

**Phone conversation between Fonkoze (James Kurz) and GiveWell (Elie Hassenfeld and Natalie Stone) on May 12, 2010**

**Fonkoze:** Let me give you an introduction how Fonkoze works. Fonkoze consists of three institutions:

1. Fonkoze USA, a 501(c)(3) in the United States that serves to intermediate donations
2. Fonkoze Foundation in Haiti whose role is to (a) incubate new MFIs, (b) run other programs such as health and education, and (c) experiment with new programs
3. Fonkoze Financial Services (FFS), which we have been trying for seven years to incorporate as a registered bank in Haiti. Given recent events, it is clear that registration won't happen anytime in the near future.

Repayment rates differ between the Foundation and FFS, and is lower in the Foundation, as these branches are in harder to reach places that are more susceptible to natural disasters.

**GiveWell:** We're happy to differentiate between the two institutions.

**Fonkoze:** Context is important for understanding repayment rates. In Haiti, a repayment rate of 92% is high. In general, portfolio at risk rate and repayment rate in Haiti are weaker than other countries because of the weak economy, high commodity prices, and widespread severe poverty. In addition, the other microfinance institutions in Haiti don't target the same level of poverty we do; they tend to give bigger loans, with the exception of FINCA, which targets similar poverty levels to us, but works in much fewer parts of the country and primarily in urban areas.

We expect our repayment rate to be roughly 94% this year, given earthquake and the food crisis, but the final number is not yet available. We generally don't calculate our headline repayment rate all of the time, only for internal modeling purposes and to verify concerns that are arising in the field. Repayment issues and trends are dealt with operationally in the field on a continuous basis.

**GiveWell:** In addition to the calculated repayment rate, could we see data on the volumes of disbursed, written off, rescheduled, and in arrears loans?

**Fonkoze:** Absolutely, no problem.

It can be complicated. For example, we had a program last year where we rescheduled a large number of loans in response to the hurricanes.

**GiveWell:** Is it possible to share that data historically as well?

**Fonkoze:** I can probably give that to you through 2008 at least.

**GiveWell:** You wrote that 25% of solidarity clients drop out annually. What time period is this for?

**Fonkoze:** We started seriously looking at dropouts in 2008, and the drop out rate has been 25% within a band of 1.5% since then.

**GiveWell:** How do you define a dropout?

**Fonkoze:** A dropout is a member who doesn't take a new loan within a few months of

completing repayments on their previous loan. Most clients end one loan and roll right into another loan.

We have tracked a sample of clients from each period and see whether they take a new loan or not.

We try to pick a representative sample, but it's not super scientific.

**GiveWell:** What denominator do you use for your drop out rate?

**Fonkoze:** The denominator is all the clients who we had in the sample, adjusted for clients who are delinquent. If we write someone out of the program, they're not a dropout. We asked them to leave.

**GiveWell:** Do you have a technical report that explains how you choose the sample to track for dropouts? How large is the sample?

**Fonkoze:** I don't believe there is a technical report of the method that an analyst would use.

We collect all the data needed to determine whether someone takes a new loan or not, when they take it, etc. We collect portfolio data on a continuous basis for operations, financial reporting, etc. We do interview anyone who leaves the program, for whatever reason. There is also a tremendous amount of informal dialogue between credit agent, Center Chiefs, clients and other employees in the field that help us address these kinds of problems. Exceptional issues would result in additional support from the central office team, as I mentioned.

We don't track the drop out rate on a regular basis. If someone drops out, someone in the field goes and asks her why and what we can do. That happens in the field all the time. The credit agents are expected to know that and do that.

The actual rate at which clients drop out is not something we calculate every month. It's something we look at on a one-off basis as necessary.

**GiveWell:** There's this movement called the Smart Campaign, which Fonkoze is an endorser of. One of the questions they are concerned with in client over indebtedness. Does Fonkoze track over indebtedness?

**Fonkoze:** I will refer you to our social impact director for a more complete answer, but I can tell you what I know. In Haiti, there's no good way to know if someone has a loan from another organization, however, our staff are trained to try to make sure that people aren't taking loans from more than one of our branches.

Part of our training for our credit agents is to help them judge whether the person requesting a loan will be able to pay back the amount they request. It's something we take very seriously.

There's some reliance on interview skills and intuition of the credit agent. In addition, we don't put pressure on the people to take out loans, and, if a client can't pay back the loan, we don't knock on her door and demand it gets paid. If a client does become delinquent, our credit agents have to figure out what's wrong and what Fonkoze can do to help her. If her business isn't running well, we'll help her with her business and possibly reschedule her loan.

Finally, unlike in some places, the inaccessibility of credit is so high in Haiti, that unless you're talking about loan sharks, there's no other source of credit for our clients, which helps to prevent them taking on more in debt than we are aware of.

In the solidarity program, the first loan is \$75. To get up to a much larger loan (\$500, \$700), it takes a long time of going through the program which helps ensure that clients don't take on more debt than they are likely able to repay.

**GiveWell:** Do you have procedures for monitoring over-indebtedness?

**Fonkoze:** I can send you our manuals from Haiti. I know there's a section on over indebtedness and that staff are trained to look for it.

**GiveWell:** It seems like a lot relies on the credit agents doing a good job. How do you evaluate them and know they're doing their job well?

