OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/HAITI'S DEVELOPMENT CREDIT AUTHORITY ACTIVITIES

AUDIT REPORT NO. 1-521-13-001-P
FEBRUARY 28, 2013

SAN SALVADOR, EL SALVADOR

Office of Inspector General

February 28, 2013

MEMORANDUM

TO: Acting USAID/Haiti Mission Director, Herbert Smith

FROM: Regional Inspector General/San Salvador, Jon Chasson /s/

SUBJECT: Audit of USAID/Haiti's Development Credit Authority Activities (Report No. 1-521-13-001-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we carefully considered your comments on the draft and have included them in their entirety in Appendix II.

The report contains 16 recommendations to help USAID/Haiti improve its Development Credit Authority Program. On the basis of actions that the mission plans to take, a management decision has been reached on all recommendations. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

I want to express my appreciation for the cooperation and courtesy extended to my staff during the audit.

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CONTENTS

Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
CMS	Credit Management System
DCA	Development Credit Authority
E3/DC	Bureau of Economic Growth, Education and Environment, Office of Development Credit
IEE	initial environmental examination
RIG	Regional Inspector General
SME	small and medium-sized enterprise

SUMMARY OF RESULTS

USAID works to improve Haiti's long-term financial stability through partial loan guarantees that encourage private lenders to extend financing to underserved borrowers, including farmers and enterprises in rural areas. According to USAID/Haiti, the Development Credit Authority (DCA) program can boost Haiti's economic recovery and help rebuild the private sector by strengthening local lending to small and medium-sized enterprises (SMEs)[1] engaged in sectors such as agriculture, construction, tourism, handicrafts, and waste management.

USAID's Washington-based Bureau of Economic Growth, Education and Environment's Office of Development Credit (E3/DC), USAID/Haiti, and financial institutions must work closely with one another to ensure that DCA objectives are being met. Their roles are described below.

- An E3/DC portfolio manager oversees loan guarantees. Responsibilities include drafting the monitoring plan, reviewing the legal agreement, advising the mission on monitoring, analyzing utilization rates, reviewing claims, managing files, and visiting sites.

- USAID/Haiti has primary responsibility for designing, authorizing, and implementing activities that support strategic objectives. An activity manager is responsible for leading the guarantee process in Haiti, which includes securing required signatures and meeting with financial institutions to discuss how loans should be given, as well as discussing the possibility of integrating other USAID/Haiti activities with loan activities. This person acts as the liaison between E3/DC and the financial institutions.

- Financial institutions are responsible for working with borrowers and deciding which loans USAID will cover under the guarantee in accordance with their agreements with the Agency. Lenders monitor their loan portfolios, and if payments are late, are responsible for making reasonable collection efforts before submitting claims to USAID.

As of March 31, 2012, USAID/Haiti maintained seven active guarantees worth $37.5 million. This audit focused on the four largest, worth $31.5 million (or 84 percent of all active guarantees), as shown in the table below.

Table 1. USAID/Haiti Loan Guarantees Reviewed

Guarantee Number	Lender	Start Date	End Date	Maximum Portfolio Amount (Millions of $)
521-DCA-10-008	Sogebank	9/29/2010	9/29/2016	15
521-DCA-09-007*	Le Levier*	9/30/2009	9/30/2015	7.5*
521-DCA-10-009	Sofihdes	9/29/2010	9/29/2016	5
521-DCA-08-06	Sofihdes	9/30/2008	9/30/2013	4
			Total	**31.5**

Source: Credit Management System (CMS).

* Le Levier's eight participating credit unions and an unallocated portion that it has not yet assigned add up to the amount of $7.5 million.

[1] According to the mission, an SME has fewer than 100 employees and less than $1.25 million in assets.

The three borrowers examined were:

- Sogebank: USAID established this $15 million guarantee to stimulate lending to Haitian SMEs. Sogebank's DCA guarantee targets SMEs in the three geographic corridors that are part of USAID's post-earthquake strategy: Northern, Saint-Marc, and Cul-de-Sac (which includes Port au Prince). Appendix III contains a map.

- Sofihdes: Sofihdes is a development finance institution that USAID helped start in 1983. The two active guarantees totaling $9 million share the same target group as Sogebank, but one has a different target area (described later in this report).

- Le Levier Federation: Eight members of Le Levier's group of credit unions have loan portfolio guarantees. Le Levier's total of $7.5 million should allow the credit unions to lend to SMEs involved in agriculture and farmers.

The Regional Inspector General (RIG)/San Salvador conducted this audit to determine whether USAID/Haiti's DCA program was promoting greater lending to underserved areas and borrowers, particularly in the productive sectors such as agriculture, construction, tourism, handicrafts, and waste management.

