

# Our History

## A Bank The Poor Can Call Their Own: A History of Fonkoze — Haiti's Alternative Bank for the Organized Poor



### THE CONTEXT

A decade ago, Haiti was a country in the midst of a struggle for freedom and equality. Its first democratically elected President was living in exile, and the country was ruled by a brutal military regime. The organized rural and urban poor — the hundreds of grassroots organizations that worked tirelessly in the late eighties and early nineties for democracy in Haiti — were especially the targets of repression. Thousands were killed during this time, and many more were living in hiding or constant fear of reprisal.

This is the context of the founding of Fonkoze.

A group of grassroots leaders — led by Father Joseph Philippe, a Spiritan Priest and founder of the Peasant Association of Fondwa — envisioned a Haiti where individuals were not only given a chance at political democracy, but at economic democracy as well. They had confidence their President was soon to be restored to power, and the military regime would depart. Fr. Philippe recognized that the strong grassroots movement organized to bring about historic political change, could also be harnessed to bring about economic change on behalf of Haiti's poor.

His main concern was that, although the majority of poor people in Haiti now knew how to organize themselves politically, they knew nothing about how to organize themselves economically. Even though the people might control who was president, they had no control over who ruled the economy. The poor were not allowed access to banks or to the financial services they needed to rebuild their lives and their country from the ground up. If you were a poor peasant or “ti machann,” (women street vendor), who had no collateral, small banking transaction sizes, and could not read or write, you were not welcome in any of the commercial banks. Where would a coffee cooperative get enough credit to buy and process coffee harvests for export? Where would a ti machann get a small loan to buy her merchandise and increase the size of her business? Where could the poor go to open a savings account and earn interest if they only had a little bit to save, get money transfers from their family in the U.S. delivered to their rural community, or be able to convert money into Haitian currency at a reasonable rate?

Clearly, the poor who had organized themselves to gain political power now needed to organize themselves to create a bank they could call their own.

### THE FOUNDING

In 1994, the founders of Fonkoze — some 32 grassroots leaders — drew up the official papers to launch their efforts, and in 1995 Fonkoze (Fondasyon Kole Zepòl, or the Shoulder-to-Shoulder Foundation) was officially recognized as a foundation under Haitian law.

At about the same time, in the United States, Anne Hastings was applying for the Peace Corps. An experienced Washington, DC management consultant, with a very successful business, Anne felt something was missing in her life. She wanted to give back some of what she had been given. After having been accepted to the Peace Corps and assigned to an African country, a client of hers encouraged her to speak to the Director of International Operations at the Peace Corps. After hearing about her background, he asked, “Do you have any interest in Haiti?” Anne replied that she was very interested in Haiti, but the Peace Corps wasn't working in Haiti at the time. The Director said, “Forget the Peace Corps...I know a priest in Haiti that is doing amazing work.” He convinced Anne to send her resume directly to Fr. Philippe. Three days later, she received a message on her voice mail. “This is Fr. Joseph Philippe,” it said, “we are very pleased you have decided to work with us in Haiti. You may be Director of our new bank, Fonkoze. Thank you.”

Soon after the call, Anne found herself face-to-face with Fr. Joseph Philippe in Haiti. In the first fifteen minutes of their conversation he convinced her that he had more vision than all the top executives that had been her clients in D.C. put together. Anne recalls that he pulled a rickety typing table between them, and with paper and pencil in hand said, “let's get to work.” Fonkoze was on its way.

## **THE PRINCIPLES**

At that first meeting, Fr. Joseph elaborated for Anne many of the principles that were to guide the development of the organization. He explained to her, for instance, that:

- Women constitute the backbone of the economy in Haiti.
- You can't just give a woman a loan and then send her on her way — you have to accompany her as she struggles to make her way out of poverty.
- All Haitians deserve a chance to participate in the economic development of their country.
- A political democracy cannot survive without economic democracy.
- Nothing in Haiti can be effective without the endorsement and support of Haitians living in the Diaspora, for it is those Haitians who keep the economy of Haiti afloat through the remittances they send home.

## **THE CREATION OF FONKOZE USA**

In the spring of 1996, Fonkoze organized a conference in Miami to bring together micro-credit practitioners, Haitian-Americans, and Haiti advocates to discuss how Fonkoze should be launched. The meeting was held at St. Thomas University and in attendance were representatives of many of the Haitian communities in the U.S., Canada and the Caribbean. One of the main topics of discussion at the conference was how to finance the work of Fonkoze. Some had argued that Fonkoze should finance its loans out of the savings people put on deposit with it — just like the banks do. But others argued that no, it would not be right to put poor people's savings at risk and that the demand for loans would inevitably be greater than the savings Fonkoze could mobilize.

