



FINDING BALANCE

SOCIAL PERFORMANCE

FINANCIAL SUSTAINABILITY



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OUR MISSION

To build a sustainable microfinance institution to:

- ▶ Provide Haiti's poor with the financial and educational services they need to make their way out of poverty;
- ▶ Eliminate the kind of poverty that leaves people without hope, motivation, and courage; and
- ▶ Reverse the decline in Haiti's economy by empowering and motivating families to engage in sustainable economic development.

Fonkoze is a fully certified user of the Grameen Foundation Progress out of Poverty Index® (PPI®). Our use of the PPI has been validated in all three categories of certification: basic, advanced and tracking over time.



Finding Balance

“Finding Balance” is a simple phrase — yet, strong and confident like the Fonkoze client portrayed on the cover of this report. Two simple words that in their realization mean so much to the people of Haiti, to the institutions that make up the Fonkoze Family, and to the clients and members served by these institutions.

What do we mean by “Finding Balance”? For Fonkoze, we are talking about being a truly double bottom-line institution, in that we hold ourselves to high and above all measurable standards for both institutional financial performance *and* positive social impact on our clients. Said another way, when we say sustainability, we are talking about the financial sustainability of not only the Haitian institutions of Fonkoze and Sèvis Finansye Fonkoze (SFF), and their U.S. partner Fonkoze USA, but of the social and financial sustainability of our clients and members as well.

We hope this report will inform you — our key supporters and partners — not only about the successes of Fonkoze, but of the disappointments we face, the challenges all Haitians face.

How can we most sincerely and honestly express what your support means to us? We’ve often said you make us strong. But even when we are not strong, you give us the faith that we can and will be.

One way of honoring your commitment is to remind you this: you remained with us in 2011, and by doing so you exhibited an understanding that the journey ahead of us in post-earthquake Haiti is a long one and cannot be solved in one year, or two. Another way of honoring our partnership — and new ones that come our way — is for us to continue to be as accountable as possible, disclosing our financial and social results to you even when they are not what we had hoped they would be.

A Fonkoze donor who traveled to Haiti with us expressed last year, “Fonkoze tells the truth. You see a depiction of their Staircase Out of Poverty, and you’ll see that women are climbing that Staircase. But you’ll also see women are falling off too.” This donor expresses something about which all of us in the Fonkoze Family are keenly aware.

Leaving poverty behind is not a simple task, and even when a woman and her family make progress, circumstances beyond her control can cause her to falter.

In a sense, the year 2011 and our social bottom line was all about this. How do we ensure our members and clients do not falter, and if they do, what are the tools and programs they need to start again?

In this report, you will read about how in 2011 Fonkoze:

- ▶ Provided all its clients with insurance against natural disaster with a product called *Kore W* (pronounced “Koray Oh” meaning “Reinforce You” in Creole)
- ▶ Reinforced *Kore W* with a new educational module — *Ti Koze nan Sant la* (Little Chat in the Center) available to all clients with important lessons on managing the inevitable risks in their lives.
- ▶ Enhanced health programs and launched a new health pilot to ensure our clients maintain better health for themselves and their families.
- ▶ Ramped up internationally-lauded programs for the very poorest, *Chemen Lavi Miyò* (CLM) and *Ti Kredi* (Little Credit).
- ▶ Diversified its portfolio by reaching out to small-to-medium-sized enterprises through *Zafèn*, to women importers through *Kredi Cho*, to farming cooperatives growing food for public schools through *Kredi Lakay*, and to small businesses in the formal sector through Business Development.

“Fonkoze tells the truth. You see a depiction of their Staircase Out of Poverty, and you’ll see that women are climbing that Staircase. But you’ll also see women are falling off too.”

— A FONKOZE DONOR WHO TRAVELED TO HAITI

Not only do we see progress in income, food security, and the number of children in school, but with time we also document clear improvements in ownership of small assets like a radio or an animal, better access to water, and home improvements.

All this, while maintaining an eye to bolstering core programs and client protection.

The social bottom line clearly shows that clients remaining with Fonkoze are improving their lives, based on data collected by our Social Impact Monitors working throughout Haiti. The longer clients remain with Fonkoze, the more their assets grow and their standard of living advances. For example, our research shows a remarkable change in food security and children's enrollment in school in a client's first years with Fonkoze (more later in this report).

And, not only do we see progress in income, food security and the number of children in school, but with time we also document clear improvements in ownership of small assets like a radio or an animal, better access to water, and home improvements.

To continue to be able to provide these important services to our clients and members, we must keep a watchful eye on financial health and sustainability. As Fonkoze commemorates 18 years of existence, and as the dust literally settles after the earthquake, the Fonkoze Family decided to undertake an extensive strategic review of all the institutions that make up the Fonkoze Family: Fonkoze, SFF, and Fonkoze USA.

You'll read more about this in the "looking ahead" portion of this annual report since most of this work is taking place in 2012. But, early in 2012, the Fonkoze Family Coordinating Committee (FFCC) was formed. Made up of selected members of each respective Board in the Fonkoze Family, the FFCC is digging deep and taking a holistic view of the financial health of each institution. They are making recommendations for achieving higher levels of efficiency and impact and estimating the resources needed to do so.

Some of this will not be easy, but we know we are not alone. You give us the strength to know we will succeed. As we move closer to our 20th anniversary, we are making the essential decisions needed to secure our future and to fortify ourselves for the long term.

Strong Haitian institutions taking control of the recovery and development of their own country!

Strong Haitian institutions "Finding Balance" in order to move forward into Haiti's brighter future.

With sincere gratitude,

Fr. Joseph B. Philippe, CSSp, *Founder and Chair of the Fonkoze Board of Directors*

Carine Roenen, *Director, Fonkoze*

Alex Counts, *Chair, Fonkoze USA Board of Directors and Co-chair, Fonkoze Family Coordinating Committee*

Leigh Carter, *Executive Director, Fonkoze USA*

Julian Schroeder, *Co-chair, Fonkoze Family Coordinating Committee.*

Anne H. Hastings, *CEO, Sèvis Finansye Fonkoze*

YEAR	NUMBER OF BRANCH OFFICES	NUMBER OF EMPLOYEES	NUMBER OF LOAN CLIENTS	NUMBER OF DEPOSITORS	VALUE OF DEPOSITS	VALUE OF LOANS OUTSTANDING
1996	1	9	110	193	\$ 78,387	\$ 23,234
2000	16	130	4,794	13,260	\$ 1,716,090	\$ 938,527
2005	26	486	31,090	94,342	\$ 7,479,011	\$ 5,936,728
2009	41	743	45,344	198,740	\$ 14,539,276	\$ 8,662,041
2010	43	840	50,533	234,312	\$ 24,067,236	\$ 10,264,774
2011	46	899	60,100	273,212	\$ 25,735,884	\$ 15,689,795



Fonkoze
Financial Solutions

DEPO

KACH-US

EK-US

Managing to a Double Bottom Line

Since Fonkoze's inception in 1994, we have worked tirelessly to create a bank on which Haiti's poor can rely. With nearly 18 years of experience working in Haiti's often tumultuous terrain, we have long known that just providing loans is not enough; we support our clients by providing other financial services like savings, access to remittances from abroad, and insurance, in addition to education and health services. Our constant drive to innovate and expand our services has allowed us, with pride, to stand alongside our clients through the toughest of times.

However, we have learned that even with access to a tailored suite of tools and support, progress out of poverty takes time, sometimes across generations, and more often than not is riddled with setbacks caused by natural and man-made events outside the control of our clients or Fonkoze. With each innovation or new solution we are charged with the often difficult task of figuring out how to

make these vital tools and services available to our clients in a sustainable manner.

Fonkoze is an institution with a double bottom line: we aim to lift the families and communities we serve out of poverty, while operating in a financially sustainable manner. In addition to an institution-wide commitment, managing to this double bottom line requires a balance of financial and social data to inform everyday decisions, from daily operations through product design and enhancement to institutional policymaking. Understanding and thinking through the benefits and drawbacks of every decision to achieving both social performance and financial sustainability goals is a delicate and ongoing exercise.

Central to realizing this balance has been the development of our social performance management system—an institutionalized commitment to systematically monitoring and evaluating progress toward our mission and making sure we

SOCIAL PERFORMANCE





offer our clients the services they want and need. The backbone of this system is Fonkoze’s Social Performance Monitoring and Market Research department, or Social Impact, which we established in 2006. Social Impact staff work alongside branch and operations staff to systematically monitor our clients and evaluate the effectiveness of our programs. Social Impact data and information flow from the field to managers at all levels of the organization constructing a vital feedback loop. With the help of our social performance data, which we review alongside financial data, staff and managers at all levels of Fonkoze can make well-informed decisions daily by asking the question: “Is this good for our clients and for the financial health and longevity of the institution?”

In this year’s report—the first that combines our traditional annual report with our social performance report—we invite you to explore some of the creative ways that we manage to a double bottom line. As we continue to exercise double bottom-line thinking in everything we do, we move closer to finding the balance we need to be the bank that equips Haitian communities with the tools they need to leave poverty behind, and we keep our promise of being around long into the future.

Managing our Social Performance

Fonkoze’s Social Performance Monitoring and Market Research department, or Social Impact, is an 18-member team of “action researchers” located in 14 branches throughout the country. Social Impact staff are dedicated to the ongoing monitoring and evaluation of Fonkoze’s clients and programs. Team members use a variety of research tools and techniques—one-on-one interviews, observation, Fonkoze’s Poverty Scorecard, a food security survey, client exit survey, and focus group discussions—to help Fonkoze hear the voice and perspectives of our clients, holistically measure change in our clients’ lives, and make demand-driven improvements to our products and services.