The audit found that while Sofihdes generally has met its loan targets, Sogebank and Le Levier were not implementing the loan program as quickly as planned (page 4). Furthermore, USAID's internal controls were not adequate to confirm that all loans met the DCA lending criteria or that they were going to entities in the targeted areas (page 5). Additional concerns identified during the audit included:

- Loan information was outdated, incomplete, and inaccurate Lenders submitted information about their loans after the deadline 80 percent of the time and the information sometimes had mistakes or contained only part of what was required (page 7).

- USAID did not perform portfolio reviews properly or take corrective action on deteriorating loans. The portfolio manager monitored only ending loan balances (page 9).

- Environmental checks were not performed. The mission did not confirm that financial institutions made sure that borrowers were not conducting activities that harmed the environment (page 11).

The audit recommends that USAID/Haiti, in coordination with E3/DC:

1. Meet with lenders to develop a strategy to increase utilization or reduce the maximum amounts they have if they do not intend to use the entire guarantee (page 5).

2. Meet with lenders to implement a process to identify borrowers involved in prohibited activities and remove nonqualifying loans from coverage (page 7).

3. Implement a plan to encourage Sogebank to lend in targeted areas outside of Port-au-Prince (page 7).

4. Develop annual performance targets for the number of women and number of first-time borrowers it aims to reach, and implement a plan to lend to these preferred groups (page 7).

5. Train lenders so they fully understand the types of loans that should be guaranteed versus those that should not be guaranteed (page 7).

6. Work with each lender to improve its borrower screening process to confirm that underserved borrowers are targeted (page 7).

7. Increase its monitoring and evaluation efforts to confirm that program goals are being met (page 7).

8. Send periodic reminders to all lenders about the importance of completing every data field accurately and on time (page 9).

9. Update its indicator tracking table to include performance targets and results (page 9).

10. Define each loan indicator clearly and specify how the information should be entered in the credit management system (page 9).

11. Increase monitoring when at least 10 percent of the loans in a loan portfolio guarantee are 90 days late (page 11).

12. Work closely with Sofihdes to implement a plan to encourage timely repayment of loans, including the possibility of providing technical assistance to Sofihdes or its borrowers (page 11).

13. Implement all Development Credit Authority mitigation measures described in the initial environmental examination (page 12).

14. Amend its initial environmental examination to include an evaluation of pesticide procurement and use for the Development Credit Authority's agricultural activities (page 12).

15. Implement a plan to include the mission's environment officer in site visits to confirm that environmental compliance spot checks are conducted (page 12).

16. Incorporate technical assistance for pesticide use into Development Credit Authority agricultural activities as one form of a mitigation measure (page 12).

Detailed findings appear in the following section. Appendix I describes the audit scope and methodology. Our evaluation of USAID/Haiti's management comments is on page 13, and the full text of management comments appears in Appendix II.

AUDIT FINDINGS

Two Loan Guarantees Were Not Utilized Sufficiently

DCA's operations manual states that one of the primary tasks of E3/DC is to ensure that DCA guarantees are utilized actively and correctly. Utilization is broadly defined as the extent to which the guaranteed party has disbursed DCA-guaranteed loans. Utilization is the primary quantitative measure of how successful a guarantee has been in terms of achieving the financial and developmental objectives that serve as the basis for its establishment.

Sofihdes was the only lender of the three that we examined that surpassed the expected utilization rate, as shown in Table 2.

Table 2. Actual Versus Expected Utilization as of September 30, 2012 (Unaudited)

Lender	Expected Utilization (Percent)*	Actual Utilization (Percent)	Difference
Sogebank	30	20**	-10
Sofihdes, 521-DCA-08-06	80	100	+20
Sofihdes, 521-DCA-10-009	30	95**	+65
Le Levier	60	28***	-32

Source: CMS.

* These estimates are based on standard E3/DC utilization targets.
** The monitoring plans for Sogebank and Sofihdes 10-009 projected utilization of 50 percent by the end of the second year.
*** This was the average for eight participating credit unions.

Moreover, USAID/Haiti's fiscal years 2010 and 2011 performance plans and reports showed that the overall utilization rate for the program as a whole was less than anticipated. The results for two key indicators measuring loan program utilization—*Amount of private financing mobilized* and *Number of USG-supported DCA loans issued*—were below their targets in fiscal years 2009, 2010, and 2011, as illustrated in Table 3 on the next page.

Table 3. DCA Indicator Results Versus Targets (Unaudited)

Indicator/Fiscal Year	Target ($)	Result ($)	Percent Shortfall
Amount of private financing mobilized with a DCA guarantee			
2009	2,710,683	2,415,947	10.9
2010	5,700,000	4,051,011	28.9
2011	9,000,000	5,789,884	35.7
2012	7,900,000	7,211,869*	8.7
Number of USG-supported DCA loans issued			
2009	1,000	474	52.6
2010	1,055	603	42.8
2011	1,325	1,255	5.3
2012	1,072	2,000*	

Sources: USAID/Haiti's fiscal years 2010 and 2011 performance plans and reports.

* 2012 results are estimated.

