber of compensation, thereby offering their affiliated entities access to the payment system. Furthermore, only federated entities are eligible to receive funding for development under a special support fund to be created by the BRH.

Figure 3: Organizational Structure of the Financial Cooperative Sector in Haiti



Source: Author's schematic.

Note: ANACAPH = National Association of Haitian Credit Unions; IT= information technology.

In practice, the second-tier system in Haiti is already quite developed, and most of the larger entities are federated. Figure 3 shows that currently one federation and one association provide second tier functions to the sector. Another federation is in the advanced stages of being launched. There is also a large overlap of affiliated CFIs between the organizations, with 85 percent of the members of *Le Levier* also being part of ANACAPH. In addition, around 40-120 entities — most of them unauthorized — are currently not affiliated. As such, they do not benefit from capacity building and general support.

- *Le Levier*, a sector federation created in 2008 with DID support, currently has 36 affiliated and 6 associated members. The federation has 12 auditors to conduct annual external audits of their affiliated entities (see also Chapter 3.3), 10 counselors to provide capacity building and institutional strengthening support to managers and Boards, and another 28 employees who assist with the joint IT platform, the joint operational manuals, liquidity management and other support services. Overall, *Le Levier* focuses on creating a strong "brand" for its members. It also provides second tier financial services to its affiliates, such as a Central Financing Facility and a linkage to the national payments system. It is currently working on linking its affiliates to modern payment services and upgrading its IT platform.
- ANACAPH, the National Association of Financial Cooperatives, was created in 1998 with the objective of fostering collaboration between its members, supporting their development, and providing capacity-building services to them. It currently has 49 members (35 of which are also part of *Le Levier*), who benefit from around 85 training and capacity-building programs, operational manuals and support for automation of their operations. ANACAPH has 12 full time staff, including two dedicated to IT questions. It also works with a number of consultants to meet capacity-building needs upon demand.
- Another federation is being launched by selected CFIs. It aims to provide its affiliates with a joint IT platform and technical assistance.

The support provided through the two existing sector entities greatly facilitated the institutional strengthening of the sector. With donor support,[13] both institutions have provided capacity-building programs to their affiliates and played a crucial role in linking their members with IT systems to automate their operations. All of the financial cooperatives visited have benefitted at one point from training through ANACAPH. They considered the quality of the training to have been good and helpful. The services of *Le Levier*, in particular for auditing and IT support, were also highlighted as helpful, and the affiliated member cooperatives also praised the support they received from their counselors for strategic planning and organizational development.

However, both active second tier organizations still depend on donor support to fulfill their full roles. Despite being profitable and not having to pay for BRH oversight, the financial cooperatives visited feel that they cannot afford higher contributions to Le Levier or ANACAPH. Likewise, they cannot earmark additional funds for participation of their staff and management in capacity-building programs. As is, membership fees for ANACAPH cover only around 40 percent of their regular expenses, with some additional fee income being generated through capacity-building programs. The rest must be bridged with donor funding, which is volatile. Le Levier can support its basic operations from income generated through liquidity management and annual

[13] For example, from DID and USAID.

membership fees. However, programs such as the launch and maintenance of an IT platform and sector computerization are funded by donors, with the sector currently not paying any fees for maintenance or upgrading. The IT system is now in dire need of upgrading and revamping, and Le Levier is considering changing the funding structure for the platform to a member-financed system.

In future, the roles of the individual sector organizations need to be clarified and activities prioritized to better fit the needs of the sector and to be economically efficient. There is a strong overlap between the membership in ANACAPH and *Le Levier*. This can be beneficial and help eliminate conflicts of interest, if the roles are clear. However, in Haiti, both sector associations play a role in representation, and provide some form of capacity building and IT support to the sector. In the absence of a holistic strategic vision for development, which is developed from within the sector or defined by law / regulations, the provided support is in many instances still driven by donor priorities.

Finally, there is currently no stability fund or deposit insurance scheme in place. The BRH has not yet implemented the stability fund provided for in Articles 60-62 of the CFI law,[14] which could help provide temporary support for entities in distress. Furthermore, no deposit insurance scheme is foreseen in the legal framework, and the sector itself has not created such a scheme. In some countries, such a stability fund or deposit insurance scheme is managed by the sector itself, giving the second-tier structures additional incentives and roles in overseeing the sector and ascertaining its soundness. In Haiti, only *Le Levier* provides some form of liquidity / stability fund for its members. Currently, though, there is no solid scheme in place to shield the estimated 800,000 members from losing their deposits in case of financial distress among the cooperatives.

[14] Based on Articles 60 and 61 of the CFI law (2002), each CFI would be obliged to contribute to a stability fund to be held at the BRH. The BRH is to be in charge of managing the fund and is authorized to levy annual contributions of 10 percent of CFI profits for the fund. The BRH also determines the conditions for disbursements.

3. The Legal, Regulatory and Supervisory Framework

3.1 The Legal and Regulatory Framework

A dedicated legal framework for financial cooperatives in Haiti is in place. The law of 2002 covers the registration, organization, and liquidation of financial cooperatives and their federations, and frames their respective roles and financial products. It complements the general decree of March 31, 1981, which determined the basic organizational form of cooperatives.

The law of 2002 allocates substantial powers to the BRH to regulate and supervise the sector. According to Articles 14 and 15, the power to issue prudential and market conduct regulations is fully vested with the BRH. In particular, the law provides for the BRH to issue regulations regarding capital requirements, credit, risk management, liquidity, and maturity structures. The law also calls for a dedicated and adequately funded unit within the BRH to supervise and sanction all authorized financial cooperatives and their federations. Further, it gives the BRH the power to conduct on-site visits, request information, and mandate remedial actions in case of violations of the legal and regulatory framework.

Although the BRH has overall relatively strong powers to intervene, it lacks the nimbler instruments of monetary sanctions. Articles 82-93 of the law mostly cover the right of the BRH to assess entity's or federation's books and other information, and in the case of noted infractions or problems, to require action plans for remedial actions. However, no monetary fines are foreseen as a tool for the BRH to push for remedial action. Instead, BRH's only tools in the case of non-compliance with action plan implementation consist of: (i) restricting the entity in carrying out certain activities; (ii) suspension of management/ Boards; or (iii) placing a financial cooperative under conservatorship/initiating liquidation. Only the courts are authorized to issue monetary sanctions for non-compliance, including to people who are operating a cooperative scheme without formal registration or authorization. This leaves the BRH with an incomplete set of sanctions.

Furthermore, the roles for registration and authorization of financial cooperatives are divided between the CNC and the BRH, with limited sanctions foreseen for infractions. To become a legally registered entity, financial cooperatives only need to present their constituting documents to the National Council of Cooperatives, which operates the registry. The documentation requirements for registration do not include minimum capital requirements, any economic viability considerations, or fit and proper information regarding the management/Board, as suggested best practice by the WOCCU.[15] The latter are only to be provided for receiving authorization by the BRH, with the information request to be channeled via the CNC after the entity is already registered. Furthermore, while Article 17 specifies that no financial cooperative should become operational prior to having received its authorization from the BRH, Article 142 does not explicitly provide for a sanction by courts for any infringement of these provisions.

Similarly, the closing, liquidation and de-registration of financial cooperatives is spread among various players. The BRH has a clear mandate for initiating the closing of a financial cooperative (Article 131), as well as to call for an administrator (Article 132). However, the liquidation itself is to be carried out by a committee of 3 members nominated by the General Assembly (Article137) of the respective financial cooperative, and the de-registration is to be carried out by the CNC. This makes de facto liquidation more difficult, as discussed below in Chapter 3.2.

A new draft law has been developed, which addresses some of the noted weaknesses discussed throughout this report. The new law places a stronger focus on the member's economic wellbeing as the overall objective of the financial cooperative. It also broadens the scope of financial intermediation from deposit and credit services to the provision of general financial services. Furthermore, it introduces important transparency and consumer protection-related provisions. The draft law calls for external auditors to be pre-approved by the BRH, and it includes additional provisions regarding the sanctioning regime. This allows the BRH to consider implementing a mandatory deposit insurance scheme. However, the aspects pertaining to registration, monetary sanctions and liquidations are not addressed. Additionally, the draft law would allow cooperatives to seek funding and sub-ordinated capital from legal entities. Given the current stage of development and the observed lack of membership focus in the sector, this appears premature.

More attention also needs to be placed on eliminating conflict of interest situations between the various roles of the federations (especially between the oversight and promotional roles), and ascertaining that federations have adequate institutional capacity and integrity for fulfilling their roles. The federations' regulations and oversight of its affiliates should also be mandated to be consistent with all BRH rules. Finally, while the draft law foresees a potential delegation of the supervision process to an independent auditor, the actual implementation currently appears premature given the quality of external auditors and the conflict of interest situation of the federations (see also 3.3.). The draft law is still pending discussion and approval by the Parliament.

3.2 The Supervisory Framework

A dedicated unit within the BRH has been created and is regularly conducting on- and off-site supervision of the authorized entities. In September 2017, there were 30 people working in the BRH's General Inspection Directorate for Financial Cooperatives (DGICP), of which

[15] See WOCCU Model Law (2015).