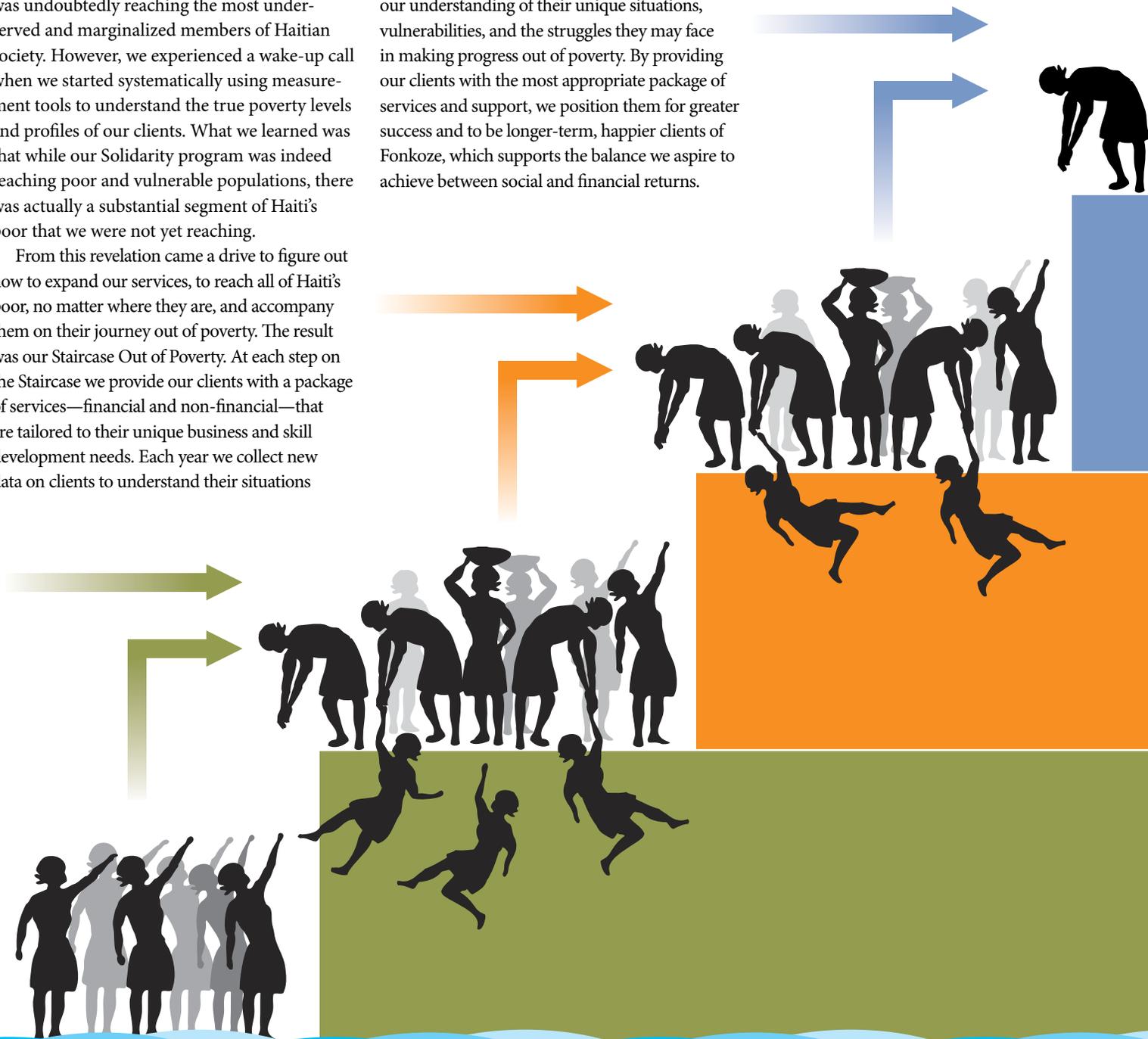


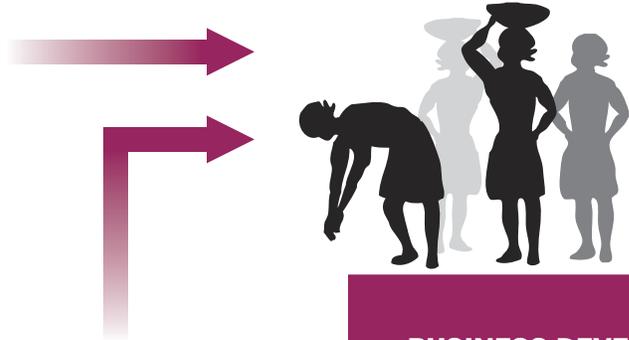
Reaching and Empowering the Poor

When Fonkoze first started, we began with one loan product, our Solidarity Group loans. Intent on reaching and empowering the poorest of Haiti's poor, we were confident this loan product, which started at \$75, required no collateral, embodied a focus on strong social ties, and was delivered through community-based centers was undoubtedly reaching the most underserved and marginalized members of Haitian society. However, we experienced a wake-up call when we started systematically using measurement tools to understand the true poverty levels and profiles of our clients. What we learned was that while our Solidarity program was indeed reaching poor and vulnerable populations, there was actually a substantial segment of Haiti's poor that we were not yet reaching.

From this revelation came a drive to figure out how to expand our services, to reach all of Haiti's poor, no matter where they are, and accompany them on their journey out of poverty. The result was our Staircase Out of Poverty. At each step on the Staircase we provide our clients with a package of services—financial and non-financial—that are tailored to their unique business and skill development needs. Each year we collect new data on clients to understand their situations

when they start with Fonkoze, and how their lives are changing over time. We look at incoming client data year-by-year to make sure that we are continuing to reach Haitian families at all different levels of poverty. From this data we are able to confirm whether we are placing participants in the right programs for their needs, as well as deepen our understanding of their unique situations, vulnerabilities, and the struggles they may face in making progress out of poverty. By providing our clients with the most appropriate package of services and support, we position them for greater success and to be longer-term, happier clients of Fonkoze, which supports the balance we aspire to achieve between social and financial returns.





BUSINESS DEVELOPMENT extends year-long individual loans to established business men or women already in or looking to enter the formal economy and who can manage a loan of \$1,300 or more. While Business Development has long been Fonkoze's principal program serving the small and medium enterprise (SME) sector, in 2011 we began to diversify this portfolio. Incoming clients in Business Development and our other SME sector programs took out loans ranging from \$1,300 to \$150,000 and worked in a variety of sectors from textile importing to agricultural production and solar panel manufacturing. While we do not currently collect poverty data on these clients, we are working to create tools and methods that will help Fonkoze best understand the needs of these businesses as well as the value they are adding to their communities through job creation and economic stimulation.



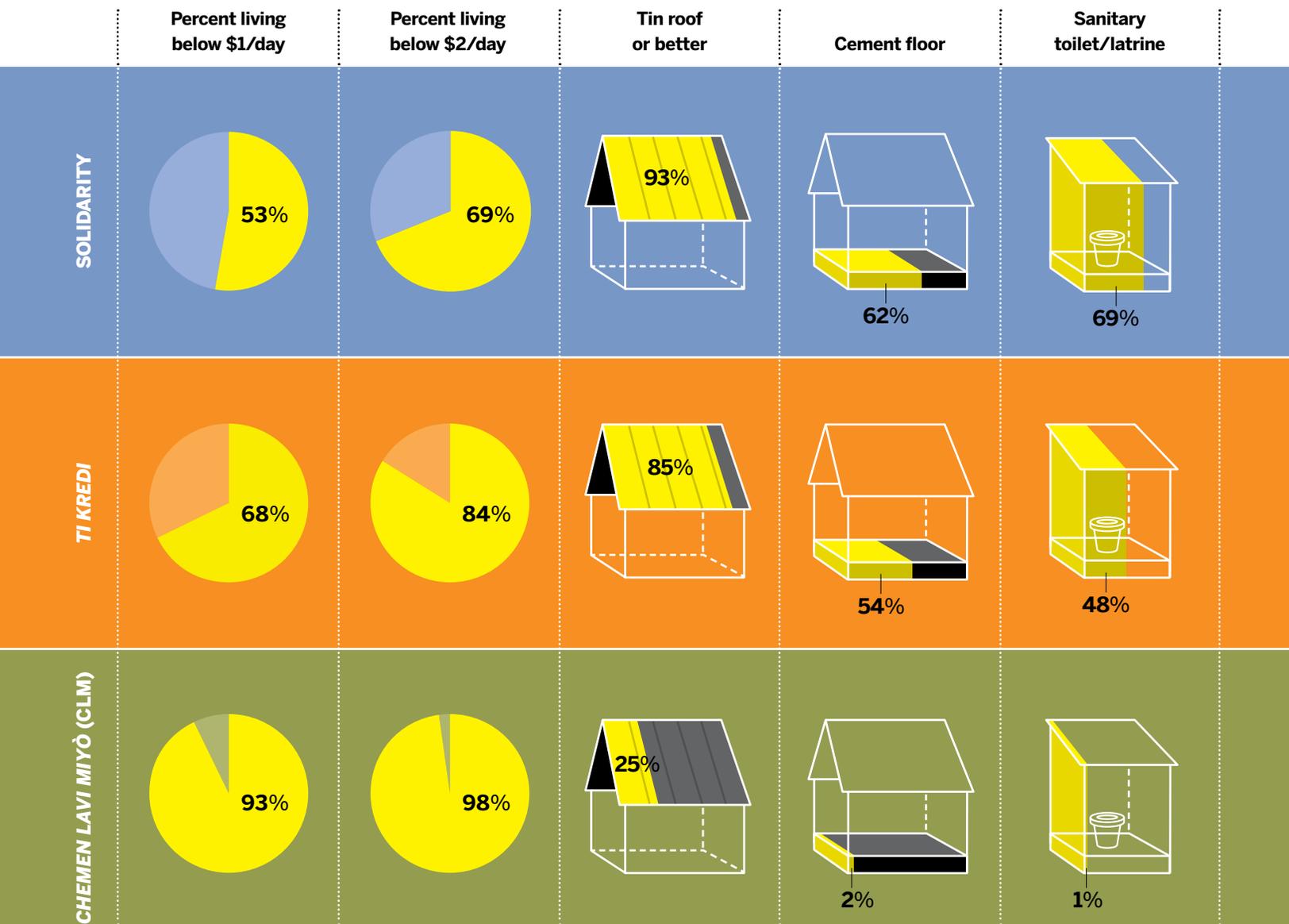
SOLIDARITY is Fonkoze's core lending program for women with at least some experience running a business and managing a loan. In 2011, incoming Solidarity clients fared better than those entering CLM or *Ti Kredi*. Nonetheless, 75% were still living in some state of food insecurity, 31% did not have access to a sanitary toilet, 41% still accessed unclean water, 21% struggled to send all their children to school, and only 54% knew how to read and write. These data show that despite the relatively better off position of Solidarity clients, they are still facing significant challenges in providing for their families. The Solidarity program focuses on providing members with manageable loan sizes, life skills and business training, as well as a support system of women who are united in a vision to lift their families out of poverty. This program grows with these women until they feel ready to apply for an individual loan.

TI KREDI targets women who have successfully graduated from CLM or who are too vulnerable or inexperienced to go straight into our Solidarity program. In 2011, poverty indicators showed incoming *Ti Kredi* clients once again fell right in between CLM and Solidarity clients, which is a testament to the very careful selection process undertaken by the program. While these clients are better off than CLM members, they are still just getting their bearings on the Staircase: 68% were living on less than \$1/day, only 4% were food secure, and only 32% knew how to read and write. These clients were also struggling to build small assets and just under half (48%) had access to a sanitary toilet. Starting with a \$25 loan and intensive weekly education, the *Ti Kredi* program helps women establish a business and learn how to manage a loan. Upon graduating, they are eligible to participate in our Solidarity program.