According to the USAID/Haiti fiscal year 2011 performance plan and report, the shortfall occurred because "microfinance institutions were significantly affected by the 2010 earthquake, which resulted in a 5% contraction of the economy. During most of fiscal year 2011, financial institutions were focusing on writing off, restructuring, and recovering loans rather than marketing the products to new clients." A secondary reason was that Sogebank and Le Levier had difficulty introducing the products and establishing specialized departments with trained staff members.

Sogebank officials said that since DCA charges a utilization fee of 0.75 percent of the average outstanding principal amount, the bank wanted to use the guarantee selectively. Le Levier officials said DCA did not train employees at some credit unions on how to lend to the agricultural sector until 2012, 3 years after the program started. The USAID portfolio manager confirmed that the credit unions were delayed and did not start making loans until April 2011.

The fact that borrowers were not getting these loans indicates that they were not able to get the funds they needed to improve their lives and to stimulate the economy, which consequently hinders the program from achieving its overall goals. To make certain that USAID adjusts the program when lenders do not meet utilization targets, we make the following recommendation.

> ***Recommendation 1.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, meet with lenders to develop a strategy to increase utilization or reduce the amount they have if they do not intend to utilize the entire guarantee.*

Controls to Ensure That Loans Met Lending Criteria Were Not Adequate

USAID policy, E3/DC guidance, and the specific DCA loan agreements with lenders provide guidelines that dictate how DCA loan guarantees should and should not be used. Per ADS 596.2, USAID managers must ensure that internal control standards are maintained in the implementation of activities to achieve Agency program goals and objectives. However, in the cases outlined on the next page, USAID/Haiti and E3/DC did not have adequate controls in place to verify that loans met DCA's lending criteria.

Lenders Did Not Identify Borrowers Engaged in Prohibited Businesses. The loan agreements specifically mentioned five types of prohibited businesses and listed a few other areas that needed prior written approval. These restrictions included goods or services to support law enforcement activities, surveillance and gambling equipment, tobacco activities, pharmaceuticals, and luxury goods including alcohol and jewelry. However, because lenders did not have effective practices in place and because USAID did not periodically review the active loans,, some funds did go to prohibited businesses.

Most Borrowers Were From Port-au-Prince. The U.S. Government's post-earthquake strategy in Haiti specifically focused on three development corridors: Northern, Saint-Marc, and Cul-de-Sac, which includes the capital of Port-au-Prince (Appendix III contains a map). USAID followed the strategy in its recent agreement with Sogebank by aiming to reach beneficiaries in these corridors.

Nonetheless, as of March 31, 2012, 90 percent of Sogebank loans were concentrated in and around Port-au-Prince, and Sogebank did not make any loans in the other two corridors.[2] The recent Sofihdes guarantee also targeted the three development corridors, yet 81 percent of loans were in the Port-au-Prince area, with 6 percent in Saint-Marc and 6 percent in Northern.[3]

The portfolio manager said Sogebank was supposed to focus initially in Port-au-Prince and expand to the other corridors later. Sofihdes is in Port-au-Prince and did not have the resources it needed to provide loan services in other areas effectively.

Many Borrowers Were Not Underserved. The operations manual stated that DCA aims to "expand financial services in underserved markets" and that guarantees are to "mobilize local private capital to finance projects that otherwise would not be funded."

However, most borrowers had pre-existing relationships with one or more lenders in Haiti. While some borrowers were uncertain about opportunities for other loans, more than 75 percent of Sofihdes and Sogebank borrowers interviewed said they could qualify for a loan elsewhere. For example, a radio station in Port-au-Prince purchased a generator and was instructed to get the loan from Sofihdes. This borrower already had a relationship with another Haitian bank and easily qualified for much larger loans.

Additionally, USAID/Haiti defined SMEs as businesses with fewer than 100 employees or less than $1.25 million in assets. However, at least one borrower had 800 employees on its payroll at the time of the loan and has since expanded to 1,300.

Women and First-Time Borrowers Were Not Targeted. USAID/Haiti and E3/DC have clearly defined women and first-time borrowers as target groups for loans, and E3/DC tracks loans to these groups. However, the audit found that only a few loans reviewed were given to women and first-time borrowers. Lenders did not make any specific efforts to work with these groups.

Loans did not always meet the program's stated lending criteria because the lenders did not establish effective internal controls consistent with the program's goals and objectives. For example, USAID/Haiti was not pro-active in training the Credit Administration staff that make the loan guarantee coverage decision. Thus lenders did not always understand or enforce DCA program goals and did not always adjust lending practices to meet those goals. Two lenders,

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[2] The remaining 10 percent went outside the corridors and the capital.
[3] The remaining 7 percent went outside the corridors and the capital.

Sogebank and Sofihdes, did not have a process in place to attract the underserved borrowers that DCA targeted, and both used the same screening process for DCA loans that they did for borrowers seeking standard, nonguaranteed loans.