Some of the guest speakers at the Miami conference told participants about a similarly minded organization providing micro-credit in Nicaragua that received funds for its loan portfolio through a partner organization in the U.S. The participants in the Miami conference decided that they could do the same, and Fonkoze USA was conceived.

In the fall of 1996, a Board member of the Washington Office on Haiti — Leigh Carter — agreed to take the job as Executive Director of Fonkoze USA, and in January 1997 Fonkoze USA held its first board meeting. The original Board of Fonkoze USA was in many ways unique. Members of the Board included a few Haitians, but also Salvadorans, Mexicans, African Americans, and European Americans. It included community organizers, lawyers, religious, professors, engineers, and bankers. Fonkoze USA was established with the mission to raise donated and invested funds, to increase public awareness about Haiti and economic development, and to facilitate technical assistance to support grassroots development efforts in Haiti. Fonkoze, it was agreed, would be the main recipient of the loans and grants raised through the efforts of Fonkoze USA.

Arnold and Porter of New York became the pro bono legal counsel of Fonkoze USA, and organizational structures were put in place. Most importantly, Fonkoze USA developed its own Disclosure Statement and Notes, Notes for a Democratic Economy in Haiti. These Notes were “sold” to individuals and organizations all over the U.S. to finance Fonkoze's loan fund in Haiti. Basically, any individual or organization could loan Fonkoze USA funds (\$1,000 minimum) for the loan fund at 0-4% interest. Fonkoze USA then re-loaned these funds to Fonkoze, and Fonkoze re-loaned them to Haiti's *ti machann* using the solidarity group lending method. When the loan matured, an investor could opt to receive the full amount of his/her loan with interest, or to renew the loan for continued work in Haiti.

## **GROWING THE NEW INSTITUTIONS**

In Haiti, Fonkoze was not focused exclusively on giving credit. Fr. Joseph was determined not only to offer a full range of banking services to the organized poor of Haiti, but also to attack the problems of illiteracy and the lack of business skills among the poor. Fonkoze was unwavering in its commitment to give the poor all the tools they needed and deserved to be successful at economic development. And, Fonkoze was not only about making an impact on the individual lives of Haitian families. It was dedicated to transforming the Haitian economy into a democratic economy in which everyone could participate. Fr. Philippe had the vision, Fonkoze, with Anne Hastings at the helm, implemented that vision, and Fonkoze USA provided the majority of the financing to make it possible.

To understand the miracle of Fonkoze, it is important to recognize that it has a history of amazing events occurring at just the right moments to get it through a crisis, a challenge, or to move the institution forward. The Boards and staff formed

a strong bond and community that augmented its organizational structure and leadership. Few can deny that Fonkoze has been incredibly fortunate to find just the right elements come together at just the right times in its history. To put it in a word, perhaps we can say that Fonkoze has been blessed with solidarity. Solidarity with our mission — from clients, employees, donors, and partners. This is the basis of Fonkoze’s success.

Equipped with this solidarity and a drive to succeed, Fonkoze and Fonkoze USA undertook tremendous growth in the early years. These were incredibly challenging times. Fonkoze strongly believed if they were truly to have an impact throughout the country, and especially in the countryside where the poorest and most vulnerable lived, they needed to quickly open a branch in each department of Haiti. Balanced against this need was the length of time it took Fonkoze USA to develop the networks needed to quickly raise funds, and to develop the legal structures to raise investments for the loan fund.

Eventually, the two tracks began to coincide. Once Fonkoze USA made its first offering of Notes for a Democratic Economy in Haiti in the winter of 1998, the loan fund began to grow rapidly. Fueled by a network of religious alternative investors and concerned individuals all over the U.S., the loan fund reached more than a half million dollars by 1998. Fonkoze — showing great courage and purpose — opened not 10, but 15 branch offices by the end of the same year — with funds they had received from the Doen Foundation in the Netherlands to open 5 branches. Donations from individuals and organizations to Fonkoze USA and directly to Fonkoze began to appear. These funded the expenses not yet covered by Fonkoze’s own financial activities, as well as its educational programs.

By 1998, Fonkoze had strong programs and activities consisting of:

- solidarity group micro-credit loans to expand a business;
- business development loans to small micro-entrepreneurs;
- a money transfer service;
- currency exchange services
- a multi-faceted program of savings;
- training programs abroad for employees; and
- literacy and business skills training;

OUR STORY: FONKOZE'S HISTORY

At the end of 1998, Fonkoze had 645 member organizations, 5,134 savings accounts with total deposits of 9,878,735 gourdes (almost US\$600,000), 2,607 group borrowers with the total volume of outstanding loans at 7,038,578 gourdes (about \$US426,580). They had 15 branches, and 101 employees.