CHEMEN LAVI MIYÒ (CLM), is designed to reach the poorest of the poor and to help them take the difficult first steps out of extreme poverty. In 2011, incoming CLM clients were 40% more likely than our Solidarity clients to be living under \$1/day and 98% were living below the \$2/day line. 99% of these clients were defined as food insecure with hunger, meaning they did not know when they would have their next meal. They were significantly worse off than their peers in *Ti Kredi* or Solidarity in all other indicators analyzed: they faced some of the most challenging living conditions, possessed little to no assets, and were largely incapable of sending all their children to school. This highly vulnerable situation is usually accompanied by poor self-esteem, underscoring the importance of Fonkoze's intimate case manager approach to supporting these families as they start businesses and build their skills, assets, and confidence over an 18-month period.

Key Socio-Economic Indicators¹ for Incoming Clients in the First Three Programs

Data collected this year reaffirms that the first three programs of our Staircase, designed to target the poor, continue to reach clients at different levels of poverty, each with distinct characteristics and needs. As in past years, clients in all of our programs started at or below national averages for poverty and literacy,² which confirms that we are reaching poor and vulnerable segments of Haitian society. Sample sizes: 310 CLM, 276 Ti Kredi, 815 Solidarity

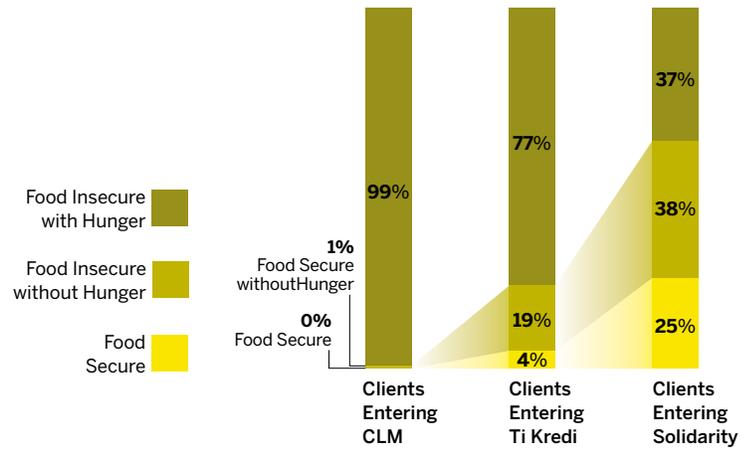


LOAN SIZES FOR EACH PROGRAM

	STARTING LOAN SIZE*	AVERAGE LOAN SIZE IN 2011*
CLM	no loan	no loan
Ti Kredi	\$25	\$42
Solidarity	\$75	\$212
Business Development	\$1,300	\$1,800

* In U.S. dollars

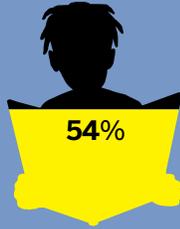
FOOD SECURITY



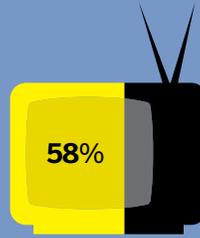
Send all children to school



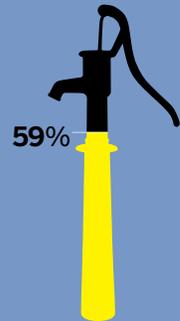
Can read and write



Own small assets like a radio or TV



Access to piped or well water



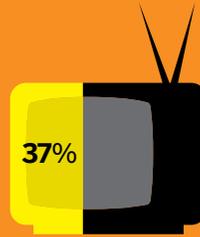
72%



32%



37%



54%



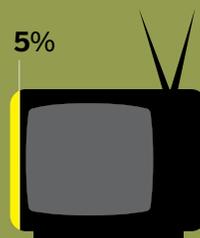
15%



7%



5%



15%



Expanding the Fight Against Extreme Poverty

BY THE NUMBERS

43
dedicated CLM staff serve
over 122 communities throughout
Haiti's Central Plateau region

950
new families joined CLM
this year

2,184
families reached in 2011

98%
graduation rate of
CLM members in 2011

After successfully completing a two-year pilot of *Chemen Lavi Miyò* (CLM), which means “Pathway to a Better Life,” in 2009, it was with great excitement that Fonkoze worked to expand the program’s reach in 2010, as a key component of our earthquake recovery strategy. With over one thousand new CLM members recruited to the 18-month program by the end of December 2010, the year 2011 was the time to put the successful program into practice on a large scale and help these families take the very difficult first steps out of extreme poverty. Indeed, there was a lot of pressure on the CLM team to perform during the year.

The challenges that the CLM program face are, in many ways, quite distinct from what our other programs face. The approach falls out of the traditional boundaries of microfinance. Targeting the very poorest families in Haiti, it is a program that aims to prop them up through close accompaniment, asset transfers, livelihood development, short-term cash stipends, and confidence building. Working with the poorest of the poor, questions of managing to a financial bottom line take a backseat. The situations that we find our members in call for an immediate and urgent response. By partnering with our loyal and generous donors, Fonkoze goes to any and all lengths to dramatically change the trajectory of our CLM members’ lives.

Perhaps the most important lesson we have learned from working with CLM families for the

past few years is that poverty—and even extreme poverty—is not homogenous. All CLM members have next to nothing, however the reasons for their dismal poverty are very diverse. In the area of Tit Montayn, for example, it is extreme isolation that causes our members to be extremely poor. (A story that illustrates the difficulties faced by our members living in that isolated area of the Boucan Carré Commune can be found below.) Because our members’ situations and problems are varied, the CLM team relies on its specially-trained team of case managers to work with the individual families over the course of the program. The growth of the program has required careful supervision on the part of CLM leadership to ensure that our case managers continue to provide exceptional service.

In total, 2,184 families took part in the CLM program in 2011. Of those, 1,100 were recruited in 2010 and will have the opportunity to graduate in 2012. Of the remainder, 950 were newly recruited in 2011. Finally, we are thrilled that 132 members were able to graduate out of a total of 134 that actually finished the program in 2011. The 98% graduation rate is a testament to the fact that our team of case managers is continuing to do work that is truly changing our members’ lives. As CLM grows and continues to improve, it will remain one of Fonkoze’s most effective tools in eliminating extreme poverty from Haiti.

Mirlène and Orélès

AFTER A TRAGEDY, CLM HELPS A YOUNG FAMILY BACK ON THEIR FEET

Mirlène is a CLM member who lives with her husband, Orélès, at the top of a ridge in an area of Tit Montayn called Bwawouj. It is one of the most remote places that Fonkoze reaches: it takes two hours of arduous hiking to get there from the nearest CLM satellite, which itself is already a four-hour hike from the last place that can be reached on a motorcycle. Their house is as out-of-the-way as it gets.

Mirlène and Orélès had two little girls, a five-year-old and a baby, just over one. A couple of months ago, the baby got sick with a fever and diarrhea. Orélès reacted quickly and ran to the midwife who had delivered the baby. But after speaking with her, Orélès rushed back home to find the baby dead and his wife feeling sick. He and Mirlène struggled to plan a decent funeral, borrowing about US\$20 for a casket and

almost twice as much for other expenses.

By the time they had buried their daughter, Mirlène was really sick. After trying expensive medications prescribed by a local nurse’s aide and watching his wife’s condition continue to deteriorate, Orélès finally took the advice of a friend and took her to a man who practices traditional herbal medicine in another village. In

less than two weeks, Mirlène was feeling much better.

But the significant expenses they had amassed threatened to derail the progress they had been making through CLM. The expenses for their baby’s funeral were only part of the problem.



PHOTO BY STEVE WERLIN



Case manager Figaro Bazalais makes a joke during a weekly meeting with one of his 50 CLM members.

The healer assessed two separate fees. Orélès had to pay about US\$30 just to take his wife home. After that, he owed about US\$190 more as a final bill, which he will pay in installments each December for the next five years.

The long-term debt was one thing, but they needed US\$90 right away. They had a substantial crop of beans that would generate some money with a good harvest, but they needed most of that income to finish paying for the small plot of land that they just purchased. Until they joined CLM, they had been sleeping with their children in a corner of Oré-

lès's brother's house. CLM had helped them build a home of their own, and also helped them figure out how to earn the money they'd need to buy the land they built it on. But if they couldn't make the final payment, they risked losing the land. They could have sold a couple of goats to get themselves out of the hole, but the livestock CLM gave them is a key part of the asset base that they need to develop as they move forward out of poverty. There weren't yet enough of them to handle such a big expense.

Fortunately, there was a solution. Fonkoze budgets a small

amount of money in the CLM program for emergencies. It is a fund conceived just for cases like this: sudden expenses that risk throwing a member back into the extreme poverty she has struggled to rise out of. The family's case manager met Orélès at a market near the town of Mibalè and gave him the money to eliminate his immediate debts. He and Mirlène will still have to finish paying the healer, but they will have five years to take care of that.

In the meantime, they can continue to build up their assets. They are ready to buy a

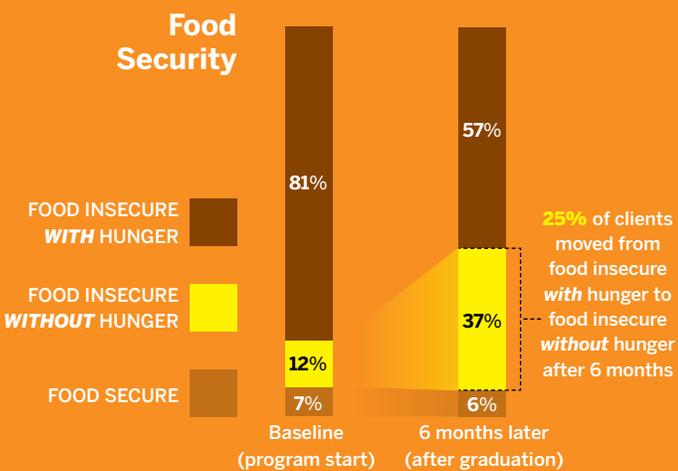
horse, which will enable Mirlène to start up a small commerce in the markets across the mountains as soon as she feels able. Buying and selling products in different markets, there will be some days where she hikes up to six hours. It will be a lot of work, but it should be profitable. Their prospects look good.

Fonkoze cannot help Mirlène or Orélès with the grief that they feel at the loss of their child, but we can support them so that they stay on their feet as they move forward on a path out of poverty.



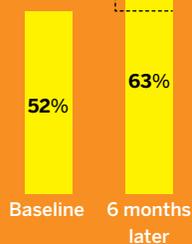
Remy Joseph, Fonkoze's *Ti Kredi* agent in Beladè, worked with Melida Camile to help her expand her small business. Melida successfully graduated from *Ti Kredi* and into Solidarity Group lending in 2011.

