

**Phone conversation between Fonkoze (Anne Hastings, CEO) and
GiveWell (Natalie Stone) on April 27, 2010**

GiveWell: How does Fonkoze track its repayment rate? Can it share data on loans disbursed, written off, rescheduled, and in arrears?

Fonkoze: Due to a series of catastrophes, we've had specialized programs that distort the repayment rate. Looking at our stats for the last two to three years presents a strange picture overall. Historically, our repayment rate has been 97-98%, but the four hurricanes in August 2008 were preceded by rapidly rising food prices, so we put together a program with donor help to assist our clients to get back on their feet. We didn't write-off old loans, but we disbursed new loans with no interest for the first 6 months and then low interest rates after that. Over 85% of these loans have been repaid. All of the original capital stayed with us. We had done the same program four years before, after Hurricane Jeanne. Our program last year covered 14,000 out of 50,000 clients. Because we have different portfolios for different loan types, defining and reporting repayment rates is complicated.

At the time of the earthquake, we were within a few months of introducing a catastrophic insurance program. Because the earthquake was so different from the hurricanes (people often lost everything), we knew that if we gave people loans the money would go into consumption not business. So we decided to pay out as if the insurance policy was in place. We gave out cash grants of about \$128 to clients affected by the earthquake and we eliminated their debt as of the day of the earthquake. We have distributed this to almost everyone and are now looking at whether there are clients who are ready to take out new loans.

You should contact James Kurz at the Fonkoze office in D.C. He is the keeper of statistics.

Fonkoze is a family of three institutions: (1) A Haitian foundation which opens incubating branches, tests new products, evaluates our social impact, manages our educational and health programs; (2) a non-bank financial institution for larger, more established branches and products; and (3) a US 501(c)3 foundation that raises funds for us.

GiveWell: How were clients selected for the 2008 verification of poverty scorecard data? What was the verification process?

Fonkoze: Every time a new group comes into a branch with a Social Impact Monitor (SIM), one person out of five is randomly selected to have their poverty scorecard verified by the Monitor who goes out and verifies the credit agents' data by conducting home visits. This data then goes into the longitudinal study. We have Social Impact Monitors (SIM) in 10 of 41 branches. Branches are often selected for receiving a SIM by donors (particularly Plan Haiti, who funds a lot of them and works in the poorest areas). When we have the opportunity to choose which branch will get a SIM, we try to balance things out so that a wide variety of branch sizes and locations are represented.

GiveWell: What percentage of clients have dropped out of the program each year? How does Fonkoze calculate this rate?

Fonkoze: The rate had been going up but now has leveled off. We're always concerned about that. The SIMs survey all exiting clients. Most leave because they go out of business. We have put a lot of effort into helping clients choose better businesses and

make better choices about how to run their businesses. The economy of Haiti is very fragile. When they go out of business a lot of the time it is because of a family illness. The death rate has been skyrocketing, supposedly because of malnutrition due to loss of crops resulting from the hurricanes. In addition, in the earthquake lots of people died or disappeared. Lots of rural clients visit Port-au-Prince for business. About three years ago our drop out rate was about 16%, then went up to about 25%, which we were very concerned about. You can talk to James about the drop out rate, or the Dir. of Social Performance Management (Natalie Domond) for more history. We have branches that move from the foundation to the commercial entity and then it gets complicated to do the tracking. We are finishing one study on one area soon.

GiveWell: What steps does Fonkoze take to prevent client over-indebtedness? Is there a process for monitoring whether such steps are effective?

Fonkoze: I'm a member of the SMART Campaign's Steering Committee. We are concerned about client protection and are in the process of evaluating our institution. We are primarily serving people without access to other MFIs. We are very strict about making sure we don't lend clients too much. We have the lowest loan size in Haiti. We have a very strict cycle. We have an upper limit on how much a clients' next loan size can increase over the previous one and we do business assessments to make sure they can absorb more money. In the past, maybe 3 years ago, we weren't so good at this, but we have been improving. In places where we do have competitors, we do try to swap lists but the names may be spelled differently, etc. We also spend a lot of time talking with our clients about over-indebtedness. When we now analyze why we had to write-off a loan, I don't see that people were over-indebted. Instead it was generally because they didn't invest in their business. We do not want to give consumer loans.

GiveWell: What steps does Fonkoze take to protect clients from harassment? Is there a process for monitoring whether such steps are effective?

Fonkoze: I have been wanting to put in place a free help line. People have phones but don't have money to make the call. I still haven't gotten the cell phone company to agree. Our idea was to give clients their insurance cards, which would have a number on the back that they could call to lodge a complaint. Our clients are often located so far from the branch and their main point of contact is the loan officer. They elect a center chief and we give them special training and they come to the general assembly where they can lodge complaints. But I won't feel comfortable with our system until we have the free complaint line.

GiveWell: What are Fonkoze's policies regarding savings withdrawal? Does Fonkoze collect data on the volume of transactions on savings accounts? What savings products does Fonkoze offer and what are the interest/fees?

Fonkoze: We do have the ability to calculate aggregate activity on our savings accounts and to monitor savings. There is a lot of activity on the savings accounts, but average balances are usually not very volatile. We have a lot more savers than borrowers. Since borrowers are required to keep some of their loan amount in a savings account and are often very far from the branches (the loan officers aren't able to carry a lot of cash), they very rarely withdraw money. People who are just saving (not borrowing) do lots of transactions. There are often long lines at branches. We offer savings accounts in dollars or in local currency, as well as regular accounts and 1 year term accounts. Interest rates are at or above what commercial banks offer.

GiveWell: How much in additional donations could Fonkoze productively use in the next year? What programs would be expanded with additional donations? Why does Fonkoze USA support organizations other than Fonkoze?

Fonkoze: We need equity investors in the commercial entity. In addition, we are trying to expand the ultra poor and Ti Kredi programs. Poverty in Haiti is increasing. We just got a grant from the MasterCard program to increase the number of families in our ultra poor program by 1000 and the number of borrowers in Ti Kredi by 4000. We'd like to expand even more than this. We are getting technical assistance from BRAC for both of these programs. They are feeder programs for the regular solidarity loan program. We also want to expand our SME program and our new program called Zafen.org.

Fonkoze USA only supports other organizations if funds are ear-marked for that purpose. The vast majority of unrestricted donations to Fonkoze USA go to Fonkoze.