Furthermore, USAID/Haiti and E3/DC did not monitor compliance with lending terms. While USAID/Haiti officials complied generally with the operations manual guidance by visiting the lender at the beginning, middle, and end of each guarantee, monitoring could have been improved by visiting annually and reviewing files closely during those visits. Additionally, USAID should visit more borrowers to confirm that loans are reaching the intended recipients.

Unless USAID/Haiti addresses these concerns, the DCA loan program will not support underserved borrowers in targeted areas of the country.

> ***Recommendation 2.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit and the lenders, implement a process to identify borrowers involved in prohibited activities and remove nonqualifying loans from coverage.*

> ***Recommendation 3.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, implement a plan to encourage Sogebank to lend in targeted areas outside of Port-au-Prince.*

> ***Recommendation 4.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, develop annual performance targets for the number of women and the number of first-time borrowers it aims to reach, and implement a plan to lend to these preferred groups.*

> ***Recommendation 5.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, train lenders so they fully understand the types of loans that should be guaranteed versus those that should not be guaranteed.*

> ***Recommendation 6.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, work with each lender to improve its borrower screening process to confirm that underserved borrowers are targeted.*

> ***Recommendation 7.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, increase its monitoring and evaluation efforts to confirm that program goals are being met.*

Loan Information Was Outdated, Incomplete, and Inaccurate

The DCA operations manual explains that the credit management system (CMS) is the primary database for tracking lenders' reporting obligations under the guarantee agreement. While CMS is not an accounting system, it remains the single most important tool for tracking accurate data for E3/DC's entire portfolio of DCA guarantees.

The audit found that much of the key monitoring data was outdated, incomplete, or inaccurate.

Loan Information Was Outdated. The DCA manual and the agreements with lenders require lenders to update loan information in CMS no later than 30 days after the end of each 6-month reporting period. However, lenders submitted the information after the deadline more than 80 percent of the time.

Loan Information Was Incomplete. The audit team reviewed loan information that was stored in CMS as of March 31, 2012, and noted that it was incomplete for all four guarantees audited. For example, the Sofihdes guarantee from 2004 to 2007 specifically aimed to stimulate job growth, yet the data field for the number of employees collected to measure the guarantee's impact was often incomplete or inaccurate. Other CMS fields that were not filled in consistently were city/town, state/region/province, collateral, first-time borrower, woman-owned business, total assets, and total revenue.

In addition, USAID/Haiti tracked three indicators related to claims and the repayment rate in the indicator performance tracking table. However, the mission was not using the table as a management tool since it did not update targets and actual results.

Loan Information Was Inaccurate. The audit team reviewed 69 loan files and interviewed 48 borrowers (out of the 69) to verify the accuracy of CMS records as of March 31, 2012. CMS had inaccurate information in several cases.

- More than half of the entries for current number of employees were incomplete or inaccurate. For example, CMS showed that a borrower had six to ten employees, but the owner told the audit team he had many more.

- For the entire universe of loans, Sogebank did not list or incorrectly listed the city/town and state/province/region where it made loans 98 and 22 percent of the time, respectively. Sofihdes also made mistakes in these fields. The agreements stated the names of the regions the lenders targeted, but USAID was unable to determine whether the lenders were meeting the targets since it did not have accurate information.

- Applicants were asked whether they were first-time borrowers; their answers were recorded incorrectly 41 percent of the time.

- The business/sector field was not specific. Instead of using a more descriptive sector such as "health" or "transportation," Sogebank categorized a hotel, a truck repair shop, a bar/restaurant, and a transportation rental company all as "trade/commerce" businesses.

- The collateral field usually was left blank or listed $0 even though the loan files listed collateral. Common types of collateral included life insurance policies, bank accounts, and business assets such as inventory, equipment, and land. Both USAID and the lenders said that reporting collateral was challenging. The Sofihdes director said some types of collateral, including business inventory, were excluded because their value fluctuated and they usually were not available at the time of default. Other assets like residential property were counted at 75 percent of the value, while a commercial property was counted at 50 percent. Similarly, the approach used in reporting total assets and revenue may be inconsistent within and among financial institutions. Many Haitian businesses do not have professionally prepared financial statements that would document these figures.

- Information about loan dates, interest rates, and whether a business was woman-owned was reported incorrectly several times.

USAID/Haiti identified problems with the loan data when it prepared its data quality assessment in 2009; the assessment said, "It is important to monitor these data closely and to stimulate our partners to input their data into the system on a more timely basis." In August 2012, USAID's portfolio manager reminded each lender about the importance of accurate reporting in CMS. Although the manager said the September 2012 submission was more complete and accurate, data quality problems remained.

Improved USAID oversight of lender reporting could have prevented CMS from being incomplete and inaccurate. Reliable data are critical to manage the loan portfolios and report interesting information about the beneficiaries of USAID-guaranteed loans. Furthermore, complete, well-organized files are an important part of project management. Without them, project managers, supervisors, and auditors might not have relevant information they need to perform their duties.