15 were supervisors of CFIs.[16] This appears adequate for the current scope of supervision. The off-site supervision is based on the received monthly financial statements. However, given the limited computerization in the sector, this frequently must be manually converted into electronic data.[17] This is not only time-consuming, but also costly and can lead to errors in the data. Furthermore, the DGICP is still working on putting in place a computer program to support off-site supervision.

On-site supervision of each authorized financial cooperative is conducted every 18-24 months and follows a standardized inspection program. The assessment emphasizes governance, correctness of accounts, adherence to internal processes, and observance of selected exposure ratios**.**[18] The streamlined supervision process, which is reflected in the supervision reports, appears efficient, and the strong focus on governance issues is to be commended. However, the supervision still largely focuses on compliance, which is useful in the initial phase of transitioning into supervision. However, it becomes insufficient for the larger entities. Furthermore, financial cooperatives that are not yet authorized are not fully supervised, with supervision being irregular and more focused on institutional strengthening rather than compliance.

Over time, the supervision should transition to a new scheme that pays stronger attention to the quality of governance structures,[19] as well as risk and efficiency aspects. For example, the BRH could develop a methodology for assessing efficiency indicators and the financial intermediation margin, and then incorporate this into the supervision process. If possible, this shift in focus should now be introduced for the larger and more sophisticated financial cooperatives. Furthermore, where stand-alone IT systems are used, these would have to be covered during the supervision process as well. These aspects are currently missing. Furthermore, these reforms would require increased DGICP staffing and funding levels, as well as the enhancement of its institutional capacity.

Follow-up regarding the implementation of required remedial actions largely relies on moral suasion, as the BRH does not have the power to issue monetary sanctions. The BRH usually mandates the development of corrective action plans to follow-up on findings from the supervision report. As such, it conducts follow-up visits to foster de facto implementation. This approach has helped the sector become more professional. Indeed, it was mentioned as helpful by all sector entities visited.[20] However, it is a rather labor-intensive and slow process, and

[16] Of the 30 employees of the unit, 15 are supervisors and qualified to conduct on- and off-site supervision. Most of the staff are located in Port au Prince, and some are also located in the BRH branches in the north and south of the country to follow-up on recommendations and action plans.

[17] Around 80 percent of the entities still send the information in paper form as they lack adequate automation.

18 The on-site supervision manual clearly details the information and aspects to cover during supervision, and accordingly provides standardized forms. The manual calls for verification of selected internal processes, an audit style verification of accounts, an in-depth assessment of governance structures, and an assessment of connected lending and exposure limits to the largest debtors and creditors. In the area of governance, the inspection manual covers the length of tenure on Boards and committees, information pertaining to the Board and Committee meetings, lists of connected persons, and any information about savings and credit products used by the connected persons and their financial terms.

[19] This includes evidence of strategic discussion and analysis of financial soundness and operational efficiency in Board minutes, quality of work and findings of the audit committee, transparency of disclosure vis-à-vis members, and so on.

[20] The mission noted for example that most cooperatives are now recruiting internal auditors to improve adherence to procedures, as frequently highlighted in the supervision reports. Furthermore, accounting mistakes and the financial statements were revised and adjusted in line with findings.

does not provide strong incentives to the institutions for implementing remedial actions. In the absence of monetary sanctions, the BRH can only remove the management or Board if the implementation of the action plan stalls or other larger infractions are noted. To date, the BRH has only done this in one case.

As in many other countries, the coordination between the two entities in charge of registration and authorization of financial cooperatives is not working well, leaving an unknown number of active entities without authorization. The CNC focuses on its role as promoter of cooperatives and does not have the capacity to solicit and verify information from new and existing financial cooperatives. Therefore, the information in the registry is not reliable. There is also a substantial time delay between registration by the CNC and the authorization of entities by the BRH, although many of the registered — but not yet authorized — financial cooperatives are operational and take deposits.[21] For instance, the mission visited one cooperative with 5,000 members, which has been operating for 13 years. Only recently was it considered sufficiently developed to receive formal authorization from the BRH. Furthermore, for cost-benefit considerations, the BRH does not formally authorize and supervise financial cooperatives with assets of less than 5 million Gourdes (~US$80,000). Although this is cost-efficient, it is not foreseen in the law.

Moreover, inactive financial cooperatives are not formally liquidated, which contributes to the lack of reliable information about the sector. The mission learned about one financial cooperative that no longer operates. However, in the absence of formal liquidation, it continues to be listed on the BRH website and the CNC registry. In another location, there was a sign for a cooperative, which neither appeared in the registry nor on a list of authorized entities of the BRH. Furthermore, it was not clear whether it was operational. Although the BRH can mandate the liquidation of the entity, the process itself is cumbersome, time consuming and costly, and involves various players. As such, it has not yet initiated any liquidation processes.

For these reasons, there is no reliable information about the sector. The registry of the CNC includes 58 registered financial cooperatives, and the BRH lists 59 formally authorized financial cooperatives and monitors another 20-30 unauthorized entities.[22] In addition, there are between 50 to 100 unregistered and unauthorized financial cooperatives operating throughout Haiti.[23]

3.3 Additional Oversight Structures

In line with international best practice, the legal framework requires financial cooperatives to be subject to annual external audits; however, the quality of the audits is highly uneven and needs improvement. According to the legal framework, the federated cooperatives are subject to an external audit by their federation. *Le Levier* has specialized auditors for this, and the quality of their work appears largely adequate. However, the auditors are employees of *Le Levier*, which can create a conflict of interest in the auditing process, as the Board

[21] The law clearly states that the authorization should be granted "prior" to starting operation (Article 24), but this is not applied in practice. Instead, the BRH is monitoring a number of unauthorized entities, and supports them through regular visits and recommendations for reforms.

[22] This is based on a list of entities received from the CNC and the publicly available information about sector entities on the BRH's website. Two of the entities authorized and supervised by the BRH were not on the CNC list, and one financial cooperative on the CNC list was no longer authorized by the BRH.

[23] Some unauthorized cooperatives are listed as affiliates or associated members of the ANACAPH or Le Levier. The CNC and a number of publicly available reports about microfinance institutions in Haiti estimate the total number of financial cooperatives to be in the range of 150.

of the Federation is composed of representatives from member institutions.[24] Non-federated entities can freely choose their external auditor, as there is no requirement to use auditors from a list of pre-approved auditors by the BRH. The two reviewed audits from external auditors were of questionable quality and did not fulfill their purpose of verifying the financial data. For instance, one audit had a mistake in the calculation in the cash flow section, and the other added instead of subtracted the loan loss provisions to the revenue, turning a de facto loss into a profit in that year. Overall, the audit reports do not include any opinion or observations regarding the quality of data and internal processes. Furthermore, the auditors do not formally verify internal control mechanisms and compliance of processes and manuals with the requirements of the regulatory framework. This reduces the value of external audits for members as well as the supervisor.

***Le Levier* also supports the implementation of required enhancements, which can create a conflict of interest situation with its auditing function.** The federation employs 10 counselors, who regularly visit the affiliated entities and discuss with the managers and their boards the steps and measures to take in implementing the findings from the audits and other reviews, such as governance reviews. Some of the managers also indicated that the counselors helped them to extract financial information and ratios from the centralized IT system, and assess the performance of the entity. They also discussed performance enhancement measures and strategic aspects. While this direct supervision can be very effective for strengthening individual entities, attention has to be placed on preventing conflict of interest situations and governance-related issues. There are currently no firm barriers ("Chinese walls") between the auditors and counselors of *Le Levier*. This could lead to a conflict of interest, as auditors eventually review suggestions and measures introduced by their own colleagues.

[24] In Germany, for example, if the Federation supervises a financial cooperative whose manager is on the Board of the Federation, another Federation is assigned the task of supervision.

4. Diagnostic of the Financial and Operational Soundness of Financial Cooperatives

This chapter is based on information received during the field visits to 11 financial cooperatives, as well as data from the financial statements of these entities provided by the BRH. The assessment of the financial health of institutions (Chapter 4.1.) is predominantly based on information from the financial statements of these entities, complemented by qualitative information and observations from the field visits. The sub-chapters on governance and operational efficiency are mostly based on qualitative feedback received from the management of the entities, as well as from randomly selected minutes from the Board, Audit and Loan Committees, as well as loan files and annual reports provided by management.