In addition to important donors and investors, Fonkoze was extremely lucky to have dedicated partners in its early development, including Arnold & Porter, Fairfield University School of Business, Duquesque University School of Business, and City National Bank of New Jersey. In-kind technical assistance was key to assisting the staff of Fonkoze to attack the learning gap they were facing, and to be able to offer professional, and high quality, financial services to the poor.

### **RESOLVING THE FINANCING DILEMMA**

Professionalization and growth continued throughout 1998, 1999, and 2000. As Fonkoze faced the new millennium, however, it became evident a new path was necessary. The financing mechanism Fonkoze had been utilizing — low-interest loans from abroad — no longer seemed to be a viable long-term strategy for the simple reason that the gourde was no longer stable. Fonkoze was borrowing in dollars and lending in gourdes. When the gourde began to devalue rapidly beginning in the year 2000, it was clear that when it came time to repay the loans in dollars, the gourdes would no longer have the same value and there would be a shortfall in Fonkoze’s ability to repay.

While the organization had come a long way, it seemed Fonkoze’s dream of sustainability was always just out of reach. There was simply not enough capital to reach the scale that would be necessary to make the institution profitable. With a network of 15 branches, Fonkoze’s capacity clearly outstripped its capital base — and its capital base consisted of 100% debt! Another financing strategy would have to be devised.

Other foundations and micro-credit institutions throughout the developing world dealt with the same dilemma as Fonkoze. Prodem in Brazil, the Grameen Bank in Bangladesh, and CARD in the Philippines had all made the transition to

full-fledged micro-credit commercial banks, yet had began as NGOs in their respective countries. As Fonkoze began to study their model of development, they discovered that in each case, the organization was driven by the same challenges of sustainability, scale, and capital.

It was at this time that Gordon McCormick, a Fonkoze USA major donor and Wall Street investment banker, became an active part of the team to shape Fonkoze's future. He and Anne both believed that private capital could be accessed to tackle the problem of poverty in Haiti. Together, they set about to do just that by actively visualizing what it would take to create a solid financial base from which the institution could grow. One thing was evident — Fonkoze was having no trouble mobilizing savings in the communities in which it was operating. Every year, since 1996, the volume of savings had more than doubled. By the end of the year 2000 it stood at almost US\$2 million. With a commercial bank license, Fonkoze would be able to access those deposits for lending. If they could add to that another \$2-\$3 million in capital from abroad, Fonkoze would have a stable base from which to reach scale.

In the early stages of this exploration, Gordon, Anne, and other members of the Board of Fonkoze USA, consulted with attorneys (both in the US and Haiti), donor institutions, and international microfinance consultants from Development Alternatives, Inc. Just as the organization was about to take its first steps at putting voice to their vision and presenting it to the larger community, violent forces within Haiti moved on Fonkoze.

### **THE TRAGEDY OF AMOS JEANNOT**

On the afternoon of September 6, 2000, a group of 10 men dressed in official Haitian National Police uniforms came to the door of Fonkoze. Under the pretext of checking Fonkoze's gun permits, they entered the building. The men forced all the employees on the floor at gunpoint, and robbed the central safe of a relatively small amount of cash. Before leaving, they asked by name for long-time Fonkoze employee, Amos Jeannot, and forced him into the back of their stolen vehicle. As the car drove away, Fonkoze employees painfully witnessed the men brutally beating Amos.

Two days later, Fonkoze received a phone call. The caller said, "Tell Anne if she doesn't close Fonkoze, we won't let Amos go." It soon became evident that the attack was about more than money. It was about intimidating, or even destroying, the institution of Fonkoze. Even though the organization always kept a low profile, and quietly and neutrally went about its work, someone was not at all happy with Fonkoze's success.

Fonkoze USA and Fonkoze immediately broke with their low-profile status, and began to "make a loud noise." In Haiti, reward flyers were posted in neighborhoods throughout Port-au-Prince and radio stations broadcast Amos' kidnapping. In the U.S., Fonkoze USA organized an international campaign to pressure the Haitian government to fully investigate the attack and kidnapping. More than 1,000 faxes from all over the world were sent to the President of Haiti and the Chief of Police. In three popular Haitian newspapers, full-page ads ran calling for a full investigation, offering support and solidarity for Fonkoze, and signed by more than 100 international organizations.

Sadly, three weeks later, the tortured body of Amos Jeannot was found in the Central Morgue by Anne and her staff. Amos left behind a wife and four-month-old son. The National Cathedral in Port-au-Prince was filled to capacity with mourners at the memorial service as a banner flew in front proclaiming, "thank you Amos for all your good work in the country, with the peasants, with the youth, and with the ti machann."