> ***Recommendation 8.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, send periodic reminders to all lenders about the importance of completing every data field accurately and on time.*

> ***Recommendation 9.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, update its indicator tracking table to include performance targets and results.*

> ***Recommendation 10.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, define each loan indicator clearly and specify how the information should be entered in the credit management system.*

USAID Did Not Perform Portfolio Reviews Properly or Take Corrective Action on Deteriorating Loans

Automated Directives System (ADS) 249.3.12, "Monitoring, Evaluation, and Audit," states, "E3/DC will review the DCA portfolio for signs of increased loan default, based on semiannual reports, claims processing,[4] and other available information. It will troubleshoot problem DCA loans or guarantees in coordination with missions and bureaus." This coincides with the Office of Management and Budget's Circular A-129, which suggests that missions meet with the banks at least once a year, especially if the bank's loan portfolio is showing signs of deterioration or high levels of default.

DCA's operations manual requires portfolio managers to monitor ending loan balances for the increased likelihood of claims. The manual states that if at least 10 percent of a bank's ending loan balance is more than 90 days past due, the portfolio manager is required to review the portfolio and determine the likelihood of a default. Portfolio reviews are the first step to determine what, if any, corrective actions can be taken to reduce the likelihood of loan defaults.

[4] A claim is a financial institution's request that USAID pay for a defaulted loan. Claims represent 50 percent of the net loss as certified by either a bad debt expense or a loan loss provision for that defaulted loan.

While E3/DC's portfolio manager monitored ending loan balances and knew the portfolios for two Sofihdes guarantees were deteriorating, she did not conduct reviews because she relied on the lenders to monitor the loans. Both guarantees should have been reviewed because they greatly exceeded the 10 percent threshold. Portfolio reviews were critical because the data indicated that numerous loans were on track to default, exceeding the two guarantees' estimated default rates of 22 percent and 35 percent, respectively.

As of September 30, 2012, USAID paid $438,572 in claims for defaulted loans, of which $378,837 were from Sofihdes alone. The number of loans in arrears for more than 90 days has been increasing over the past year. The table below shows that while most lenders have problems with late payments, it was a serious problem for Sofihdes, with 74 percent and 30 percent of its two guarantees, respectively, more than 90 days late. Once a loan is in default for 90 days, Sofihdes can submit a claim to USAID to recover 50 percent of the amount.

Table 4. Loans More Than 90 Days Late as of September 30, 2012 (Unaudited)

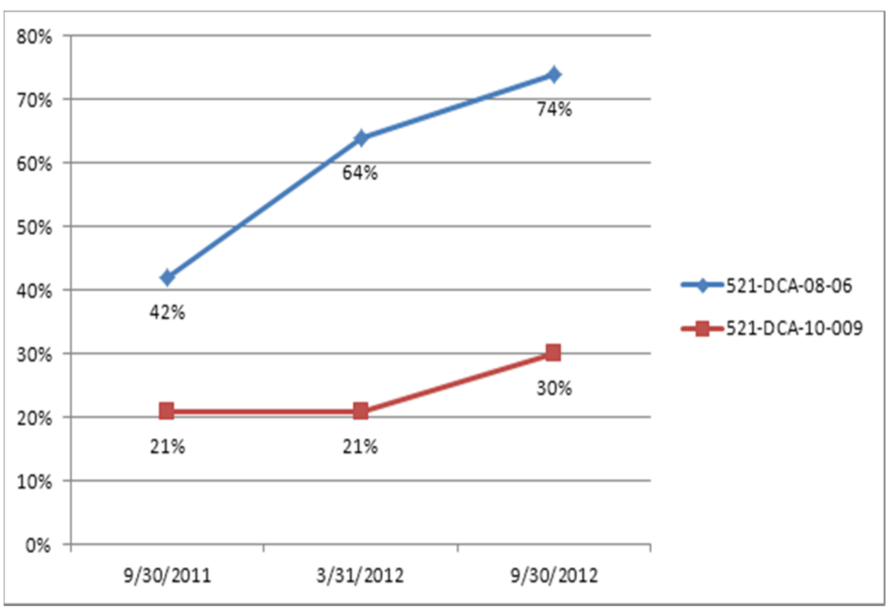
Guarantee Number	Lender	Original Amount	Amount Late	Percent Late
521-DCA-10-008	Sogebank	$915,251	$78,838	9
521-DCA-08-06	Sofihdes	$896,361	$661,652	74
521-DCA-10-009	Sofihdes	$2,665,612	$807,912	30
521-DCA-09-007	Le Levier*	$1,115,653	$112,699	10
Total		**$5,592,877**	**$1,661,101**	**30**

Source: CMS.

* Figures were combined for Le Levier's participating credit unions.

The problem has grown worse from quarter to quarter. For one of Sofihdes' guarantees, the number of loans more than 90 days late has increased from 42 to 74 percent in 1 year, while the other has increased from 21 to 30 percent in the same period, as shown in the following graph.