4.1 Observations on the Financial Structure and Soundness of Entities

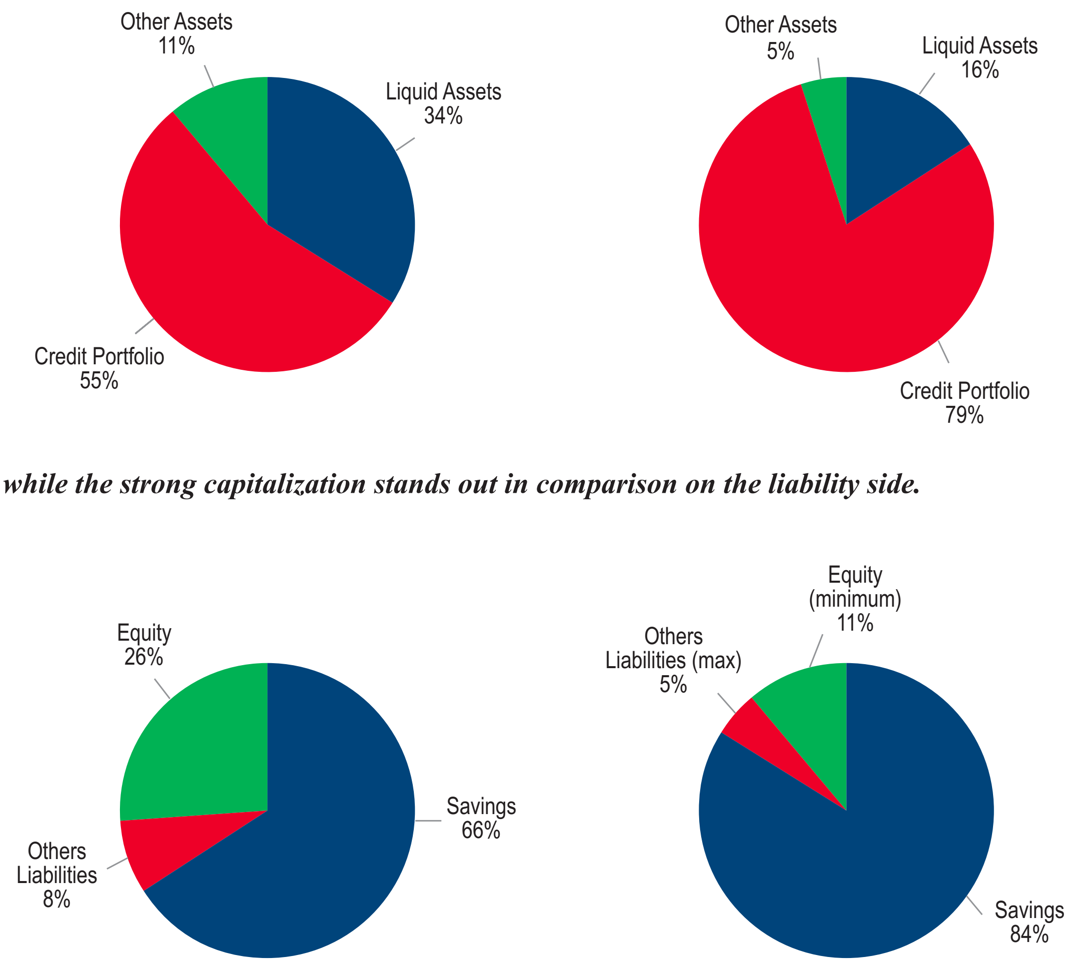
The BRH mandates the usage of a harmonized accounting plan; despite its shortcomings, it is largely sufficient in capturing the financial situation of the entities. The standardized accounting plan, which was issued by the BRH in 2007, includes guidance material regarding the underlying accounts as well as a model Excel spreadsheet.[25] Although it does not follow international accounting standards, it is sufficiently detailed to reflect the operations of both small and larger financial cooperatives in Haiti, while also taking the still rudimentary automation of entities into account. However, the financial accounts do not require reporting of non-performing loans, and instead only capture information about the net loan loss provisions.[26] Given the rapid write-offs observed in the sector[27] — and limited transparency on the level of those write-offs during the year — the information is not adequate to reveal the true level of delinquency,

[25] A new standardized accounting plan was issued in 2017 and is currently under implementation.
[26] Provisioning rules deviate from those suggested by the financial ratios of the WOCCU PEARLS. It is required that 100 percent of the unsecured loan balance be provisioned after a delinquency of 180 days, and that a 1 percent general provision be held for the performing part of the portfolio. The WOCCU PEARLS call for a full provisioning of the loan after they are 360 days overdue. It encourages write-offs after one year, but suggests that more recent non-performing loans should not be written off.
[27] Some entities write-off their non-performing loans after less than 180 days.

Figure 4: Asset and Liability Structure of Haitian CFIs in Comparison to WOCCU PEARLS

The asset composition of Haitians CFIs differs substantially from the WOCCU recommendation…

…. while the strong capitalization stands out in comparison on the liability side.



Source: Author's compilation based on data provided by the BRH.

which is elevated in many of the visited entities. Furthermore, some entities only reflect their written-off loans in the profit and loss statement and move them out of the balance. At the very least, this needs to be harmonized, and annual reporting about the annualized level of non-performing loans should be made mandatory. Nevertheless, the data is still expected to provide a good enough indication of the financial structure and sector, as provisioning rules are in place and adhered to, and efforts are generally made to recover written-off loans.

The assessment of financial accounts reveals substantial inefficiencies in the financial structure, particularly elevated levels of liquidity and other assets. Figure 4 shows that the 11 visited financial cooperatives have on average 35 percent of their assets in liquid assets, with some showing liquidity levels of up to 73 percent. This is considerably above the maximum of 16 percent suggested by the WOCCU PEARLS. (see Table 4). Also, nine of the 11 entities have high levels of non-productive assets (with 12 percent on average compared to the recommended maximum of 5 percent by the WOCCU), as written-off loans are in part captured as other assets. Furthermore, several entities have or are investing in new locations and buildings. These peculiarities in the financial structure reveal low levels of financial intermediation, with many entities having only a fraction of their deposits channeled into loans (see also Chapter 4.3.).

Despite the low level of financial intermediation, most of the financial cooperatives are profitable, as they benefit from substantial financial intermediation margins and additional fee-based income. Table 5 shows that 9 of the visited 11 financial cooperatives reported positive returns on assets (ROA), with an unweighted average of 4.7 percent. Given high capitalization levels in the sector, this elevated profitability only translates into an average Return on Equity (ROE) of

Table 4: Overview of the Financial Structure of Financial Cooperatives (June 2017, as a percentage of assets)

	Assets (in Gourdes)	Liquid Assets (%)	Credit Portfolio (%)	Other Assets (%)	Savings (%)	Other Liabilities (%)	Equity (%)
CFI 1	91,165,448	73.0	22.3	5.4	62.1	16.8	21.1
CFI 2	728,250,911	23.8	68.0	9.0	65.9	9.8	24.3
CFI 3	86,871,402	61.9	36.0	3.2	63.0	5.0	32.0
CFI 4	451,194,313	19.6	52.0	29.8	55.3	28.7	16.0
CFI 5	519,041,550	31.5	59.1	11.4	68.8	6.5	24.7
CFI 6	666,897,028	43.8	47.4	8.8	69.4	2.3	28.4
CFI 7	97,321,870	24.4	73.6	11.0	73.3	6.1	20.5
CFI 8	104,884,433	37.0	52.9	12.7	36.1	2.0	61.9
CFI 9	20,599,268	10.4	73.3	29.5	83.0	3.0	14.0
CFI 10	75,193,362	34.6	71.5	2.0	68.4	2.7	28.9
CFI 11	784,035,933	22.9	69.2	11.4	81.1	4.5	14.4

Source: Author's compilation based on data provided by the BRH.

15.6 percent. The comparatively comfortable profitability is achieved despite limited financial intermediation levels, elevated ratios of non-performing loans, as well as operational inefficiencies (see Chapter 4.3). The profitability mostly stems from: (i) a comfortable financial intermediation margin between deposits and loans of, on average, 23 percent (Table 5); (ii) a positive interest margin between deposits held in banks; (iii) the close to zero percent of interest paid for member deposits; and (iv) fee income for loan processing and other levied charges. In some entities, the fee income comes to over 3 percent of assets.

The profitability helps entities bolster their capital base, although the composition of capital needs to improve. On average, the financial cooperatives have a capital-to-asset ratio of 26 percent, well above the 12.5 percent mandated by the BRH in its prudential regulations for the sector (Table 6). It is

Table 5: Drivers of Financial Cooperative Profitability in Haiti (June 2017)

	Profitability		Financial Intermediation Margin					Additional Fee Income/ Assets (%)
	ROA (%)	ROE (%)	Average Interest Paid on Member Deposits (%)	Average Interest Received on Loan Portfolio (%)	Margin (Loans/ Deposits) (%)	Average Interest on Liquid Assets (%)	Margin (liquid assets/ deposits) (%)	
CFI 1	2.7	12.9	0.5	23.6	23.1	3.6	3.1	2.4
CFI 2	6.4	26.5	1.1	20.5	19.5	3.2	2.1	2.0
CFI 3	5.8	18.2	0.3	21.8	21.5	3.7	3.4	2.2
CFI 4	4.9	30.5	1.4	25.7	24.3	4.8	3.4	3.2
CFI 5	6.3	25.7	0.4	22.4	22.1	1.1	0.8	1.7
CFI 6	7.1	25.1	0.3	28.6	28.3	11.2	10.9	4.0
CFI 7	5.7	27.9	0.8	30.0	29.2	n.a.	n.a.	7.0
CFI 8	10.1	16.3	0.4	26.5	26.1	4.2	3.8	1.6
CFI 9	-5.5	-39.4	0.6	20.6	20.0	0.2	-0.4	1.8
CFI 10	3.7	12.7	0.2	8.6	8.4	0.0	-0.1	2.5
CFI 11	n.a.	n.a.	1.1	n.a.	n.a.	n.a.	n.a.	2.8
Unweighted Average	4.7%	15.6%	0.6%	22.8%	22.3%	3.6%	3.0%	2.8%

Source: Author's compilation based on BRH data.