While the investigation stalled, Fonkoze continued its work. When asked how Fonkoze staff could find the courage to do so, Anne replied, "Amos gave his life for Fonkoze, we have no choice but to keep moving forward." With even more determination, and even more solidarity from clients and supporters, Fonkoze did just that. In the face of incredible challenges to their work — insecurity, devaluation of the Haitian gourde, continued political instability — Fonkoze grew, professionalized, and strengthened in Amos' memory.

### **BECOMING KNOWN IN THE MICROFINANCE COMMUNITIES**

By the end of 2000, Fonkoze had 972 member organizations, 13,260 savings accounts with total deposits of 38,646,349 gourdes (about US\$1.7 million), 4,794 group borrowers with the total volume of outstanding loans at 21,135,636 gourdes (about US\$1 million). They had 16 branches, and 130 employees.

It was during this same period that Fonkoze began in earnest to learn from other microfinance institutions in Haiti and around the world and to become known within the larger microfinance community. In the fall of 1999, Fonkoze submitted its application to the United National Development Program (UNDP) to become a MicroStart grantee. In the summer of 2000, it was awarded that grant, signaling that it was one of 4 microfinance institutions in Haiti considered to have the potential of becoming a sustainable institution that could reach scale. The grant brought with it both financing and technical assistance provided by Freedom from Hunger.

At about the same time, Fonkoze entered into a partnership with Development Alternatives, Inc., a USAID-funded organization that provided technical assistance to microfinance institutions operating in Haiti. Grameen Foundation USA became another of its technical assistance providers. In short, in the space of about 2 years Fonkoze became very well known within the microfinance sector in Haiti and began to earn an international reputation for its provision of rural microfinance services. This culminated in Fonkoze's award in December 2003 of a CGAP Pro-Poor Innovation Award when it was one of five institutions selected out of an application pool of 300 for an award for its money transfer service!

### **PUTTING THE HOUSE IN ORDER**

The last three years have seen tremendous changes in the organization. Looking toward eventual commercialization, the organization set about putting its house in order with determination. The loan portfolio was brought to top performance. This took tremendous re-organization, and training for Fonkoze employees and clients. Key to this transition were a two-person team: Rob Barger, who was Director of Credit at the time, and Mr. Salam, a Grameen Bank senior manager who was loaned to Fonkoze for a period of ten months. The two of them re-organized all of Fonkoze's solidarity groups into Centers. Centers consist of 6-10 solidarity groups of women who gather together all at once to network, receive credit and training, open saving accounts, and repay their loans.

During that year, Fonkoze dramatically improved its microcredit portfolio quality and quantity. Arrears greater than one day were drastically reduced (from an average of 20% to an average of 2%). The portfolio at risk greater than 30 days also dropped to 2%. Waiting time between loans was reduced. Write-offs remained under 4% annually. Then, in the six-month period between June 2002 and December 2002, the portfolio grew by 50%.

Fonkoze also underwent a complete Information Technology overhaul. One of the biggest problems in managing Fonkoze had been the amount of time that it took to get management information from the field, given Haiti's poor telecommunications and road infrastructure. With help from a number of its partners, including the Doen Foundation, the Raskob Foundation, and DAI/FINNET, Fonkoze purchased banking software that held the promise of vast improvements in its processing of information. In addition, it began linking its branches through a private virtual network.

The private offering for the commercialization of the institution was a tremendous success. \$2 million in equity capital was raised in the United States and the Netherlands to successfully spin off Fonkoze financial services into a full service institution with the mission of providing the rural population of Haiti with a full range of financial services. The name of this new institution is Fonkoze Financial Services, S.A. In the meantime, the Central Bank of Haiti is reviewing Fonkoze's application for a commercial bank license, and Jean-Edner Nelson has become CEO. This high-growth, dynamic financial services institution has the potential to reach over 100,000 rural Haitian, primarily women, in the next five years.

Fonkoze — the foundation — remains an active institution as well, and continues to be headed by Anne Hastings. The foundation is devoted to innovation and experimentation in the delivery of micro finance and related educational services to the most rural and the most economically disadvantaged of Haiti.

### **10 YEAR ACHIEVEMENTS**

In just 10 years, Fonkoze has grown from a few founding members with a vision many would consider impossible to a family of mutually reinforcing institutions that includes Fonkoze, Fonkoze USA, and Fonkoze Financial Services. Together, they are employing more than 280 people, serving close to 60,000 clients, and impacting the lives the tens of thousands more. The family of Fonkoze institutions has indeed become a lasting institution on which the poor of Haiti can rely.