Percentage of Sofihdes Loans More Than 90 Days Late



Source: CMS.

The growing number of bad loans occurred because neither Sofihdes nor USAID conducted portfolio reviews to determine whether potential problems existed and whether they needed to take corrective actions. The Sofihdes director was not aware of this problem and believed that the number of claims was actually decreasing. Also, Sofihdes was overly lenient with its borrowers who paid late and often waived the late fee if a plausible explanation was provided. The USAID portfolio manager was aware of the problem, but instead of conducting the reviews required, started to prepare for the likely increase in claims.

When payments are missed and become past due, the risk that the loan will go into default increases. If Sofihdes's problem with loan repayments is not addressed, claim payments could rise significantly; the $1,661,101 in loans more than 90 days in arrears could turn into $830,551 in additional claim payments. Moreover, working in the SME market will continue to be perceived as too risky, and other financial institutions might not enter the market.

> ***Recommendation 11.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, increase monitoring when at least 10 percent of the loans in a loan portfolio guarantee are 90 days late.*

> ***Recommendation 12.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, work closely with Sofihdes to implement a plan to encourage timely repayment of loans, including the possibility of providing technical assistance to Sofihdes or its borrowers.*

Environmental Checks Were Not Performed

Per ADS 204.2, it is the responsibility of the assistance objective teams to make sure that missions comply with USAID's environmental procedures. These responsibilities include "designing, monitoring, and modifying programs, projects, activities and amendments, and Activity Approval Documents in order to: Ensure that the environmental consequences of actions taken by USAID are considered and that appropriate environmental safeguards are adopted, as required by 22 [Code of Federal Regulations] CFR 216."[5]

The initial environmental examination (IEE) is one of the required approval documents needed for a USAID assistance activity to take place. The IEE identifies the environmental effects that will occur if the activity takes place and suggests appropriate mitigation measures to help offset them. Per 22 CFR 216.3, if pesticides will be procured and used in the activity, the IEE needs to include a separate section evaluating the "economic, social and environmental risks and benefits of the planned pesticide use to determine whether the use may result in significant environmental impact."

Additionally, per ADS 204.3.4, assistance objective teams should monitor activities for compliance with the approved IEE; if the activities are not, the teams must modify or end

[5] The section outlines the general procedures that USAID should use "to ensure that environmental factors and values are integrated into the USAID decision making process. These procedures also assign responsibility within the Agency for assessing the environmental effects of USAID's actions... [and] Ensure that the environmental consequences of USAID financed activities are identified and considered by USAID and the host country prior to a final decision to proceed and that appropriate environmental safeguards are adopted."

activities. Their monitoring duties include properly addressing any unanticipated environmental consequences that arise during implementation.

USAID's bureau environmental officer for Haiti approved the last three IEEs for USAID/Haiti's DCA activities, but included specific mitigation measures to help prevent potential adverse environmental consequences caused by SME activities. These measures included incorporating environmental screening practices into the banks' loan approval procedures to verify that borrowers' activities do not have adverse environmental impacts.

However, the DCA team did not make sure that the financial institutions were incorporating screening practices. Ten of the 31 SMEs tested during the audit were conducting activities that posed potential adverse effects to the environment. Additionally, two of the three IEEs did not include sections evaluating the effects pesticides had on land, farmers, and communities as required in instances when pesticides are being used. The legal agreement between DCA and the banks clearly stated that the loans could not be used to purchase pesticides without prior approval from USAID.

Mission officials said they prepared an umbrella pesticide assessment for all mission agricultural activities. However, the assessment did not cover DCA agricultural activities, and it did not clearly link to the IEEs. Therefore, mitigating measures for pesticide use were not incorporated into the DCAs. Furthermore none of the 16 agricultural borrowers tested were screened by a Le Levier credit union for pesticide use, and almost all purchased and used pesticides without prior USAID approval.

In the past, USAID has provided technical assistance for agricultural activities that involved pesticides to mitigate harmful effects. In the DCA case, however, IEEs were not implemented properly because nobody was assigned to track and confirm that IEE mitigation requirements were met for the activities. Therefore, monitoring activities (such as site visits and spot-checks) rarely were performed. In addition, environmental issues concerning smaller activities like those of DCA, became less of a priority for the mission because more critical issues came up.

Addressing mitigating measures are important to prevent and reduce possible adverse environmental impacts. Unless these measures are implemented, the program may be an unnecessary environmental danger or threat to Haitian farmers and communities.

> ***Recommendation 13.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, implement all DCA mitigation measures described in the initial environmental examination.*
>
> ***Recommendation 14.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, amend its initial environmental examination to include an evaluation of the pesticide procurement and use for DCA agricultural activities.*
>
> ***Recommendation 15.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, implement a plan to include the mission environment officer in site visits to confirm that environmental compliance spot checks are conducted.*
>
> ***Recommendation 16.*** *We recommend that USAID/Haiti, in coordination with the Office of Development Credit, incorporate technical assistance for pesticide use into DCA agricultural activities as one form of a mitigation measure.*

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft audit report, USAID/Haiti reached a management decision on all the recommendations. Summarized below are the comments and the audit team's evaluation of them.