*Note: The data reflects a substantial one-time write-off of non-performing loans to correct for past deficiencies. n.a.= not available

Table 6: Capital Composition of Financial Cooperatives (June 2017)

	Total Capital/ Assets (%)	Member Shares/Total Capital (%)	General Reserves/ Total Capital (%)	Contingency Reserves/ Total Capital (%)	Social Fund /Total Capital (%)	Non-distributed Profits/Total Capital (%)
CFI 1	21	9	5	32	0	54
CFI 2	24	7	5	44	0	44
CFI 3	32	10	6	55	0	29
CFI 4	16	8	6	52	0	35
CFI 5	25	5	9	65	1	19
CFI 6	28	10	8	61	2	19
CFI 7	21	16	9	54	0	21
CFI 8	62	2	7	64	0	26
CFI 9	14	64	10	-34	0	60
CFI 10	29	13	7	57	0	23
CFI 11	14	17	9	36	0	38
Unweighted average	26%	15%	7%	44%	0%	33%

Source: Author's compilation based on data provided by the BRH.

also above the net institutional capital of 10 percent of assets suggested by the WOCCU.[28] Member shares, which according to the legal framework can be withdrawn, only account for a small fraction of capital in all but one entity. The remaining capital is mostly composed of contingency reserves and non-distributed profits, which can be spent upon the discretion of the management, whereas general reserves (true tier two capital, according to the Basel Core Principles) only account for an average of 7 percent of total capital. This imbalance between general reserves, contingency funds and non-distributed profits should be remedied as it leaves a lot of flexibility for management. The Basel Core Principles establish that these types of accounts should not be greater than the first-tier capital (generally social capital and legal reserve) for purposes of counting as institutional capital, with both tier one and qualifying tier two together reaching a capital ratio of at least 8 percent. If this standard were to be applied, one of the cooperatives would not have adequate capital levels. Furthermore, the data shows that hardly any funds are earmarked for social activities. As discussed in Chapter 4.2, the lack of social activity of financial cooperatives is an important weakness.

[28] According to the definition used by the WOCCU, the net institutional capital would include all legal reserves, retained earnings, as well as surplus provisions.

The visits to individual entities also revealed some potential vulnerabilities arising from market, credit, and foreign exchange rate risks; such risks require attention and adequate regulatory guidance. Liquidity risk does not appear to be a problem, as most entities have liquidity levels far above the already high prudential norm established by the BRH of 25 percent of short-term deposits.[29] Exposure limits are set by BRH regulations, and adequately limit the exposure to individuals and connected parties. However, potential vulnerabilities are noted in the following areas:

- Market risk: The financial cooperatives are only allowed to operate in one department of Haiti, and cannot branch out across departments to diversify their risks. Furthermore, individual cooperatives have a portfolio of over 50 percent in commercial or housing credit, exposing them to substantial market risk in a small geographic area.
- Maturity risk: Most financial cooperatives have only current or short-term deposits, but offer credits of up to 3 years. Given the elevated capital base, this currently does not appear to pose a risk. However, it should be watched and regulated over time.
- Credit risk: Most entities reveal elevated levels of non-performing loans, pointing in part to a poor overall repayment discipline as the underlying reason. Although no reliable data was presented, 7 of the 11 entities are estimated to have NPLs of over 10 percent or in one branch (if calculated considering the annual provisions and write-offs).
- Foreign exchange rate risk: There is no regulation regarding the management of foreign exchange rate risk. Five of the 8 visited financial cooperatives that offer foreign exchange (FX) deposits experienced some losses from foreign exchange fluctuations in recent years, whereas the others mostly hedge the received foreign exchange deposits by re-depositing these funds in banks in foreign currency. Consideration should be given to authorizing only those entities with solid internal processes and sophistication to offer FX deposits to their members, as well as to determine limits for the FX risk position.

4.2 Governance Structures

The legal framework determines the core governance structures for financial cooperatives. It calls for annual General Assemblies, sets voting rules of "one member, one vote", mandates the existence of a Board, Audit and Credit Committee, and determines fit and proper requirements for participation on the Board and Committees. It also determines the scope of work to be conducted by the respective governance bodies and clarifies that the Audit Committee should oversee complaint handling.

Although many of these provisions are broadly in line with international best practice, a few gaps were noted. For example, there is no requirement to have an uneven number of members on the board, and the tenure of Board / Committee members and the frequency of meetings are not covered.[30] There is also no provision for larger cooperatives to have a person with accounting or auditing knowledge on the Audit Committee. Furthermore, neither the federation to which a cooperative belongs nor the BRH can request an extraordinary General

[29] Three entities have liquidity of around 100 percent in terms of short-term deposits, and 3 have liquidity of 46 percent and above. BRH's liquidity indicator should be adjusted downwards over time. The WOCCU suggests having a liquidity ratio of 15-20 percent of assets. A comparative study carried out by the German Cooperative and Raiffeisen Confederation (DGRV) shows that most supervisors in Latin American countries use a liquidity requirement of 15 percent.

[30] This could be done through setting a minimum frequency of Board meetings per year, or setting term limits for the reelection of Board or Committee members.

Assembly to discuss identified issues during the supervision/auditing process. Finally, there is a requirement to have an external auditor verify the accounts. However, there is no requirement to use a pre-approved auditor by the BRH to ascertain and affirm a minimum level of quality audits. These gaps in the legal framework can negatively influence the quality of governance structures currently in place.

The legal framework also falls short of transparency of information-sharing with members. For example, there are no requirements to: (i) inform members about price changes and periodically discuss pricing policies in the General Assembly; (ii) visibly display the terms and conditions in branches (and in easily understandable terms); and (iii) make available to the public the annual report, the financial accounts and the names of candidates for vacant Board and Committee positions prior to the General Assembly. Furthermore, minutes of the Annual Meeting are to be prepared, but there is no obligation to make them easily accessible to members or to publicly disclose the core information. Members can only request to see the pricing information or the ledger with the minutes in the branch or receive a copy of selected information — for a fee. This is a cumbersome process and requires members to know about their rights to demand such information.

In practice, all financial cooperatives adhere to the mandated governance structures, but substantial weaknesses in the quality of governance were noted. The cooperatives generally had 7 members on their Board, and 3 members each on the Auditing and Credit Committees. Most financial cooperatives indicated that their Boards and Committee Members have a higher level of education.[31] Furthermore, some had participated in a one-time training provided by the ANACAPH, the CNC or the Federation, which reportedly was useful. Although Board and Committee meetings are taking place on a regular basis, the quality of discussion and decisions taken are questionable. As shown in Box 1, the minutes of the Board and Committee meetings include limited to no traces of a discussion of financial and operational indicators, or of strategic issues or general oversight. The mission also noted a low turnover in the Board and Committees, with the president of the Board being occupying this position for over 10 years in 6 of the 8 financial cooperatives (see Annex 2).[32] This low turnover can lead to capture, and create conditions under which fraudulent activities such as pyramid schemes may emerge (as it has happened in Haiti and other countries). This should be carefully watched.

In the absence of legal requirements, the de facto transparency of information toward members is inadequate. General Assemblies are held annually, but the participation of members is generally less than 5 percent (see Annex 2). Topics to be discussed, such as information about the financial performance of the cooperative or members to be elected for office, are usually not disclosed upfront, and are also not frankly discussed in the annual reports (if there is a report). Few annual reports reveal the true level of non-performing loans, which in many entities is estimated to be a double-digit number, or include information about the members to be elected for office.[33] The mission did also not learn of any effort to disclose the results of the General Assembly to members, such as posting information about elected members and the distribution of profits on bulletin boards. With regard to pricing transparency, only one cooperative had pricing information visibly

[31] They finished school or had a university degree.

[32] Due to time limitations, only 8 of the 11 visited cooperatives were asked this question.

[33] The accounting manual for the sector does not require disclosure of the non-performing loans, and instead only mandates disclosure of the provisions. Furthermore, many financial cooperatives quickly write-off loans, so that reported NPLs appear lower than the true rate. This makes it difficult for both Boards and members to understand the true level of non-performing loans and incurred losses to the cooperative.

Box 1: Content Included in the Minutes of Board and Committee Meetings

In almost all of financial cooperatives visited, the mission team took a brief look at the minutes of the Board, Audit and Credit Committee meetings and discussed governance aspects with management. The following was noted.

Board Meetings

There are limited signs of strategic discussions taking place at Board meetings. Only a few managers confirmed that they regularly assessed core financial and performance indicators, with most revealing a focus only on liquidity, as well as on growth of savings and credits. These are also the numbers presented at Board meetings. The mission found only very limited evidence of discussion about the elevated levels of non-performing loans in entities. If the topic was discussed, the focus seems to have been more on what the Board can do to help recover some of the loans. Some managers also indicated that they rely on the Le Levier counselor to compile and discuss financial information with them.

Overall, the Board minutes mostly cover the approval of individual expenses, such as generators, repairs, replacement purchases, and so on. Furthermore, some discussions about other activities (funeral, retirement, limited social activities) are evident, as well as approvals / selection of new staff (internal auditors). In many instances, there is no information about the votes taken or of members present at the meetings.

Audit Committee Meetings

The review of the minutes highlights the mixed quality of the work of the audit committees. Although the audit committee seems to be very active in some entities, the minutes do not indicate a careful verification of adherence to internal guidelines and manuals in over half of the visited entities. In many instances, the minutes only state what type of verification was done (that is, the counting of cash in the safe, the review of a ledger). They do not reflect any results of the audit, issues identified, or recommendations for improvements.