SOCIAL PERFORMANCE RESULTS FOR TI KREDI



School Attendance

11% more clients were sending all their children to school



In 2011 a sample of 114 clients from 5 branches demonstrated significant improvements in food security and children's enrollment in school from program start to finish. Our clients continue to prioritize investment in these two areas as their economic capacity is strengthened through our programs. While there is still progress to be made these tangible improvements are signs of families decreasing their vulnerability and taking the very important first steps out of poverty.

A Small Loan Yields Big Results

Fonkoze gave the first *Ti Kredi* clients their loans in the small village of Sodo in 2004. Although the program has gone through some changes since that time, the objective remains the same: to provide foundational financial and educational services to our members who are too poor, vulnerable or inexperienced for our traditional Solidarity lending program. What began as a small pilot of an introductory micro-credit program has firmly cemented itself into the Fonkoze model—in many ways, it is the fullest representation of how we manage to a double bottom line.

For Fonkoze, the social benefits of *Ti Kredi* have always been clear. The importance of providing access to financial services and educational training to very poor women is self-evident. One only needs to visit a *Ti Kredi* center meeting at the beginning of the program and then again at the end—a short six months later—to see the remarkable difference in the way members carry themselves, confident and boisterous. Helping to complete the double bottom line picture were the results of a Grameen Foundation study that showed a sample of clients who graduated from *Ti Kredi* into Solidarity stayed with Fonkoze longer and realized improvements in key socio-economic indicators, such as livestock ownership and food security, at a faster rate than their peers who first started in Solidarity. This suggests that, despite the comparatively large up-front costs Fonkoze must

manage for a member to participate in the program, *Ti Kredi* can actually be a sound long-term financial investment for the institution.

While the double bottom line business case exists, accompanying a *Ti Kredi* member through the program and into Solidarity lending is no easy task. Consistent with past years, *Ti Kredi* members enter their credit program in a significantly more vulnerable position as far as poverty indicators go compared to Solidarity members. Despite the great progress a woman can make in the program, she remains in a fragile state that can be upset by any of many external factors abounding in the volatile Haitian countryside. For that reason, *Ti Kredi* leadership will continue to emphasize close accompaniment on the part of *Ti Kredi* agents throughout the six-month program and into the members' first few months in Solidarity.

In line with this goal, one of the biggest accomplishments of the *Ti Kredi* team in 2011 was rewriting the educational manual all participants receive. We have placed greater focus on teaching the skills that our members need to run their small businesses. As their businesses grow, Fonkoze knows that it is important for members to have a strong foundation from which to take off. It is a tough proposition to help a *Ti Kredi* member up onto her feet and into Solidarity, but with close accompaniment and the right tools, Fonkoze will continue to do exactly that.

BY THE NUMBERS

4,910
new recruits into *Ti Kredi*

86%
of *Ti Kredi* clients
graduated from the program
(4,247 clients)

86%
of graduates advanced
into Solidarity Group lending
(3,668 clients)

13
Fonkoze branches offered
the *Ti Kredi* program in 2011

Josianne and Eranise

AN ENTREPRENEURIAL SPIRIT RUNS IN THE FAMILY

Josianne Josette (right) is no stranger to hard work. The mother of 10 daughters between the ages of 11 and 32, she says that she lives by the old Haitian proverb, *chita pa bay*—“sitting around doesn't get you anywhere.” It was a natural choice for her to join Fonkoze so that she could expand her business selling beans, millet and corn. Her daughter Eranise (left) has also

caught the entrepreneurial spirit. The *Ti Kredi* loan she received gave her the first opportunity to do small commerce, and she has jumped at the opportunity, starting a microenterprise by selling sugar and flour. Both women will have the opportunity to graduate from *Ti Kredi* and into Solidarity Group lending.



PHOTO BY BEN DEPP

Credit Agent Donald Sicar disburses money at a center meeting in Lenbe. Here *ti machann* pay back and receive loans and engage in educational programs.



Josette

SOLIDARITY CLIENT FIGHTS CHOLERA WITH HELP OF NATURAL DISASTER INSURANCE

A nurse and mother of three who lost her husband in the earthquake, Josette lost all her merchandise—medical supplies including water purification tablets, oral rehydration solution, and medicines—in early summer storms which covered parts of her community in a foot of rain.

Fortunately, Fonkoze had rolled out its natural disaster

insurance in time for the tropical weather season. Josette received HTG 5,000 (about US \$125), had her current loan cancelled, and received a new loan through *Kore W*.

“It got me going again,” Josette said. “Fonkoze is doing an extraordinary job.”

As part of a special cholera response program, Fonkoze provided her with the initial

medical supplies and training to get her pharmaceutical business up and running. Fonkoze also provided the first cholera education in her community, she says. In the summer of 2011, Josette says she treated up to 100 people a month for cholera. Sometimes she couldn't sleep through the night because she got so many calls. Equipped with water purification tablets

and oral rehydration salts, she hiked into the mountains to help the sick until they could make it to a cholera treatment center. With no ambulances, her service saved lives.

Since the Okoto branch opened nearest her, she's lobbied neighbors and friends to join Fonkoze, many of whom were suspicious because of bad experiences with other lending

Building Resilience by Strengthening our Core

Fonkoze disbursed its very first loans in 1996 through the Solidarity loan program—it is now our largest and longest-running credit program. Starting with loans of \$75, this program accompanies organized groups of motivated businesswomen with capital, education, and peer support as their businesses, skills, and leadership capacity grow.

While we were still recovering from the devastating 2010 earthquake, the cholera outbreak and late season tropical storms, in 2011 we shifted our focus from implementing emergency responses to introducing permanent products and services that would give our clients the tools and knowledge they need to face ongoing and future challenges. In the first part of the year, we leveraged our expansive network of 46 branches and over 1,800 Solidarity Centers made up of nearly 12,000 solidarity groups of women to roll out a new natural disaster micro-insurance product, *Kore W*, to all of our microfinance clients; this was completed just in time for the first heavy rains that hit the country in May 2011, before the hurricane season started. Furthermore, we tapped into the power of the same network to make sure all our Solidarity clients gained access to essential disaster preparedness and risk reduction lessons through *Ti Koze nan Sant la* (Little Chat in the [Solidarity] Center), a new educational program delivered through a peer-facilitated discussion once per month during Solidarity Center meetings. This program helps us achieve the long-time goal of getting essential education to all of our clients on a regular basis, in a cost-effective manner. Both of these programs were pilot tested in the wake of the 2010 earthquake and demonstrated their remarkable potential to help build our clients', and in turn Fonkoze's, resilience.

By the end of 2011, the Solidarity program had 57,416 clients—a 21% increase over year-end 2010. While part of this growth is due to attracting many new clients, we also saw client retention increase from 86% to 88% this year—and in those branches in which insurance payouts were made the retention rate was 92%.

BY THE NUMBERS

\$212

average loan amount disbursed in 2011.
Group loans range from \$75 to \$1,300

21%

growth in Solidarity clients in 2011

57,416

clients at year's end

96%

of Fonkoze's membership
that is made up of Solidarity clients

88%

client retention rate in 2011
— highest in our history

5

Solidarity clients in each
self-selected solidarity group

1,800

community-based Solidarity Centers
throughout Haiti that meet
twice per month

“When your house is destroyed, when your business is lost, the only one who comes to see if we’re okay is Fonkoze. I love Fonkoze.”

.....

institutions. Now a client for four years, she is the chief of the Solidarity Center in her area and helps verify claims made through *Kore W*. She says she visits each member who claims damage to their home or business to ensure the system works fairly.

“When your house is destroyed, when your business is lost, it should be the government that helps,” Josette said. “The only one who comes to see if we’re okay is Fonkoze. I love Fonkoze.”

PHOTO BY VANESSA PHILOGÈNE SHORT



IN 2011, SOCIAL IMPACT STAFF CONDUCTED ONE-ON-ONE HOME-BASED INTERVIEWS WITH:

815
new Solidarity clients

927
continuing Solidarity clients who have been with Fonkoze up to four years

25
different socio-economic indicators are used to track client progress in areas such as food security, living conditions, and asset ownership

MACRO-ECONOMIC FACTORS CAN GREATLY AFFECT CLIENT PROGRESS. IN HAITI:

5.6%
estimated real GDP growth in 2011 in comparison with -5.4% in 2010 and 2.9% in 2009

7.4%
estimated inflation rate in 2011 in comparison with 4.1% in 2010

Source: World Economic Outlook, April 2012

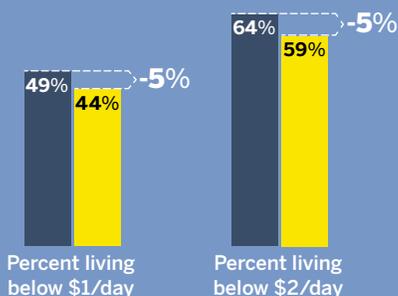
Social performance data collected on 927 continuing clients this year continue to show encouraging signs that despite the many setbacks our clients face they are stabilizing and continue to make steady, incremental improvements over time. This year we collected data on our largest sample yet of clients who have been with Fonkoze for three to four years. In comparing the progress of clients who have been with us from one to four years, patterns are showing: in the first few years some of the most immediate improvements clients realize are being able to feed their families more regularly and without worry, as well as starting to send all of their children to school—truly the foundations to escaping poverty. This year in looking at our sample of clients who have been with Fonkoze for three to four years we saw a dramatic uptick in the investments made in home improvements, such as cement floors, a latrine, and access to piped or well water. We also saw notable progress above the international extreme poverty line of \$1/day—11% of those who were living below \$1/day when they started with Fonkoze three to four years ago have moved above the \$1/day line. These findings reinforce our learning over the years that progress out of poverty can happen as households reduce their vulnerability and increase their economic capacity through steady access to the tools and services Fonkoze has to offer and face favorable environmental factors. The major challenge that remains is working to safeguard all these hard-earned gains from the many risks our clients face in their daily lives.

Helping our clients make and sustain important improvements in their lives is the heart of our mission; as a result, making sure we stay a responsive and financially healthy institution is equally as important. In 2012, we will continue to learn from and refine our newest financial product, *Kore W*, and newest education program, *Ti Koze*, to ensure that they are supporting our double bottom line objectives. Based on client feedback we will also continue to explore ways to make our Solidarity loan program more flexible, allowing new clients to enter the program with different loan amounts, and rewarding well-paying existing clients with an expedited top-up to their existing loans.