Recommendation 1. USAID/Haiti stated that it will continue to provide assistance to lenders when necessary. It is also in the process of amending its agreement with Le Levier to reduce the sub-limits assigned to two credit unions and to allocate a portion of the agreement to new credit unions that have been approved to participate. The amendment is expected to be executed by March 31, 2013. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 2. USAID/Haiti has taken action already to remove nonqualifying loans from coverage and is investigating questionable borrowers to determine whether they should be removed. USAID/Haiti will further provide lenders with support to improve their internal process for selecting qualifying loans for guarantee coverage. Additionally, in coordination with the Office of Development Credit, USAID/Haiti plans to hire a portfolio manager by September 30, 2013, to conduct more frequent spot-checks to ensure that borrowers qualify for coverage. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 3. USAID/Haiti agreed that Sogebank should expand lending opportunities to beneficiaries in other areas of the country and will follow up with the institution by March 31, 2013, on its projections for lending outside Port-au-Prince for the next year. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 4. USAID/Haiti agreed that women and first-time borrowers should be targeted for lending and stated that it aims to include these groups in the definitions of qualifying borrowers in new guarantee agreements. The mission intends to initiate negotiations with the financial institution in mid-March 2013 to establish targets for the number of women and first-time borrowers, and it will have a plan in place to pursue these groups by mid-June 2013. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 5. USAID/Haiti agreed that specific training for the DCA partners to review the prohibited activities would be helpful and plans to have this action completed by March 31, 2013. Accordingly, a management decision has been reached for this recommendation.

Recommendation 6. USAID/Haiti agreed and will strongly encourage lenders to target new borrowers and expand to geographic areas outside Port-au-Prince. Mission officials said they will work with each lender on an ongoing basis starting in mid-March 2013 to review the qualifying borrower/qualifying project definitions and help them improve their screening processes. USAID/Haiti further intends to request that the partner financial institutions incorporate in their credit manual and procedures the definitions of qualifying borrowers for DCA loans to complete a revised manual of policies and procedures by mid-June 2013. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 7. USAID/Haiti agreed to enhance its monitoring and evaluation efforts. It already has improved monitoring plans that capture utilization targets and development indicators for the newly signed 2012 guarantees. Due to the increasing number of DCA activities, the mission plans to hire a local portfolio manager to assist with all activities with a focus on collecting development impact information. This person will report both to the mission and the Office of Development Credit and is expected be in place no later than September 30, 2013. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 8. USAID/Haiti agreed with the recommendation and stated that they send reminders 1 month before the loan schedule reports are due and subsequent reminders right before they are due. The next reminder will be sent on March 31, 2013. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 9. USAID/Haiti agreed to work with the Office of Development Credit to update its indicator tracking table to include performance targets and results by June 2013. Since the partners report every 6 months, the table will continue to be updated twice a year. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 10. USAID/Haiti plans to develop a document by June 30, 2013, to be shared with all DCA partners about the definitions for the data parameters to standardize all reporting. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 11. The mission plans to develop a plan of action for increased monitoring when loan portfolio guarantees exceed the threshold of 10 percent of loans 90 days in arrears. This plan will include follow-up with the partner; closely examining asset quality; and consulting with the chief risk officer if the agreement warrants a temporary suspension. This action is to be completed by March 31, 2013. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 12. USAID/Haiti plans to meet with Sofihdes to discuss timely loan repayments in detail and work with Sofihdes on improving repayment rates by June 30, 2013. In addition, Sofihdes has received assistance from USAID to reinforce its portfolio monitoring through an effective management information system. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 13. USAID/Haiti agreed to implement DCA mitigating measures described in the initial environmental examination. A group training session for all DCA guarantee partners is scheduled to introduce environmental issues and best management practices for financial institutions engaged in financing micro, small and medium-sized enterprises. The training is expected to be completed by February 28, 2013. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 14. USAID/Haiti did not agree to amend its initial environmental examination to include an evaluation of the pesticide procurement and use for DCA agricultural activities.

However, USAID/Haiti said it is revising its pesticide evaluation report and safer use action plan and will include DCA activities and best management practices into this update that will be completed by April 2013. Based on the mission's described alternative action and time frame, a management decision has been reached for this recommendation.

Recommendation 15. USAID/Haiti agreed to establish a plan by the end of March 2013 to ensure that environmental compliance spot-checks are conducted. Based on the mission's described actions, a management decision has been reached for this recommendation.

Recommendation 16. USAID/Haiti stated that it will work with its implementing partners that provide assistance to farmers to determine how technical assistance for pesticide use could be provided to farmers who will be recipients of DCA agricultural loans. This activity is expected to be in place no later than May 31, 2013. Based on the mission's described actions, a management decision has been reached for this recommendation.