Credit Committee Meetings

The Credit Committee minutes do not indicate any discussions about the viability of a loan application, or request for additional information to assess the presented loan files, which in many cases lack adequate information to form an opinion about a person’s repayment capacity or actual income. Overall, many minutes do not include information on the number and names of participating members, or the results of votes. Some minutes were not in chronological order.

displayed in the branch. Two others displayed information of deposit interest rates "*up to ...*", whereas the vast majority of their members received no or less than 1 percent of interest on their deposits. Finally, fees and commissions for services were not publicly disclosed, and even some of the assessed loan files fell short in making pricing information fully transparent.

These governance and transparency problems negatively impact the cooperatives' capacity to cater to member needs and economic well-being. Although managers indicated that people's prime motivation for joining the cooperative is the prospect of receiving a loan, only between 1-10 percent of members have a loan. Most cannot provide the required cash collateral of 25 to 30 percent of the loan amount and are therefore ineligible. In factoring in the cash collateral, it should also be noted that loans are quite expensive. In addition, members receive limited to no remuneration for their deposits and member shares, as most cooperatives do not pay dividends on members' social capital. They offer only between 0-2 percent of interest on sight deposits and cash collateral. Given the inflation rate of around 12 percent, this translates into a negative real interest rate on member savings. Finally, a number of the larger financial cooperatives offer bill payments and other transaction services (in many cases as agents for banks or as money transfer operators). However, these services are also accessible to non-members and are fee based. Given the observed range of products and services offered — including their elevated costs — the value proposition for members appears unclear, thereby leaving the cooperatives vulnerable to member drift, as well as reducing interest in being an active member.

The limited focus on social and community support also lowers member incentives to play an active role in governance. In many countries, social engagement in the community sets cooperatives apart from other financial institutions, creating trust and a strong common bond among members. The financial cooperative law (2002) already includes as a guiding cooperative principle the fostering of the economic participation of members, and the engagement with the community (Article 3). Article 64 also provides for the creation of a social fund, into which up to 10 percent of the disbursed profits can be placed, once the required reserves and provisions have been created. In practice, however, only the larger cooperatives make some funds available for social projects and outreach, whereas the others offer only some training about cooperative principles or economic management to their members. This lack of member and social orientation in cooperatives reduces member incentives to actively and voluntarily participate in "their" cooperative, and to play a vital role in the internal oversight of their cooperative. As noted, this in turn contributes to the weaknesses in governance.

4.3 Operational and Financial Efficiency

Almost all financial cooperatives show elevated operational costs, and 5 of the 9 entities barely cover their operational costs from the net interest income. The WOCCU PEARLS suggest as a reference point a ratio of operational expenses over assets of below 5 percent. Only 2 of the 11 visited financial cooperatives achieved this. The average operational expense ratio is 7.7 percent (see Table 7), with 5 entities having operational expenses of 8.8 percent and higher. Some of the cooperatives were only barely able to cover their operational expenses from the net interest income alone (see the third column of Table 7). This can in part be attributed to elevated operational costs. However, it is also the result of low levels of financial intermediation of the CFIs, which keeps the net interest income below potential. The net profitability therefore currently depends on additional income generated from:

- Fees for credit processing of 1.5 to 3.7 percent of the loan amount;

- Penalty fees for late payments’
- Out of balance sheet recovery of written-off loans;
- Fee income from services, such as government check cashing; and
- Received grant funding or free services.

The data is not sufficiently detailed to assess the core drivers of the operational expenses and determine areas for reforms. As seen in Table 7, over one third of the operational expenses are incurred as “other costs”, which includes costs for cash provision, IT, training, the General Assembly, and costs for services such as consultants, among other costs. However, based on information from the field visits, costs for IT, the General Assembly and training are currently lower than expected. CFIs associated with Le Levier are not required to pay a fee for the usage of the IT platform and its upkeep, and non-affiliated CFIs frequently do not have a full IT system (see discussion below). The costs for IT are therefore below the costs that are to be expected in a modern and automated sector. Furthermore, few cooperatives report being able to afford training for their staff, mostly relying on in-house training. Accordingly, financial accounts with more details do not reveal any expenses for the training of their staff. Finally, given the limited participation of members in the General Assemblies, the costs for these annual events are also not expected to be excessive. Therefore, it is not clear why the “other costs” reach 36 percent on average. The costs for staff also appear

Table 7: Ratios and Composition of Operational Costs

	Ratios for Operational Costs (OCs)		Composition of Operational Costs (OCs)			
	OCs/ Assets (%)	OCs/Net Interest Income (%)	HR Costs/ OCs (%)	Costs for Premises/ OCs (%)	Amortizations/ OCs (%)	Other OCs/ OCs (%)
CFI 1	5.5	96.6	40.1	7.5	11.9	40.4
CFI 2	6.0	58.0	41.0	12.0	12.8	34.2
CFI 3	4.0	54.5	37.0	14.3	8.2	40.6
CFI 4	9.2	91.0	46.2	8.6	6.9	38.3
CFI 5	6.3	63.3	38.2	6.9	5.4	49.4
CFI 6	11.7	86.5	39.3	7.2	12.8	40.8
CFI 7	15.3	96.0	50.9	2.1	12.2	34.8
CFI 8	5.1	44.7	56.4	4.0	19.6	20.0
CFI 9	10.7	97.4	76.0	0.0	0.7	23.3
CFI 10	2.5	54.1	51.1	8.2	2.1	38.6
CFI 11	8.8	n.a.	41.8	12.3	9.2	36.7
Unweighted Average	**7.7%**	**74.2%**	**47.1%**	**7.5%**	**9.3%**	**36.1%**

Source: Author’s compilation based on BRH data

Note: HR = human resources; n.a.= not available excessive in a number of the entities. A more detailed assessment of the underlying cost categories should be conducted to derive a holistic set of measures for increasing the operational efficiency of individual entities.

A common source of operational inefficiency is credit risk management. Based on a random review of credit applications and the minutes of the Credit Committees, most financial cooperatives have a limited capacity to appraise credit. The loan files usually present a short balance of income and expenditures of the prospective client. However, in many instances, they do not provide a solid assessment of the borrower's repayment capacity. For example, several files did not provide any verification of the stated salary or show the underlying calculations necessary to understand how the monthly income of a merchant was calculated. None showed income from remittances, and few showed the diverse sources of income of a typical household in Haiti. The expenditure calculation was mostly rudimentary and did not show much deviation in expenditure levels between households of different sizes. The credit appraisal and disbursement process take up to two months, due to inefficient processing in a number of entities. The two core factors for the appraisal are the ability of the client to provide the cash collateral, and the previous credit history with the financial cooperative. However, these two factors not only lower the number of eligible borrowers in a cooperative, they are also imperfect predictors of the person's capacity to repay. Thus, the loan appraisal process needs to be revamped in order to increase the level of financial intermediation in financial cooperatives and lower the ratio of non-performing loans.

While most financial cooperatives should be praised for making efforts to recover their non-performing loans, some gaps and problematic practices were noted. In some entities, management did not reveal clear timelines regarding follow-up on late payments and procedures. Most cooperatives only start the follow-up process after the loan has been 1 to 3 months overdue, which is late for effective loan recovery. When following up on non-performing loans, financial cooperatives tend to use comparatively strong and potentially unfair recovery techniques, such as posting the names of defaulters inside and outside of the branches or employing debt collectors with tough enforcement practices. This needs to be monitored. In addition, the BRH needs to issue some guidance to ascertain adherence to sound practices in line with consumer protection principles.

The mission also noted several deficiencies in internal processes:

- While most financial cooperatives have someone, who is trained in accounting, the mission team notes some deficiencies in the presented accounts, as well as variation in the registration of similar transactions. This points to a need for more training and guidance on the applicable accounting rules. For instance, one cooperative had written off loans, but had not adjusted its provisions accordingly. In another CFI, there was no evidence of a change in the level of provisions from one year to the other. In another cooperative, the provisions were added (not deducted), thereby turning a de facto loss into a profit. The detection and correction of these problems is made more difficult by the lack of internal controls, as well as by the lack of automation in the sector. This in turn makes it more difficult for the BRH to assess the underlying data and identify problems.
- Although the accounts are prepared monthly, many managers do not seem to understand the accounts or what to look for. Some indicated that the accounts are pulled or presented automatically, but they do not really understand how to interpret the data. In other entities which had more than one branch, the data needed to be compiled manually from the IT system, as the IT system does not allow for automatic compilation across branches.

This makes it more difficult for management to maintain an overview of the situation of the financial cooperative and detect any inefficiencies.

- Finally, there seems to be a lack of internal controls to ascertain adherence to internal policies and manuals. The BRH supervision reports highlight many instances of gaps between manuals and actual practices, and the BRH has made substantial efforts to foster the recruitment of internal auditors in the cooperatives. To date, only one financial cooperative had an internal auditor, and 2 others were in the process of hiring one.