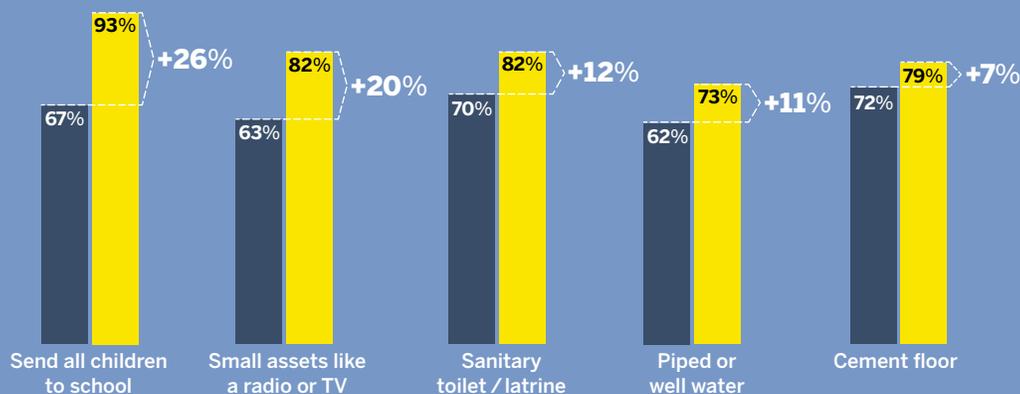
PHOTO BY CASSIDY RUSH

In 2011 Fonkoze's Social Impact team re-interviewed 136 clients from 8 branches who have been active borrowers with Fonkoze for three to four years (approximately 7 loan cycles). This client group continued along the trajectory of making steady progress with regard to food security and children's enrollment in school. We saw marked improvements in poverty levels, small asset ownership, and household living conditions and infrastructure. 5% of this client group moved above both the \$1/day and \$2/day poverty lines. This means that 11% of those who were living below \$1/day and 8% of those who were living below \$2/day moved above their respective poverty lines by their 7th loan from Fonkoze.

IMPROVEMENTS IN POVERTY LEVELS OVER 7 LOAN CYCLES



IMPROVEMENTS IN OTHER KEY AREAS OVER 7 LOAN CYCLES

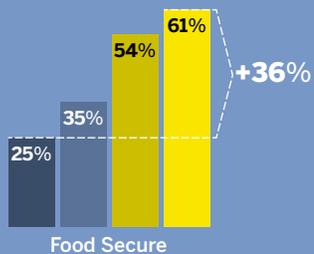




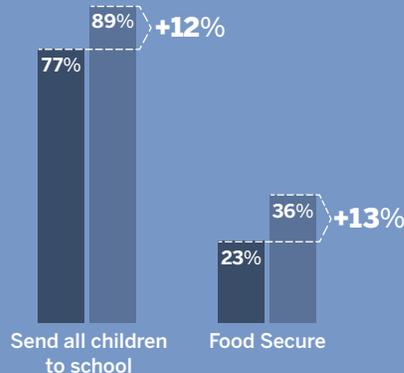
"I think it's good to have [Fonkoze] because we could not borrow from another bank," says Solidarity client Justine Challumeau. "Things are better because if my husband was providing for us alone, it would not be the same. But now I can do business and if he can't provide, I can help."

In 2011 Fonkoze conducted home-based interviews with 497 clients in 10 branches who had taken out their 3rd loan with Fonkoze (which takes about one year) and 151 clients from 10 branches who had advanced to their 5th loan cycle with Fonkoze (which takes 2-3 years). While changes in poverty levels, living conditions, asset ownership and literacy were relatively small for these two client groups, we did see remarkable changes in food security and children's enrollment in school in their first years with Fonkoze.

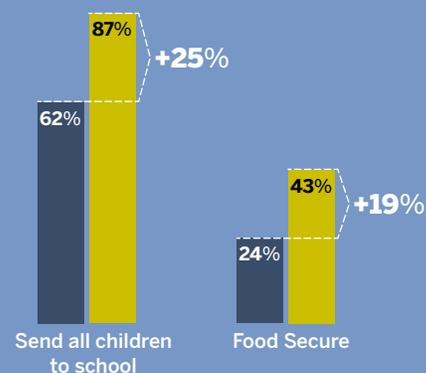
IMPROVEMENTS IN FOOD SECURITY OVER 7 LOAN CYCLES



CLIENTS WHO RECEIVED THEIR 3RD LOAN WITH FONKOZE



CLIENTS WHO RECEIVED THEIR 5TH LOAN WITH FONKOZE



- As Clients Received Their **1st** Loan
- As Clients Received Their **3rd** Loan
- As Clients Received Their **5th** Loan
- As Clients Received Their **7th** Loan



Carline Lundi, a Business Development client in Mibalè, has used Fonkoze loans to grow her business significantly. She used her last loan of \$20,000 to buy a delivery truck for her goods. She uses her profits to support her family, including one of her children who attends community college in Miami.

BY THE NUMBERS

BUSINESS DEVELOPMENT

873

clients working with
10 different Fonkoze branches

\$1.15 million
loan portfolio

KREDI CHO

78

clients

\$3.5 million
loan portfolio

\$45,000
average loan

\$10,000 – \$150,000
range of loans offered

KREDI LAKAY

26

clients

\$524,500
loan portfolio

\$20,200
average loan

ZAFÈN

87

enterprises and
19 projects funded

\$468,249
in donated and loan funds disbursed

606
jobs created

\$4,925
average loan

\$900 – \$10,000
range of loans offered

Amounts are expressed in US dollars

Piloting an Alternative Pathway

The heart of Fonkoze has always been—and will continue to be—the *ti machann*, or small-scale market women, who make up the majority of our membership. That said, our years of experience have taught us that while many can succeed with microfinance services, not everyone will thrive as a self-employed micro-entrepreneur. For that reason, Fonkoze has increasingly taken a role in supporting job-creating small and medium enterprises (SMEs).

We have traditionally supported SME sector growth through our Business Development (BD) program. For years, BD has supported men and women who are ready to break into economic leadership in their communities. It remains an important part of Fonkoze's array of poverty-fighting programs, although several changes have been put in place in recent years to improve portfolio performance. In an effort to maintain the program's quality, BD leadership has consolidated its efforts by focusing on ten strategic points of service, most of which lie in Haiti's largest urban areas. As a result, late payments by clients were nearly cut in half by the end of 2011.

The year 2011 also saw the development of two new SME products. Fonkoze created *Kredi Cho* and *Kredi Lakay* when a well-organized trade group of women wholesale importers who were facing difficulties accessing business loans following the earthquake reached out to Fonkoze. Most of the trade group members are large-scale

entrepreneurs who purchase and import goods from places as far away as Panama and China and sell their merchandise to smaller-scale merchants. Although wholesalers have not traditionally been a part of Fonkoze's target market, the connection to our mission is clear: in many ways, the wholesalers are the key to Haiti's merchant economy. If they are unable to import goods, the *ti machann* who make up the great majority of our clientele are also unable to do business.

In its second year of operation, the *Zafèn* team continued to work toward strengthening the program. Through *Zafèn*, Fonkoze provides interest free loans to SMEs with capital raised through an online "crowd funding" platform (www.zafen.org). Businesses and projects must fulfill strict criteria, which include potential for job creation, poverty alleviation, demonstration of value added for the community, and possibility for replication.

Each of the SME initiatives presents a number of challenges, many of which are yet unsolved. For *Zafèn*, we are still working on a business model that will guarantee financial sustainability. For the other SME products, it has proved challenging to maintain healthy loan portfolios. However, Fonkoze remains committed to strengthening these products and supporting larger-scale merchants and SMEs. By doing so, we believe we can further our mission of creating the foundation for economic democracy in Haiti.

KREDI CHO loans finance traders called 'Madam Saras' who maintain shops and wholesale businesses throughout Port-au-Prince. Some Madam Saras travel as far as China to procure everything from school backpacks to fabric to hardware. Many of these traders supply the market vendor 'ti machann' who make up the majority of our borrowers.

KREDI LAKAY loans go to women who source large quantities of food from farms throughout Haiti to be used in public school lunches in greater Port-au-Prince.

ZAFÈN is a multi-partner web portal initiative (www.zafen.org) that identifies and vets creditworthy small and growing enterprises and projects, and posts them on the website where individuals and teams can support no interest loans toward funding the enterprises and projects.



After the January 2010 earthquake, *Zafèn* member Waking Novembre decided to return to his hometown of Mibalè. With the help of a \$4,700 loan from *Zafèn*, he has built a burgeoning chicken business on his land. Starting off small, he has now expanded his business and currently employs seven people.

Innovative Insurance Product Takes Root



BY THE NUMBERS

58,737

members covered under
Kore W as of December 31, 2011

14

events between May and December
that Fonkoze received claims for

6,794

members received payouts
for Kore W in 2011

\$1,906,753

paid out to our members
in total

63%

of reported claims accepted

46

days average time
for a payout

55%

of Fonkoze's premium expenses
covered by clients at the
3% subsidized rate

Over the years, natural disasters such as floods, hurricanes, and most recently, earthquakes have been a continuous cause of setbacks for both Fonkoze and our clients. *Kore Fanmi Fonkoze*, Fonkoze's earthquake recovery program, was successful in helping nearly 20,000 clients affected by the earthquake with their recovery. However, Fonkoze knew that we needed to realize a long-term, permanent solution to protect our clients against the inevitable risks that they would face in the future. Propelled forward by our success and experience in implementing *Kore Fanmi Fonkoze*, on January 12, 2011, one year after the earthquake, Fonkoze officially launched *Kore W* (Haitian Creole for "Reinforce You"), an innovative natural catastrophe insurance product that covers all of our microloan borrowers. Borrowing directly from the *Kore Fanmi Fonkoze* model, *Kore W* covers all Solidarity and *Ti Kredi* members in case their homes or businesses are damaged by a natural disaster, including hurricanes, earthquakes, landslides, or floods. Coverage includes the following:

- ▶ A one-time HTG 5,000 (US\$125) cash payout
- ▶ Cancellation of their debt owed to Fonkoze
- ▶ The opportunity to take out a new loan with Fonkoze whenever the member is ready

On January 12, 2011, in regional meetings throughout the country, Fonkoze leadership informed all Fonkoze staff of the new initia-

tive and began planning for its institution-wide implementation. With over 50,000 borrowers spread out all over the country, educating borrowers and registering them for the product was no small feat. With the rainy season quickly approaching, Fonkoze set the aggressive goal of covering all its members with *Kore W* by the end of May. Twenty-three specially trained insurance agents worked tirelessly to train each and every borrower on the product as well as collect the first insurance premiums which, for Solidarity members, amount to 3% of the total of their six-month loan. (The actual cost of the product to Fonkoze is closer to 5% of loan values, but Fonkoze offers it at a subsidized rate in order to allow our clients to come to trust the product and better understand the previously foreign concept of insurance.)