**Fonkoze:** One thing that's not reflected too much in your review is Fonkoze's system of democratic representation of clients by their peers. Each center is a collection of 6-10 groups which are each composed of 4-5 women. Each center has an elected chief who serves as delegate to a regional caucus, which in turn sends a pair of women to an annual national meeting. We provide the center chiefs with cell phone credits so they may call headquarters with any issues they have and may be able to speak directly to Anne Hastings, our CEO or, if not, to another staffer, depending on the issue and the circumstances.

The credit agents are under the auspices of a branch and answer to a branch manager and assistant branch manager. Above them are regional directors who manage 3-5 branches, and the next step up from that is an operations staff in Port-au-Prince. Those directors go into the field frequently to monitor activities. At the central office, we look purely at the data and look at the different loans and clients that are under each specific credit agent. If we see lots of clients becoming delinquent, we ask the branch manager to talk to the credit agent.

Social performance monitoring is an independent entity that is separated from operations. They are currently only in 11 branches but our goal is to add many more. Their entire role is to conduct assessments and report on them, while having their ears to the ground to identify any issues as they emerge.

To know more, you should talk to the director of social performance monitoring.

**GiveWell:** What are Fonkoze's savings products and what are the interest rates/fees on these products?

**Fonkoze:** There are two types of products. One is a typical deposit account with full liquidity. Accounts in local currency currently pay 1% interest and accounts in USD pay 0.5%. We have a commitment to always pay rates that are at least as high as commercial bank rates. Right now they are above commercial rates but as you know, interest rates throughout the world are very low. We reflect those changes in the interest we pay on deposits.

In addition, we have up to 1-yr time deposit accounts that pay 3-5% interest.

**GiveWell:** Do you know about the characteristics of the savings clients?

**Fonkoze:** Our social impact monitoring director may have more information on this question.

One service that our savings accounts provide is free in-county transfers. A woman who goes to Port-au-Prince to buy inventory may deposit money close to home, and then withdraw it in Port-au-Prince, reducing the risk that the money is lost or stolen.

**GiveWell:** Since Fonkoze offers above market interest rates, it seems possible that clients may be moving their money from a commercial bank to Fonkoze, and Fonkoze might not be adding more savings services. Is there any indication of whether or not this is happening?

**Fonkoze:** I don't really know. There's not a very big portion of the population that can bank at a commercial bank. In a lot of places, Fonkoze is the only savings option.

I do know that about 5% of our accounts are foreigners, NGOs, and small. Since their average balance is higher, and they might account for, say, 20% of savings deposits.

We're able to handle savings deposits of any type of client, regardless of whether they are not our core group. Our savings accounts are intended to be accessible to all Haitians per our mission statement "The bank that Haiti's poor can rely on". Our clients don't have to be literate or have all their paperwork, for example.

**GiveWell:** Do these larger accounts get the same interest rates on their savings?

**Fonkoze:** We give everyone the same rate.

**GiveWell:** Can you give us some examples of the types of organizations that hold these accounts?

**Fonkoze:** They are primarily small U.S. or Haitian NGOs and small to medium business owners, such as owners of gas stations or small supermarkets.

**GiveWell:** Are there other reasons why clients are not able to save at commercial banks aside from geographical reasons?

**Fonkoze:** A client generally needs to be able to sign her name in order to save at a commercial bank, and there may be unofficial class barriers as well. In addition, I believe there is a minimum balance requirement, as well as identification requirements that 85% of the Haitian population are not able to meet.

**GiveWell:** What would Fonkoze use additional donations for?

**Fonkoze:** Two other areas we'd like to expand are our education and health components. We would like to offer education to anyone who wants it at any branch, and we're far from having that capacity right now.

Education helps our clients to run their business better. Imagine someone whose job is selling shoes but because they don't understand numbers, when clients ask them for size 9, they need to ask a client to find the size 9 for them. It's a place where a basic level of numeracy would help clients run a more successful business. We don't require that our clients participate in education programs, but we offer them six different modules, which they all may be completed in 2 years.

Our health programs focus on malnutrition. So many of our clients have children who are malnourished. We have a system where credit center chiefs are trained to screen children for malnutrition, judge the severity of their malnutrition and make recommendations, including hospitalization if necessary. We also offer albendazole (a deworming drug) and vitamin A twice/year to children between the ages of 6 months and 5 years.

We also try to educate women about these programs and where they can access the services.

**GiveWell:** Could you tell us more about the albendazole and vitamin A initiatives?

**Fonkoze:** Distributions happen at center meetings; clients are rarely if ever asked to come to a branch because they are often far from where clients live and would be costly to travel to.

The model we use is a community health worker model. The people from the central office train the center chief to administer the malnutrition program. The CHW goes to the center meeting and is directly involved to make sure that everyone gets the correct doses and to watch out for any problems.

The vitamin A and albendazole distributions are separate from the malnutrition screens. If malnourished, they might be referred to a clinic of a health focused partner, such as Partners in Health, which would take responsibility for treating the child. These partnerships are developed as we scale up the program because no single organization offers services across the country.

**GiveWell:** How much additional money you could absorb for core programs?

**Fonkoze:** These two programs are very scalable. Additional staff can be hired to be responsible for other areas.

I could give you a more concrete number, but I'll need to get back to you on that.

**GiveWell:** I saw that you guys aren't on KIVA. Is there a reason why?

**Fonkoze:** I really don't feel comfortable stating what our opinion of being a partner of Kiva is and isn't. If it comes up, I will address this with Anne. I'm not that informed about the decision and wasn't involved in it at the time, but needless to say we considered a partnership and decided not to have one.