Despite ongoing efforts to automate the sector, the IT systems are still rudimentary. Of the visited entities, only 7 entities affiliated with Le Levier have IT systems, which included an accounting, savings and credit module. However, the IT system of Le Levier is based on software developed in 2000. With limited updating, it has become outdated[34] and poses a considerable technological risk. Furthermore, although the IT system allows for the automatic generation of financial accounts by branch, it cannot provide consolidated information for entities with several branches. Therefore, the larger CFIs must manually compile the consolidated financial statements to assess their situation internally, as well as to comply with the monthly reporting requirements of the DGICP. In addition, cooperative staff do not appear to be sufficiently comfortable with the IT system, with management reporting many small human errors that need to be rectified.

Le Levier is currently in the process of exploring options for acquiring a new system and developing a cost-sharing model with its affiliates. In doing so, they will be able to afford regular maintenance of the system. This is to be commended. The non-affiliated entities or those not yet full members of Le Levier usually only use Excel for accounting purposes, with the financial transactions largely being processed manually. Accordingly, they only transmit print-outs or basic Excel files to the DGICP. Furthermore, in many instances, they do not regularly generate core financial soundness and profitability indicators to properly guide management.

Progress toward automation will also be needed to allow financial cooperatives to participate in the payment system and to provide services such as remittance transfers to its members. To be competitive in the medium term, financial cooperatives need to make progress toward offering electronic payments to their members. These services are increasingly offered by banks and non-bank payment service providers and allow clients to reduce transaction costs and times. Furthermore, electronic payments also facilitate the transmission / reception of remittances. According to the World Bank Remittance Database, personal remittances to Haiti are equal to 29 percent of GDP (2016). Only a few financial cooperatives currently offer payment or remittance transfer services, and none reported using remittances for linking members with financial services. As members represent around 15 percent of the total adult population in Haiti, this is an important opportunity for cooperatives to improve their services, enhance member retention and satisfaction, and deepen financial intermediation. This would require improved IT systems, which can conduct transactions in real time, have an adequate data transfer infrastructure and security systems, as well as access to the Central Bank's payment system or a direct link to payment service providers such as Western Union, MoneyGram and others.

[34] The centralized IT system has many problems, including: (i) almost all processes are still done manually; (ii) the system has only has limited operational times; (iii) it does not yet automatically generate consolidated financial indicators; (iv) it is cumbersome with regard to solving problems, as this can only be done by the IT specialists of Le Levier; and (v) it requires ongoing connectivity, which in many areas is still a problem.

The BRH is currently exploring options to support the uptake of debit cards and electronic payments among the population, and including financial cooperatives in the effort. Although this is generally to be commended, linking financial cooperatives with advanced payment options will require a holistic approach and substantial support for implementation. A detailed assessment of what is required to directly link financial cooperatives to the payment system will be needed. It will also be necessary to develop criteria for linking financial cooperatives indirectly (that is, through agent services for third parties) to payments. The launch will also require substantial support for capacity building of staff, liquidity management, and overall risk management. Furthermore, the launch should be accompanied by adequate financial education measures for members to help them understand the new payment mechanisms and learn about their rights and responsibilities. Although linking financial cooperatives to the payment system will be costly and require lots of effort from all stakeholders, the benefits are expected to outweigh the costs over the medium to long-term, helping to deepen financial intermediation and foster economic linkages.

5. Summary Assessment and Recommendations

5.1 Summary Assessment

The authorized financial cooperatives in Haiti have reached profitability; however, in many instances, they are still at a basic level of operation. Despite elevated levels of non-performing loans and high liquidity, the majority of financial cooperatives are profitable. They have been able to build reserves and contingency funds as a cushion to mitigate potential risks. Basic accounting systems and operational manuals are in place, and several entities use an IT system to automate part or all their operations. However, the IT and accounting systems still appear to be rudimentary. A similar situation exists in the area of governance, where the core governance structures are in place, but the exercised quality of oversight remains questionable. The mission did not meet with unauthorized entities, but there is some indication that they have not yet reached this basic level of operation. In this context, they would still need substantial strengthening to enhance their performance and strengthen their operations.

The sector still has substantial gaps in efficiency and reports low levels of financial intermediation. External factors such as the informality of the economy certainly contribute to these gaps. However, the low efficiency and financial intermediation are mostly due to internal weaknesses in operations, as well as the lack of orientation toward member needs. For instance, accounting, risk management and business planning are deficient in many entities, mostly due to gaps in human capacity and a lack of internal controls. In the area of credit risk assessment, decisions are largely based on available collateral and not on a solid evaluation of the member's repayment capacity, thereby excluding a large number of members from loan eligibility. Most members receive no or little remuneration for their deposits and social capital. At the same time, credit interest rates are elevated to cover operational inefficiencies.

Second tier Support structures exist and help reap economies of scale, but they still need to enhance their services and become self-sufficient. The two existing sector organizations provide capacity building and technical assistance to their affiliates. They also offer IT services and systems. The federation also provides liquidity management and oversight. However, both largely depend on donor funding to sustain their services and some of the products (IT) are outdated. Another federation is being created.

A dedicated legal and regulatory framework is in place for the sector, and the BRH is regularly conducting on- and off-site supervision of the authorized entities. The legal framework gives the BRH a clear role in the authorization and supervision of financial cooperatives, but registration is still being conducted with another government entity. The BRH also does not have the power to impose monetary sanctions for infractions, which impedes the implementation of corrective actions. Finally, neither the foreseen stability fund nor a deposit insurance fund has so far been created to support reform implementation and, if needed, help to close the unviable entities. Given these circumstances and the cumbersome legal procedures, the BRH has not yet initiated the liquidation of unviable or dormant entities.

5.2 Recommendations

To bring the sector to a higher level of sophistication and further enhance its performance and services, it is paramount to undertake a holistic and consolidated reform effort. Reforms are urgently needed to safeguard the medium-term profitability of the sector, as the current high intermediation margin is unlikely to be sustainable over time. Financial Cooperatives will increasingly be confronted with competition from other financial service providers, who are now starting to reach out to the unbanked segments of the population through innovative delivery mechanisms (that is, mobile wallets and non-bank agents), and who are able to also provide payment services to their clients. The reforms are also needed to help deepen financial intermediation in the country and support economic growth. With their rootedness in the communities and focus on retail clients, financial cooperatives are important players in reaching out to lower income groups.

It would be useful if the sector could come together to develop a joint vision of the outreach, performance and product mix to be achieved in the next 5 to 10 years, as well as to develop a joint strategy to determine the reform path and sequence. The strategy should ideally be developed by representatives of the sector,[35] and involve the government, the BRH, as well as national and international stakeholders. The final action plan should be prioritized and sequenced, and funding sources should be identified. Furthermore, for the reform process to be cost efficient and sustainable over the long term, attention must be given to foster an adequate and self-sufficient support system on the sector's second and possibly third tier.

The following recommendations aim to provide a basis for the development of an internal sector vision and reform strategy, which can be implemented and supported as part of the National Financial Inclusion Strategy. In line with the action plan of the National Financial Inclusion Strategy, the recommendations are divided into three subcategories: (i) reforms to consolidate the financial cooperatives sector, (ii) reforms to enhance the automation in the sector; and (iii) reforms to strengthening the legal, regulatory and supervisory framework. Ideally, the three areas should be implemented simultaneously. Annex 3 provides a more in-depth description of the individual reform recommendations.

[35] This includes the CFIs, the Federations and the ANACAPH.

Table 8: Summary of Recommendations

Recommendations	Time frame	Implementation Agency
Reforms to consolidate and strengthen the financial cooperatives sector		
Sector to develop a holistic strategy to strengthen / consolidate the sector and clarify internal organization.	ST	CFIs, sector organizations a
CFIs to conduct assessment of their income and expenditure structure and develop / implement action plan to reduce costs and enhance efficiency,	ST/MT	CFIs, sector organizations, donors
CFIs to strengthen their focus on member needs and enhance transparency vis-a-vis members.	MT	CFIs management/ governance bodies
Sector organizations to review their division of labor and funding structure, and adjust their services to better align with sector requirements.	ST/MT	Sector organization
CFIs and sector organizations to define, purchase and maintain IT systems that fit the needs of the sector, and launch a massive capacity-building program for staff.	MT/LT	CFIs, sector organizations
Introduce a stability fund and deposit insurance scheme for authorized and qualifying entities.	LT	BRH/sector organizations
Reforms to strengthen the legal, regulatory and supervisory framework		
BRH to bring unauthorized CFIs into compliance: (i) Carry out stocktaking exercise of unauthorized CFIs, and issue a regulation to enforce the legal requirement to become authorized or cease operations; (ii) Conduct due diligence of unauthorized CFIs to assess their future viability and options; and (iii) Develop a scheme to support the orderly exit of unviable, unauthorized entities.	 ST MT MT/LT	BRH (DGICP), donors
Congress and BRH to adjust and approve the revised draft law on CFIs: (i) Introduce revisions in the area of minimum capital, governance, capital, transparency and member orientation; (ii) Provide BRHs with the sole role in registering, authorization and liquidation of CFIs, as well as ability to issue monetary sanctions; (iii) Address conflict of interest issues between the promotional and oversight functions of federations; and (iv) Establish a tiered supervisory approach.	ST/MT	BRH, Congress
BRH to revise prudential regulations to introduce a stronger focus on quality of risk management and regulate foreign exchange and term management.	ST/MT	BRH (DGICP)
BRH to (i) enhance accounting and auditing rules, (ii) introduce a certification process for external auditors and (iii) maintain a list of certified CFI auditors.	ST MT	BRH (DGICP)
BRH to strengthen its internal capacity to switch from compliance to risk-based supervision, introduce an off-site early warning system and enforce liquidations.	MT	BRH (DGICP)

Note: BRH = Central Bank of Haiti; CFI = Cooperative Financial Institution; DGICP = General Inspection of the Credit Unions; MT= medium term; LT = long term; ST= short term.

a Sector organizations refer to the ANACAPH, the federation Le Levier and the new federation/sector entity that was recently created.