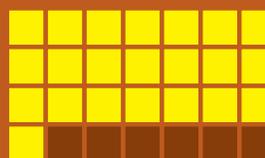
The urgency with which Fonkoze trained and registered members for *Kore W* paid off. Heavy rains arrived on schedule, and we received our first insurance claims in May and June. Between that time and the end of the year, Fonkoze received claims related to 14 different events and eventually paid out 6,794 members for a total of US\$1,906,753.

As with so many of our products and programs, Fonkoze relies heavily on its network in order to provide its catastrophe insurance services. It would not have been possible to

CASE STUDY

MicroInsurance Learning and Knowledge Center

While Fonkoze believes strongly in *Kore W*'s ability to protect our clients against natural disasters, we have gone to great lengths to try to understand the effects of the product on our clients. In addition to focus groups conducted by our Social Impact department, Fonkoze partnered with the MicroInsurance Learning and Knowledge Center to interview 46 clients who submitted claims to *Kore W* in the Okay area. Here's a quick snapshot of what we found.



Members took an average of **22 days** to re-open their business following the event.

Of the **46** members interviewed

36 received payouts and 10 did not



69% of members used their payout to increase savings or re-invest in their businesses.



97% of clients who received a payout and 90% of clients who did not receive a payout indicated the insurance product was a "good addition" to Fonkoze.

register all of our members for *Kore W* were it not for our expansive and well-connected system of branches and centers. Further, when an event does occur, we rely on the on-the-ground perspectives of center chiefs and branch staff to inform our insurance team of damage to clients' homes or businesses. Fonkoze's ability to react with agility to the needs of our members, some of whom live hours from the nearest branch, is due in no small part to our reach.

In many ways, *Kore W* is one of Fonkoze's most effective mechanisms for operating to a double bottom line. The social aspect is clear: by cancelling our clients' loans and giving them cash after a disaster, they are much better positioned to recover and rebuild after what are often devastating events. Financially, *Kore W* makes a lot of financial sense as well, as Fonkoze's loan portfolio is insured against the same disasters. Catastrophic events caused by major natural disasters no longer expose Fonkoze to the significant risk of clients not being able to reimburse their loans because of losses to their homes or businesses.

Although the scars of the 2010 earthquake are still fresh in Haiti's memory, Fonkoze has seized the opportunity to innovate and create a meaningful solution for our members. The success of *Kore W* during its first year will help Fonkoze move forward confidently in trying to perfect the product. Several initiatives are



PHOTO BY MACKENZIE KELLER

in progress for 2012, including, the introduction of front-end technology to help the claims process move more quickly, and the creation of a system to automatically warn center chiefs of impending storms. We cannot prevent natural disasters from striking Haiti, but we can help our members recover with resilience.

Kore W recipient Sonie Miltfort and her daughter Cherly Dorsainvil pose in front of their house in Gantye, which they rebuilt with the help of a \$125 Kore W payout after it was damaged in the June 2011 floods

“It’s not because of negligence that I’m going to lose my merchandise to rain. I do what I can to protect myself and I know that if I can’t, *Kore W* will be there to help me.”

— VENETTE JOSEPH, SOLIDARITY CLIENT FROM OKAY



PHOTO BY FONKOZE STAFF

A member's house after heavy rains washed away her wall.

Taking Our Education and Health Services to New Heights

BY THE NUMBERS

Members reached with Fonkoze's intensive educational modules:

5,512

Literacy and Numeracy

2,151

Sexual and Reproductive Health

1,208

Children's Rights

5,100

Business Management

13,971

Number of members reached in 25 branches

Fonkoze has always taken a holistic approach to helping our members combat poverty. As a result, over the years tens of thousands of Fonkoze members have benefited from both health and educational opportunities aimed at complementing the financial services they have received.

In 2011, Fonkoze decided to take that commitment to a new level, inaugurating its Human Development department. Drawing on previous years' activities and lessons learned, we created the department to achieve the following objectives:

- ▶ To facilitate access to quality education and health services to members in order for them to develop knowledge and skills useful to manage their lives successfully.
- ▶ To bring information, skills and knowledge to members living in isolated areas in order for them to get out of their marginalization.
- ▶ To establish functional networks into and between communities in order for them to share information, resources and human capacity and maximize their efficiency in obtaining a satisfying quality of life.

It is a simple, but powerful, proposition. Currently, we offer much-needed health and educational services to some of our members in certain areas of Haiti. How can we offer all of those services to all of our members? By seeking out durable initiatives that can be sustained on an institution-

wide level, we have a certain security that what we are offering our clients will be there year after year.

Like all of our products and programs, Fonkoze's innovative approaches to providing health and educational services are driven by our members' needs. In preparing to tackle the tough objectives set out by department leaders, one of the Human Development department's main initiatives for 2011 was to dig deeper into our members' health needs. It's no secret that health problems are one of our members' biggest obstacles: research has shown that on average 15% of members leave Fonkoze each year because of a health-related cause. The department collaborated with Fonkoze's Social Impact department to carry out studies, including focus groups with members to understand their perspectives on health care as well as to gather baseline data regarding their knowledge of health care and their most common problems. This special research was integral in informing what is one of the department's most ambitious initiatives in 2012. For the first time, three full-time nurses are working in the Lenbe branch, providing both preventative and primary care to members and their families, and working to establish partnerships with local healthcare providers to serve Fonkoze members and their families. In 2012 we will expand the pilot to at least one other branch. We will also conduct research to see how we might

Member's Son Joins the Fonkoze Family

DR. WESLY ELIZE AND HIS TEAM EXPAND FONKOZE'S HEALTH SERVICES

When Immaculee Pierre's husband died, she knew that she had to assume full responsibility for the material wellbeing of her three children. Like many Haitian women, Immaculee earned a living selling basic foodstuffs like rice, flour, and cooking oil. With only her income to support the family, it was difficult to get by.

Her son, Fonkoze employee Dr. Wesly Elize, who was four at the time, explains his mother's

situation this way: "We had very few resources. She had to be both father and mother. She had to look for help from outside, and she found Fonkoze. Their loan allowed her to expand her business."

Wesly's mother became a Fonkoze client in 1997. She started with a loan of \$75; by 2005, her portfolio had grown to \$1,000. These extra earnings allowed her to send

Wesly and his sister to live with their grandmother and attend middle school and high school in Port-au-Prince.

In 1999, Wesly won a scholarship to study general medicine in Cuba. After graduating in 2005, he returned to his native Savanette, some 95 kilometers outside Port-au-Prince, to complete his residency. Meanwhile, he continued his studies, specializing in family medicine



PHOTO BY EVA HAAS



A center chief in Lenbe facilitates a *Ti Koze* lesson on the importance of protecting important documents before a natural disaster strikes.

provide a core package of health services on a permanent basis to our members using a pricing and payment structure that works for them.

In 2011, Fonkoze continued its collaboration with Vitamin Angels, tackling the logistically challenging operation of distributing tens of thousands of vitamin and de-worming doses to the children of Fonkoze members. The continuing cholera outbreak, while offering its own set of challenges, also allowed for the implementation of a new project. Fonkoze piloted a program whereby members could create small businesses by buying water purification tablets and oral rehydration salts and reselling them to fellow community members. Although the program did not take off as anticipated—due mostly to the market being saturated with

free products from other organizations—Fonkoze plans to revisit the idea in the future.

Fonkoze’s education department continued to provide training as a total of 13,971 members participated in the following intensive four-month modules: literacy, sexual and reproductive health, children’s rights, and business management. In addition, all of Fonkoze’s Solidarity members took part in the pilot year of *Ti Koze nan Sant la*. Each of our nearly 60,000 Solidarity members received a *Ti Koze* manual, a new book developed specifically for use in center meetings. Our nearly 1,800 center chiefs were trained in how to facilitate a discussion using the manual. This program fulfills the objective of reaching all of our clients with essential lessons in a consistent and cost-effective manner. It also creates an environment for richer center meetings, where members discuss issues that are relevant to their lives and are encouraged to share what they learn with their families and communities. For those of our members just learning how to read, it also provides them material with which to practice. It is just the latest of the educational materials that Fonkoze has developed that stay true to Fonkoze’s pedagogical spirit, inspired by Paulo Freire, which proposes that respectful dialogue about the reality community members are living is the most powerful tool that they have to change their condition.

BY THE NUMBERS

60,000

approximate number of Solidarity clients who received essential lessons in disaster preparedness, business and life skills through our newest program, *Ti Koze*

.....
Our health department’s collaboration with Vitamin Angels distributed

21,016

multivitamins

77,730

Vitamin A tablets

50,408

Albendazole (de-worming) pills

through the Cuban Medical Mission in Haiti.

Because of his mother’s longstanding relationship with Fonkoze, Dr. Elize was familiar with Fonkoze’s work in poverty alleviation. When he learned of an opportunity to work as a Health Project Officer, he jumped at the opportunity.

“I already knew part of Fonkoze’s history. I knew it was going to be easy for me to adapt,” Dr. Elize says. “When I was working in Savanette, we did community health activities. Working for Fonkoze would give

me a chance to continue that, but on a bigger scale.”

These days, Dr. Elize spends his time managing Fonkoze’s health pilot project in and around the town of Lenbe in northern Haiti. He and a team of three nurses train center chiefs in basic healthcare—for example, how to prevent sexually transmitted infections and avoid malnutrition. With the nurses’ supervision, the center chiefs then give this same training to the other Fonkoze clients who belong to their credit centers, thereby multiplying

this critical knowledge. The nurses also examine clients in order to detect diabetes, high blood pressure and other chronic illnesses.

Though not all Fonkoze members’ children will come from such humble beginnings to become doctors, Wesley’s story is a remarkable testament to the power of providing educational opportunities. His path is a reminder as to why Fonkoze uses data regarding school attendance for members’ children to measure their progress out of poverty as they stay and grow

with Fonkoze. It is often difficult to measure short-term progress with other indicators, but the positive effects of education can resonate for years to come.

Dr. Elize would agree. “Since I started practicing medicine, I’ve grown to like it more and more. It’s a very noble profession,” he says.

Improving Client Retention and Satisfaction

BY THE NUMBERS

- 88%**
2011 retention rate—the highest in Fonkoze’s history
- 342**
exit clients interviewed in 2011
- 5**
top reasons for exit in 2011 were consistent with past years
- 3**
clients who reported leaving because of *Kore W*
- 89%**
percentage of departing clients who said they would recommend Fonkoze to a family member or friend

Each year Fonkoze conducts interviews with a sample of exit clients to understand why they leave our credit program, their satisfaction with our services, and ultimately, how we might better serve them so they will stay with Fonkoze longer. Increasing client retention and satisfaction through providing appropriate and viable financial and social services is central to achieving our double bottom line.