Annexes

Annex 1: List of Entities and Stakeholders Consulted

Acronym	Name	Community
CFIs visited		
SOCOLAVIM	Sosyete Koperativ pou lavi Miyò	St-Marc
CPF	Caisse Populaire Fraternité	Cap-Haitien
KPEGM	Kès Popilè Espwa Gros-Morne	Gros-Morne
COOPECLAS	Coopérative d'Epargne et de Crédit de Lascahobas	Lascahobas
CODECREM	Coopérative d'Epargne et de Crédit de Mirebalais	Mirebalais
CAPOR	Caisse Pop pour la Réussite de Gros-Morne	Gros-Morne
KPLKM	Kès Popilè Leve Kanpe Milo	Milot
CPUP	Caisse Populaire Union de Plaisance Caisse Populaire des Employes du S	Plaisance
CPBS	Caisse Populaire Bon Secours	Gonaïves
UCEC	Urgence Caisse d'Epargne et de Crédit	Pétion-Ville
KOTELAM	Koperativ Tèt Ansanm pou lavi Miyò	Port-au-Prince
Second tier sectoral institutions		
LE LEVIER	Fédération Le Levier	Pétion-Ville
ANAPH	Association Nationale des Caisses Populaires Haïtiennes	Pétion-Ville
Government institutions participating in oversight of the sector		
BRH (DGCPH)	La Banque de la République de Haïti (Département Générale de Caisses Populaires de Haïti)	Port-au-Prince
CNC	Conseil National de Coopératives en Haïti	Port-au-Prince

Annex 2: Feedback on Governance Structures Received from Individual Cooperatives as Part of Semi-structured Questionnaire

	General Assembly			Board and Committees	
	Members attending	**Percentage of members**	**Annual Report**	**Number of members**	**Tenure of Members (Boards / Committees)**
CEC 1	400-500	9%	No distribution; some information us shared on Facebook.	7	12-15 years for President and other Board members
CEC 2	500	0.5%	Report provides some detail and discusses the reduction of NPLs.	7	Average tenure is 7 years, although it sometimes lacks people
CEC 3			Only makes annual statements available in the General Assembly.	7	Long tenures. Secretary served on Board for 27 years, and former President served for 12 years.
CEC 4	100	4%	No information	7	Long tenures. President served on Board for 15 years; only 2 new members.
CEC 5	2,848	25%	They distribute financial statements before the General Assembly, and sometimes an auditor presents the findings. Annual report includes some discussion.	7	No information
CEC 6	700-1,000	3%	No information	7	President serves 9 years, 3 of the 6 Board Members are new, including the Secretary

Annex 2: Feedback on Governance Structures Received from Individual Cooperatives as Part of Semi-structured Questionnaire (continued)

	General Assembly			Board and Committees	
	Members attending	Percentage of members	Annual Report	Number of members	Tenure of Members (Boards/Committees)
CEC 7	1,500-2,000	5%	Annual report includes information regarding a vision, and some information from the committees.	7	President in office for 15 years; only 1 new member on the Board and Committees
CEC 8	600	7%	No information	7	President in office for 12 years;, only 2 new Members on Board/ Committees
CEC 9	1,000-1,200	2%	Yes, annual report also discusses some long-term strategies and goals (for example, long-term borrowing to cover demands for long-term loans).	7	No information
CEC 10	2,000-3,000	5%		7	Current president has served 5 years on the Board, the last 2 as President. Six new Board members.
CEC 11	1,200-1,300	3%	Report discusses evolution, but not NPLs. Information provided is shallow.	7	Current president has served on the Board for 14 years (with a break of 6 years in between), Secretary has served 5 years; no new members in last 2 years.

Annex 3: In-depth Recommendations and Suggestions

In order to provide more in-depth guidance regarding the suggested reforms and sequencing, this Annex details the suggested reform path and content. The Annex is structured along the two broad reform themes of consolidation and strengthening, as well as the regulatory framework. The individual paragraphs aim to summarize reforms to be carried out by the respective stakeholders.

Reforms to consolidate and strengthen the financial cooperatives sector

Several assessments should be conducted as inputs to the development of the reform strategy and as a guide to individual reforms, including:

- A stocktaking exercise of unauthorized entities to determine their number, location, and membership base, as well as to gather basic data about their financial situation and size (BRH).
- An in-depth assessment of the income and expenditure structure of the sector to identify the core drivers of the noted inefficiencies (sector organizations, with the support of the donors and the BRH).
- A needs assessment to quantify the human capacity development needs of management, governance bodies and internal auditors of CFIs, as well as other capacity-building areas identified as part of the strategy (sector organizations, BRH).
- A review of the services and division of labor between the second-tier organizations in combination with a review of their internal funding structure. This would be done to enhance the efficiency of service provision and put them on a path to self-sufficiency (sector organizations in collaboration with the CFIs).

It would be beneficial for the second-tier organizations to assume a central role in developing and implementing the reform strategy to strengthen financial cooperatives, including:

- Based on the review findings. the second-tier organizations should agree on an internal sectoral division of labor for these institutions and introduce financial reforms to achieve self-sufficiency over the medium term.
- To support the consolidation and strengthening of the sector, a concerted and cost-efficient effort should be made to provide tailored capacity-building and technical assistance to financial cooperatives to help them develop and implement institutional strengthening plans. This would also include strengthening their internal operations and governance and, where needed, to become authorized.
- To strengthen the human capacity of Management, Boards and Committee members, the second-tier organizations should consider:
  - — Hands-on training and refresher programs to foster knowledge of CFI financial indicator analysis, operational assessments and best practice in financial intermediation;
  - — Regular regional workshops in which Board / Committee members can exchange experience and ask questions;
  - — Provision of information and examples of social programs that have helped improve the overall economic well-being of members and communities, helping to reduce social and economic vulnerabilities; and
  - — Programs to help members of cooperatives understand cooperative principles and their rights and obligations as members.

- Finally, efforts should be made to affiliate viable unauthorized entities, helping them to reap economies of scale and adopt joint processes/technologies. This requires a strong member orientation of the second-tier organizations and enhancement of their products and services.

The financial cooperatives should strengthen their focus on member needs, enhance the quality of governance and foster transparency vis-a-vis their members. Ideally, this would include the following reforms:

- The Board and management of financial cooperatives should place a much stronger focus on the financial needs of their members and communities. This requires stronger transparency in conveying information, as well as a more member-centric approach to services. Specifically, the offered products and services should be adapted to the needs of the broad member base, and pricing structures should be reformed so that members receive adequate remuneration for their deposits.

- The CFI sector should foster the provision of training for their Board members, including their participation in technical and hands-on training, congresses and information events. Regarding capacity building, special attention should be placed on financial indicator analysis, operational assessments, and the understanding of international best practice in intermediation. Adequate funds should be earmarked for training in the annual financial plans of the CFIs.

- Boards should conduct regular strategic reviews, work with management on action plans to reach the expected goals, and consistently monitor implementation. They should take into consideration suggestions for reforms made by the BRH and the federations during their supervision processes. The minutes should also reflect and document this work.

- The CFIs should improve their reports and documents (that is, their annual reports, financial statements, pricing information, and contracts) to enhance transparency, improve the depth of information, and facilitate better understanding among their members.

To put *all* financial cooperatives on a stable development path, the BRH should enforce the legal requirement for CFIs to become authorized. Based on the results of the stocktaking exercise regarding unauthorized entities, this entails the following:

- Issuing a regulation to clarify the transition process and establish realistic timelines for unauthorized entities to become authorized. The timelines could be sequenced by size of entity or location, and the asset thresholds should be established for depth of supervision.[36]

- Conducting due diligence processes to classify the unauthorized financial cooperatives according to their level of viability and quality of operations. Such as assessment will help to determine the actions to be taken during the transition process toward authorization or liquidation.

- Developing a scheme to support and finance the orderly exit of entities that are not viable. To cushion the impact on the members, consideration could be given to transfer assets to viable financial entities, enforce repayment of outstanding loans, and introduce some form of compensation scheme for depositors who lose their funds due to the closure.[37]

[36] For example, a formal threshold for supervision has been introduced in Mexico.
[37] For example, this was done by FIPAGO in Mexico. It provided financial support for mergers and liquidations of entities that had to be closed during the transition process.

Regarding the authorized and adequately performing entities, the introduction of a stability fund and deposit insurance scheme could be considered. The definition of clear performance criteria to participate in such a fund — possibly be the first of its kind in Haiti — could be a strong incentive to enhance the performance and operation of the CFIs. The stability fund and deposit insurance scheme could be managed by an autonomous sector entity that regularly conducts independent due diligence of the participating entities in order to ascertain their viability. As such, it would also have a suitable governance scheme.[38] Alternatively, it could be managed by the BRH as a fund without any additional due diligence function.