We finished 2011 with a retention rate of 88%,³ the highest in our history. This figure is particularly satisfactory since 2011 was a year of much uncertainty as our nearly 20,000 clients who were earthquake victims in 2010 were still on a precarious path to recovery. In addition, with the roll out of our new mandatory natural disaster insurance, *Kore W*, we were carefully monitoring clients’ reactions to this product, and how well they would respond to the costs and benefits associated with it.

Interviews with 342 exit clients showed that the top five reasons for exit were consistent with past years, with problems with Solidarity group members, health-related emergencies, and business challenges ranking as the top three. Remarkably, only three clients in our sample reported leaving because of *Kore W*—primarily because they did not want to pay the 3% premium. While 80% of those interviewed shared no criticisms of their loan program, 13% mentioned dissatisfaction

with their loan terms such as the interest rate being too high, the loan size too small, or the repayment period being too short. At the same time, 89% of those who left said they would still refer Fonkoze to a family member or friend.

While *Kore W* might have been a factor in improving client retention this year, focus groups and client feedback throughout the year also suggested a rocky reception of *Kore W* in some places. Although Fonkoze clients have been benefitting from our credit-life insurance product since 2008, they were not paying for it. In some places where clients felt that they were not at risk for natural disaster, or did not see the value of paying for coverage now for something that may or may not happen in the future, we have had clients threaten to leave. In one case we had an entire Solidarity Center leave but then return several months later when they said they could not find another place that offered all the services Fonkoze does.

The trends in client retention over the last two years are most certainly encouraging, especially considering the major obstacles faced by both Fonkoze and our clients over this period. Nonetheless, in 2012 we will remain vigilant in monitoring client exit and satisfaction as we refine our newer products like *Kore W* and *Ti Koze*, and introduce new services like comprehensive health screenings.

Fonkoze conducts regular focus groups with clients to understand their experiences and improve their satisfaction with our loan programs



PHOTO BY CASSIDY RUSH

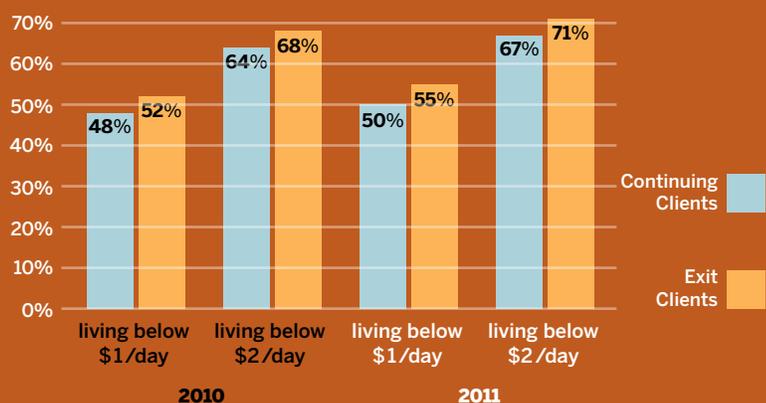
TOP 5 REASONS FOR CLIENT EXIT SINCE 2009

	2009	2010	2011
1 Problems with Solidarity group	15%	15%	20%
2 Healthcare emergency or death in the family	11%	15%	14%
3 Unable to make sales in the market or could not make a profit	15%	16%	11%
4 Money or merchandise was lost or stolen	10%	9%	8%
5 Decided to "take a short break" from credit	7%	8%	7%

Sample sizes: 2009: 357; 2010: 265; 2011: 342

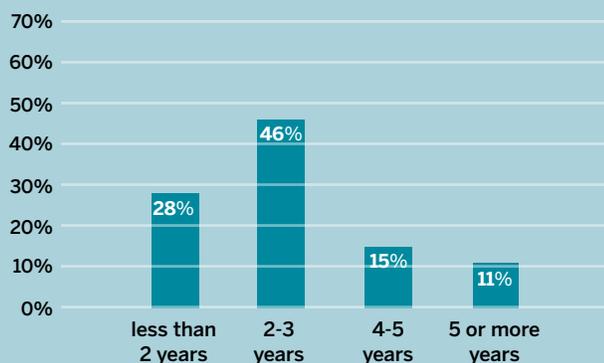
POVERTY LEVELS OF EXIT AND CONTINUING CLIENTS

In 2011, exit clients were slightly poorer than the average continuing client, which is consistent with the trend we have seen over the years. Of the 342 on whom we collected poverty data, 118 were part of our longitudinal study, meaning that we have been tracking changes in their poverty levels since they started with Fonkoze. As with 2010, analysis of these data showed that these clients experienced little to no change in poverty while with Fonkoze, so while they did not improve while with Fonkoze (as measured by our \$1/day and \$2/day poverty scorecard), they did not become worse off either.



CLIENT EXIT BY TIME SPENT IN PROGRAM

In 2011, as in prior years, the majority of the clients in our sample left within their first three years in a Fonkoze credit program. We saw another recurring trend this year: clients who left within their first few years were also more likely to be living below \$1/day or \$2/day than clients who left later. These data underscore our understanding of the importance of placing clients in the right program from their start with Fonkoze, and accompanying them closely as they use their new capital and skills to get their businesses off the ground.



The Launch of Rele Anmwe, or Call for Help!

By the end of 2011, Rele Anmwe had been launched in 15 of our branches and the call center had received 528 calls

Fonkoze has always existed to serve the needs of its members. As such, from the beginning, great efforts have been made to listen to the voices of our members as we have shaped our products and policies. Regional assemblies bring elected member leaders together at different times during the year, and all center chiefs come together once a year in a general assembly. The general assembly designates 3 ti machann and 2 representatives of grassroots organizations — all Fonkoze clients — to represent them on the Fonkoze Foundation board. With a network of 60,000 members spread out in nearly every corner of Haiti, Fonkoze knows that it is crucial that our members’ perspectives are represented when it comes to making decisions that will affect their lives.

In 2010, Fonkoze became an official endorser of the Smart Campaign’s principles for client protection in microfinance and has since used these principles as a guide for strengthening our own practices. In 2011, Fonkoze took an unprecedented step in creating a better way to hear from our members and improve our client protection practices. Rele Anmwe (Haitian Creole for “Call for Help!”) is a nation-wide hotline that exists exclusively to answer their questions and respond to their concerns. By simply dialing “505” from any cell phone, members are connected free of charge to a specially-trained call center representative in our central office in Port-au-Prince.

It is the first time Fonkoze has ever had the opportunity to hear directly from members at the moment they have a question or problem. By hearing from people at the source of the issue, we can quickly respond with an answer. After the Social Impact department did a study with 50 of the original callers, interviewers came

back with one overarching message: Members feel that they have somebody on their side that will listen and it has enabled them to find the results that they were looking for.

Fonkoze is also able to use Rele Anmwe to help with internal evaluations and strategic decisions. Every two weeks, a leadership team meets to discuss all new calls and find solutions to problems that recur multiple times. For Fonkoze’s leaders, Rele Anmwe has offered a unique and unmatched perspective into on-the-ground operations.

By the end of 2011, Rele Anmwe had been launched in 15 of our branches and the call center had received 528 calls. In 2012, Rele Anmwe will be expanded into all 46 branches. Additionally, as Fonkoze continues to work toward long-term financial sustainability, we are analyzing the possibility of selling the call center’s services to other institutions. It is just one of many strategies being implemented to ensure that we are able to give our members the services they deserve over the long term.

The launch of Rele Anmwe was just one of nearly 20 initiatives Fonkoze had planned for 2011 to strengthen our client protection practices in alignment with the Smart Campaign’s client protection principles. Special focus was placed on making the lending process more transparent for our clients as well as putting in safeguards to prevent client over-indebtedness. We also updated policies on client confidentiality as well as procedures for appropriate collection of outstanding debts. In 2012, Fonkoze will continue to work toward Smart Campaign certification in keeping with our tradition of maintaining the rights of our clients at the front and center of our service.

SUMMARY OF THE SMART CAMPAIGN CLIENT PROTECTION PRINCIPLES

1. Appropriate Product Design and Delivery:

Providers will take adequate care to design products and delivery channels such that they do not cause clients harm.

2. Prevention of Over-Indebtedness:

Providers will take adequate care to determine that clients have

the capacity to repay without becoming over-indebted.

3. Transparency: Providers will communicate clear, sufficient and timely information in a language clients can understand.

4. Responsible Pricing: Pricing, terms and conditions will be set in a way that is affordable

to clients while allowing for the institution to be sustainable.

5. Fair and respectful treatment: Providers will treat their clients fairly and respectfully.

6. Privacy of Client Data: Providers will respect the privacy of individual client data in accordance

with the laws and regulations of individual jurisdictions.

7. Complaint Resolution

Mechanisms: Providers will have mechanisms for complaints and problem resolution for their clients in order both to resolve individual problems and to improve their products and services.



During a regular home visit, Social Impact Monitor Frantz Buteau chuckles with Elionne Joseph, a Fonkoze member in Lenbe since 2009. The two discuss Elionne's progress and challenges at home and with her business, her satisfaction with her loan program, and how Fonkoze could better support her.

Fonkoze S.A. & Subsidiary Sèvis Finansye Fonkoze (Fonkoze Financial Services)

Fonkoze S.A. is a Haitian holding company created in 2002 with the objective of establishing a commercial microfinance bank dedicated to rebuilding Haiti's economy from the ground up by empowering people and community organizations to engage in successful economic activities. The largest shareholder in Fonkoze S.A. is Fondasyon Kole Zepòl (Fonkoze), but it has also attracted shareholders from all over the United States, including a number of religious communities, as well as from Europe and from Haiti.

In July 2004, Fonkoze S.A. succeeded in establishing Sèvis Finansye Fonkoze (SFF), a nonbank financial institution. From its first day of operation, the hope of SFF has been that, in partnership with Fonkoze and Fonkoze USA, it would be

able to realize the dream of the organized poor of Haiti to support the political democracy of the country by fostering economic democracy in the country.

Since 2004, Fonkoze S.A. and SFF have struggled to meet the day-to-day challenges of operating in Haiti as well as the epoch challenges of emerging even stronger after an earthquake that killed close to 300,000, injured an equal number and left almost 1,000,000 people homeless. Despite these challenges, the institution finished 2011 with its largest portfolio yet (almost twice the size of the portfolio at the end of 2009), with positive equity and with the optimism that it will continue to serve its more than 250,000 clients long into the future.