To enhance the quality of the sector's financial information, the quality of the external and internal audits of sector entities would also need to be strengthened:

- A massive capacity-building program should be launched to:
  - — Help accountants understand core accounting practices, the accounting manual and rules to apply, as well as how the IT systems work; and
  - — Train managers and boards to better understand and analyze the statements, know what to look for, and which ratios to compute or analyze.
- For medium- to large-sized cooperatives, accounting should be carried out by persons trained for this purpose — and never by employees who have other responsibilities. At the same time, an internal control model must be created that guarantees the proper accounting of all transactions.
- A certification process for external auditors should be introduced and made mandatory by the BRH (including for auditors of the federations).
- The BRH should maintain a list of qualified external auditors and make it mandatory to use an auditor from this list.

To reduce operational costs over the medium term and enhance the quality of operations, it is paramount to foster automation of the sector. To achieve this, the rudimentary and / or partial IT systems currently in use need to be replaced:

- Prior to purchasing IT systems, the stakeholders (Federations, CFIs) should determine the core standards and features of the new IT systems (including security features). They should decide whether a single core banking system run on a server at a federation would be the best solution for the sector, or whether individual core banking systems that are interoperable and can be consolidated at the federation level would be preferable.
- Furthermore, the federation(s) and individual stakeholders should assess which functionalities the new IT platform should be able to incorporate. In addition to the normal financial intermediation products, this could include the following:
  - — Mobile payments;
  - — Credit or debit cards;
  - — Virtual branches;
  - — Access to the central bank's payment system, and the new automatic clearance house;
  - — Compliance with International Financial Reporting Standards; and
  - — Compliance with the BRH framework.

[38] Mexico has implemented an interesting scheme along these lines (FOCOOP).

- The system should also allow for continuity of business; agility in the credit, cash and payment processes; as well as the generation and transfer of financial accounting information in automatic form to the BRH.

- Regarding the implementation of the new IT system(s), attention should be given to secure funding for the one-time investment into the new hardware and software, as well as to regularly earmark funding for IT maintenance and updates. If the system is to be run by a federation, the affiliated member entities should pay a service fee adequate to maintain the platform, updated core system and allow for a timely response to all service calls.

- Furthermore, individual entities should reassess and adjust internal processes and procedures prior to introducing automation.

- A massive capacity-building campaign will be needed to help managers, staff and Board members understand and operate the IT system. Furthermore, training will be needed for managers to help them understand and evaluate the information generated by the new system.

- As an incentive, entities that are sufficiently automated could be allowed to participate in the delivery of cash transfers from the government, thereby receiving access to fee-based income and support in reaching out to new clients.

- The existence of adequate computer systems could also facilitate the entities linkage to the national payment system, thereby allowing remittances to be directly transferred into member accounts.

Reforms to enhance the legal, regulatory and supervisory framework

Most of the suggested reforms can be implemented without a revised legal framework. However, reform implementation and efficiency would greatly benefit from revisions to the legal framework and more power allotted to the BRH to enforce the legal framework. It would therefore be beneficial if the legal framework is adjusted in line with the suggested draft law and the additional suggestions made in this review. These would then be approved by the Parliament. The revisions should include the following:

- Enhance the BRH's role in registering, authorizing and liquidating sector entities in order to facilitate the process, and allow the BRH to enforce adherence. Ideally, the BRH should be the sole entity in charge of these three processes.

- Strengthen minimum capital requirements to foster a consolidation of the small entities and include transition rules and timelines for entities that are not yet authorized and supervised.

- Provide the BRH with the power to issue monetary sanctions in case of non-compliance with mandated remedial actions. Furthermore, in addition to the provisions of Article 139, paragraph 4, the BRH should have the power to remove members of the Board of Directors when there is clear evidence of non-compliance or bad corporate governance practices that put the financial stability of a CFI at risk.

- Introduce a tiered supervisory approach in the legal framework to provide for cost-effective supervision.

- Require auditors to be chosen from a pre-approved list of qualified / certified auditors.

- Introduce additional consumer protection regulations related to:
  - — Transparency of prices;
  - — Transparency of recourse mechanisms;
  - — Transparency of information around annual meetings; and
  - — Introduction of one-page fact sheet for contracts, with the core financial information and a payment plan.

Furthermore, the new law should also include provisions to foster an orientation of CFIs toward their members and community:

- Revision of the articles regarding the objectives, principles and distribution of profits to foster a stronger member and community orientation vis-à-vis the cooperatives.
- Facilitation of disbursement of profits to members by eliminating the requirement to disburse profits based on the member's transaction volume. Disbursement can be based on the social capital provided by the members, or it may include a mixed form of dividend, that is, the average deposits in a year in combination with a lump sum disbursement per member (favoring the more vulnerable).
- Fostering transparency of information towards members:
  - — Require the public disclosure of core fees and interest rates.
  - — Require a one-page fact sheet for loan conditions and repayments, including total cost concept.
  - — Introduce a requirement to publish visibly and in simple terms the core decisions of the General Assemblies (profit distribution, elected Board / Committee members, other important decisions taken) in the branch.
- Introduction of a requirement to establish a fund for social purposes (currently voluntary) and make contributions to the fund independent of the disbursement of profits to members. Consideration could also be given to making it mandatory to place a share of the profits into a social and educational fund (as has been done in several countries).

To enhance the quality of the governance structures, the BRH should consider issuing a governance regulation, with the aim of:

- Introducing – at least temporarily to change the culture – a regulation on Board training and competence requirements. For example, this could include a requirement to participate in one training program per year, making it mandatory for new Board/Committee members to attend a training course and become certified.
- Introducing rules on maximum terms for Board /Committee members and considering the introduction of more stringent fit and proper requirements for larger cooperatives.
- Allowing alternative forms of conducting the General Assemblies to enhance member participation, in particular in larger cooperatives. For example:
  - — Discussion of core topics in smaller regional or sub-group meetings, and selection of a delegate to represent the participating members in the cooperative-wide meeting; and[39]

[39] For example, this was done in a cooperative in Costa Rica, which reaches 99 percent of representation in the General Assemblies this way. In the meetings where delegates are selected, core issues are being discussed and working groups on important topics are formed. Then a representative (1 for 15 members) is elected. In the General Assembly itself, only the decision points are discussed.

— Allowing delegation of votes, with a participating member being allowed to represent up to 5 other members based on their written consent. This should come with a requirement to make the delegation of votes transparent to members, as well as educate them about their rights and responsibilities as members.

The BRH should revise its prudential regulations to introduce a stronger focus on risks, and enhance the quality of risk management:

- Where missing, new regulations should be introduced, for example, in the area of foreign exchange risk management and maturity structure.
- A stronger focus should also be placed on fostering integral risk management systems in the entities. To date, the BRH has issued separate regulations to establish prudential rules and guidelines regarding individual risks (for example, credit and liquidity management) and focusing on checking the compliance with these rules. In future, a stronger attention to integral risk management systems and approaches would be warranted.

To enhance the accounting rules and the transparency of information, the BRH should revise its current accounting plan for financial cooperatives:

- The transparency of information in the financial statements should be enhanced, particularly through the inclusion of information about non-performing loans, cash collateral, and types of investments.
- Profits should be adequately distributed toward reserves, with sufficient attention given to increasing the tier-one capital of entities:

— CFI profits could be credited to the individual capital accounts of each associate in proportion to the member's social capital.

— CFIs could create an account within the social capital accounts denominated "Non-redeemable Capital Stock" into which the profits of the previous year can be placed.

- for the medium to long term, the BRH should bring the accounting rules in line with the generally accepted accounting principles. These could be the International Accounting Standards or national standards.

Finally, the BRH should require that auditors include more information about observations and findings in their audits. In addition, consideration could be given to make it mandatory for external auditors to participate and discuss the financial accounts in the General Assembly.

The capacity and automation of the DGICP should be improved to enhance supervision and resolve non-performing entities:

- The DGICP should move from the compliance-based supervision toward a more risk-based supervision, at least for the larger and more advanced financial cooperatives.

— This would require a redesign of the supervision manual and forms, as well as a stronger focus on the quality of processes, systems and capacities compared to a checking off of compliance with rules.

— As suggested, this would also include an assessment of the risk management system and adequacy of policies.

— The BRH may also wish to consider developing a methodology for assessing the efficiency indicators and financial margin of cooperatives, and then incorporating this assessment in their supervision process.

- To facilitate off-site supervision, the BRH should make it mandatory for financial cooperatives to send their financial information in electronic format. For small and rural entities, a threshold could be established to selectively exempt them from this requirement. This would foster automation of the sector, reduce errors through reprocessing of data, and increase the efficiency of the BRH.
- Furthermore, as is already planned, the BRH should introduce an early warning system to facilitate and automate off-site analysis of the data provided. Most supervisors in the Latin American and Caribbean region use such early warning systems to help identify looming risks, facilitate standardization of assessments, and enhance the quality of off-site supervision.

Finally, the BRH should regularly issue reports about the sector. This should include basic information from the financial accounts, as well as performance-related indicators about the sector, and if possible individual entities. This would foster transparency vis-à-vis the public and allow entities to benchmark their own performance to their peers.

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