CONSOLIDATED BALANCE SHEET

All amounts are expressed in Haitian gourdes (HTG)

Exchange Rate HTG/USD (as of December 31, 2011)

40.9734

39.8817

42.0193

ASSETS	2011	2010	2009
Cash and Cash Equivalents	326,371,476	523,007,904	73,962,850
Investments	17,757,084	7,939,743	8,798,126
Accounts Receivable	183,234,992	242,432,651	60,616,673
Gross Loan Portfolio Outstanding	572,427,606	462,345,393	298,210,170
Less Allowance for Loan Loss	(17,676,554)	(13,870,362)	(17,128,747)
Net Loan Portfolio Outstanding	554,751,052	448,475,031	281,081,423
Net Fixed Assets	84,738,080	63,538,850	34,269,118
Other Assets	73,088,967	65,967,982	66,753,850
Total Assets	1,239,941,651	1,351,362,161	525,482,040
LIABILITIES			
Deposits	913,584,016	836,627,288	463,446,752
Notes Payable	71,074,910	41,528,893	74,448,951
Other Liabilities	214,444,419	443,931,449	7,872,536
Total Liabilities	1,199,103,345	1,322,087,630	545,768,239
SHAREHOLDERS EQUITY			
Capital Stock and Paid in Capital	171,576,377	149,592,719	141,658,512
Retained Earnings	(131,349,949)	(120,880,574)	(163,338,884)
Accumulated Other Comprehensive Gain	611,878	562,386	1,394,173
Total Shareholder's Equity	40,838,306	29,274,531	(20,286,199)
Total Liabilities And Shareholders Equity	1,239,941,651	1,351,362,161	525,482,040



Credit Agent Sandet Pierre Paul signs up a new Solidarity group in Lenbe.

INCOME STATEMENT

All amounts are expressed in Haitian gourdes (HTG)

Exchange Rate HTG/USD (Average Exchange Rate, 2011)

40.5228

39.6511

41.1964

REVENUES	2011	2010	2009
Interest Income (Loans and Other)	201,286,352	123,707,447	119,056,492
Interest Expense	(15,068,996)	(10,034,337)	(12,232,580)
Net Interest Income	186,217,356	113,673,110	106,823,912
Provision for Loan Losses	(12,379,139)	(22,243,925)	(23,608,970)
Net Interest Income After Provision for Loan Losses	173,838,217	91,429,185	83,214,942
Other Operating Income	125,828,673	74,888,593	38,177,609
Net Interest and Other Income	299,666,890	166,317,778	121,392,551
OPERATING EXPENSES	297,847,019	206,385,768	149,860,286
Net Income (Loss) from Operations Before Income Tax	1,819,871	(40,067,990)	(28,467,735)
Other Income (Expense)	(9,290,039)	140,219	13,948,902
Provision for Income Tax	(2,999,207)	13,489,380	2,409,423
Net Loss Before Extraordinary Items	(10,469,375)	(26,438,391)	(12,109,410)
Extraordinary Items	-	98,423,859	-
Provision for Income Tax on Extraordinary Items	-	(29,527,158)	-
Net Income (Loss) from Operations	(10,469,375)	42,458,310	(12,109,410)

As this report went to press, the audited financial statements of Fondasyon Kole Zepòl (FONKOZE) were not yet complete. They will be published on the Fonkoze website www.fonkoze.org.

Fonkoze USA

Fonkoze USA is proud to be a part of the Fonkoze Family along with the Haitian institutions, Fonkoze and Sèvis Finansye Fonkoze (SFF). It is our honor to be working in close partnership with two Haitian institutions. We remain convinced and encouraged that the future of Haiti is going to be written by Haitians rebuilding their own country and taking control of their own economic development.

We've watched Fonkoze carry out its mission for 18 years now, and early on, we were inspired enough by that mission to create Fonkoze USA. Here at Fonkoze USA, we are able to provide the tax-deduction and due diligence many donors require. And, in addition to mak-

ing grants and loans to Fonkoze every year, we are able to leverage technical assistance, manage their publications and communications, bring donors to Haiti to see Fonkoze's work first-hand, and speak on their behalf around the world.

Through the years, we have been able to increase the number and amount of grants we send to Fonkoze (in 2011, we provided grants and program services to Haiti in excess of \$1.8 million while managing a revolving loan fund of almost \$2.5 million). Fonkoze USA maintains the highest standards with Charity Navigator and GuideStar, and holds the BBB Wise Giving Seal.

CONSOLIDATED BALANCE SHEET

All amounts are expressed in U.S. Dollars

ASSETS	2011	2010	2009
Cash and Equivalents	\$ 1,048,769	\$ 1,117,671	\$ 615,583
Short-term Receivables	1,423,336	826,908	514,125
Prepaid Expenses	24,828	43,861	2,434
Total Short-Term Assets	2,496,933	1,988,440	1,132,142
Net Property and Equipment	9,676	8,227	2,426
Investments	385,669	318,342	186,954
Long-term Receivables	1,083,733	1,523,966	1,709,156
Other Assets	10,846	10,846	-
Total Assets	\$ 3,986,857	\$ 3,849,821	\$ 3,030,678
LIABILITIES			
Short-term Payables	\$ 1,385,324	\$ 755,328	\$ 562,001
Long-term Payables	1,088,733	1,503,966	1,689,156
Total Liabilities	\$ 2,474,057	\$ 2,259,294	\$ 2,251,157
NET ASSETS			
Unrestricted	\$ 578,521	\$ 970,437	\$ 706,911
Unrestricted - Board Designated	543,624	155,924	25,610
Temporarily Restricted	293,655	417,166	-
Permanently Restricted	97,000	47,000	47,000
Total Net Assets	\$ 1,512,800	\$ 1,590,527	\$ 779,521
Total Liabilities And Net Assets	\$ 3,986,857	\$ 3,849,821	\$ 3,030,678



PHOTO BY GINO SEGRE

The play, *Chemen Lavi Miyò*, written by a Washington, DC supporter of Fonkoze, was performed by the children of a Fonkoze Ambassador group, Hearts to Hands in Haiti, raising critical funds for Fonkoze programs.

INCOME STATEMENT

REVENUES	2011	2010	2009
Contributions and Grants	\$ 2,116,547	\$ 4,761,128	\$ 2,351,855
Interest & Dividend Income	58,465	65,543	55,851
Other Income	68,706	103,063	49,380
Total Revenues	\$ 2,243,718	\$ 4,929,734	\$ 2,457,086
EXPENSES			
PROGRAM SERVICES AND GRANTS TO HAITI	\$ 1,810,163	\$ 3,720,641	\$ 1,789,807
SUPPORTING SERVICES			
Fundraising	188,376	151,207	118,450
Administration	<u>322,906</u>	<u>246,880</u>	<u>202,636</u>
Total Supporting Services	<u>511,282</u>	<u>398,087</u>	<u>321,086</u>
Total Expenses	\$ 2,321,445	\$ 4,118,728	\$ 2,110,893
Change In Net Assets	\$ (77,727)	\$ 811,006	\$ 346,193

Honoring Our 2011 Donors

We honor each and every donor no matter the size gift. Every dollar can make a difference in Haiti. Each year, we gather a list of our donors for the annual report, and each year—no matter how hard we try and how many times we double check the list—we mistakenly leave a donor off the list. If you find we have made a mistake, please notify us, and we will make sure to list you next year and investigate the problem. To all of you—*Mèsi Anpil!*

\$100,000 OR MORE

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American National Red Cross Society
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Concern Worldwide
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The Pursuit of Balance in 2012

The year 2011 marked a period of remarkable innovation and growth for the Fonkoze family. With the 2010 earthquake still fresh in our memory, we worked diligently to find new ways to serve our members and to fortify our institution against future catastrophes. The Fonkoze family is bigger and stronger than it has ever been.

As our family grows, it is crucial that we maintain clear communication channels between all of the institutions. For that reason, in 2012 we will be revisiting our family governance structure to ensure that each of the institutions is coordinating its activities and working toward improving social performance and maintaining financial health. We have formed a coordinating committee to ensure that all members of the Fonkoze family are working in line with our overall mission.

At a programmatic level, we have several exciting activities in the pipeline. One of the most important initiatives is refining the *Kore W* natural catastrophe insurance product to ensure that our members are protected against disasters. Another priority is to expand our reach by providing more technology-enabled services. We have already partnered with Digicel to provide mobile money services through its TchoTcho Mobile platform, allowing more people to gain access to exciting mobile savings and withdrawal services. We are

also looking to expand our market reach by targeting adolescents and young adults through a youth savings program—market research has already begun in Jakmèl and Fòlibète to inform our product design so that we can best serve Haiti's next generation of leaders. Two more innovative ideas are being nurtured in our Human Development department. A pilot program is already underway in Lenbe where three full-time nurses are in place to offer pre-

ventative and curative health care to Fonkoze members. We will also be testing an exciting micro-franchise education program whereby trained peer educators, certified by Fonkoze, will be able to sell their educational training services to members of their communities. With all of these initiatives we are seeking to find commercially viable approaches to providing both financial and social services where they are needed the most.

At the heart of all of these innovations are the needs of our clients. Protecting our clients' rights is of utmost importance in everything we do. For that reason, one of our primary goals is to be certified by the Smart Campaign as an institution that does indeed do all it can for client protection. We will finish the work we started in 2011 and build a new work plan for 2012 to reach that goal.

Fonkoze knows that the challenge to achieve financial and social balance is not an easy one. The balance that needs to be struck between maintaining an institution that is both financially healthy and unwaveringly focused on the needs of our clients is quite delicate. But it is a balance that must be found. In finding it, we know that we will continue to be the bank upon which Haiti's poor can rely for many years to come.

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Photography:

All photos not credited in the report were taken by Darcy Kiefel (www.kiefelphotography.com)

SPECIAL THANKS:

The leadership expresses deep gratitude for the 900+ dedicated staff members working throughout Haiti.

ENDNOTES:

- 1 Fonkoze's poverty scorecard collects data on 25 socio-economic indicators of poverty in Haiti. It includes an embedded Grameen Foundation Progress out of Poverty Index® (PPI®) of which Fonkoze is a certified user. The PPI allows us to calculate the likelihood that a household lives below the \$1/day or \$2/day lines at purchasing power parity. The PPI uses the \$1/day extreme poverty line of \$1.08 at 1993 PPP and yields results within a margin of error of +/- 1.9%. It is based on the most recently available national income data, the 2001 Haiti Living Conditions Survey.
- 2 The most recently available statistics estimate 54% of the Haitian population is living below \$1/day, 78% below \$2/day, and 51% of women are literate. (Sources: Institut Haïtien de Statistique et D'Informatique et al., 2001 and the CIA Factbook).
- 3 Fonkoze calculates its retention rate using the formula endorsed by the Microfinance Information eXchange and the Social Performance Task Force, which is: retention rate for a year = borrowers at the end/(active borrowers at beginning + new borrowers)

Fonkoze's Operations Throughout Haiti

Fonkoze has 46 branches that reach all parts of Haiti. In the map below, we name each of the branches, highlighting those where we currently have Social Impact Monitors. The small dots show the approximate locations of our Credit and Education Centers.





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