SCOPE AND METHODOLOGY

Scope

RIG/San Salvador conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The objective of the audit was to determine whether USAID/Haiti's DCA program was promoting greater lending to underserved areas and borrowers, particularly in the productive sectors such as agriculture, construction, tourism, handicrafts, and waste management. Most of the DCA loans are supposed to target SMEs located primarily in development corridors identified by the post-earthquake strategy.

In planning and performing the audit, we assessed the effectiveness of internal controls related to DCA guarantees. We identified internal controls such as (1) the mission's documentation that is pertinent to managing its DCA guarantees, (2) the financial institutions' procedures regarding DCA-guaranteed loan approvals, and (3) the annual self-assessment of internal controls in accordance with the Federal Managers' Financial Integrity Act of 1982, 31 U.S. Code 3512. Relevant criteria included USAID's ADS 249, USAID's Office of Development Credit's 2009 operations manual, and the Office of Management and Budget Circular No. A-129.

The audit fieldwork was conducted at USAID/Haiti and at various participating financial institutions in Haiti from October 1 through November 15, 2012. We conducted interviews with 48 borrowers, primarily in their homes or places of business located in the Saint-Marc corridor (which included Saint-Marc, Montrouis, and Cabaret), and in Port-au-Prince and its surrounding areas.

The audit scope encompassed four of seven active DCA loan portfolio guarantees at USAID/Haiti as of March 31, 2012. The four guarantees provided approximately $13.9 million of credit available out of a maximum of $31.5 million as of September 30, 2012. The maximum loan amount for all seven guarantees was $37.5 million. (Table 5 on the next page shows details about the guarantees.)

Table 5. USAID/Haiti DCA Active Guarantees as of March 31, 2012

Guarantee Number	Lender	Start Date	End Date	Sector	Maximum Amount ($)	Cumulative Utilization ($)*
521-DCA-10-08	Sogebank	9/29/2010	9/29/2016	SME	15,000,000	3,015,040
521-DCA-08-06	Sofihdes	9/30/2008	9/30/2013	SME	4,000,000	4,003,686
521-DCA-10-09	Sofihdes	9/29/2010	9/29/2016	SME	5,000,000	4,738,633
521-DCA-09-07	Le Levier	9/30/2009	9/30/2015	agriculture	7,500,000	2,103,136
521-DCA-07-3B	Sogesol	9/12/2007	9/30/2013	SME	3,000,000	2,947,890
521-DCA-07-3A	Capital Bank	9/12/2007	9/30/2013	SME	1,000,000	985,373
521-DCA-08-05	ACME	9/30/2008	9/30/2013	micro	2,000,000	1,517,281
Total Guarantees					37,500,000	19,311,039
Total Audited Guarantees					31,500,000	13,860,495

Source: CMS.

* Utilization figures are updated as of September 30, 2012.

For USAID/Haiti's DCA loan portfolio guarantees selected for review, we determined whether:

- Loans were made to qualified borrowers in the targeted regions as specified in the guarantee agreement between USAID and the partner financial institution.
- Activities funded by the guarantees represented the intended purpose stipulated in the financial institutions' loan files.
- Haitian borrowers and lenders benefitted from the guarantees.
- Lenders reported loans to USAID completely and accurately.

The audit scope did not include DCA guarantee macro-level results, such as impact on unemployment, job creation, or other economic growth indicators.

As part of the audit, we assessed the significant internal controls USAID/Haiti used to monitor its loan portfolio guarantees. The assessment included a review of the controls used by the mission to (1) conduct and document site visits to evaluate progress and monitor quality, (2) approve required assessments or evaluations, (3) review lenders' semiannual reports, and (4) review and test indicators and activities. Additionally, we reviewed the mission's annual certification required by the Federal Managers' Financial Integrity Act of 1982 to verify whether the assessment cited any relevant weaknesses. We also reviewed prior DCA audit reports for any issues related to the audit objective.

Methodology

To answer the audit objective, we performed reviews of three financial institutions participating in the four largest of USAID/Haiti's seven active loan portfolio guarantees as of March 31, 2012. We chose these three because they represented different targeted markets—SMEs and agricultural borrowers.

For the financial institutions visited, we were able to review DCA loans selected on a judgmental basis. When possible, the basis for the reviews included representation of loans that the institutions deemed to be "problems" (with a loan default being claimed or with incidents of late payment), along with loans that were considered "good." We reviewed the files of all defaulted borrowers when the audited financial institutions had filed claims; as of September 30, 2012, we reviewed eight claims filed by Sofihdes. In this effort, we verified compliance with USAID's requirements in terms of notice of default, attempts to recover amounts due, and adherence to the filing waiting period.

We interviewed mission employees responsible for monitoring DCA and reviewed their pertinent documents. We also interviewed officials at the financial institutions and reviewed 69 loan files. When necessary, we supplemented information found in the files by questioning the officials about the loans. From the files reviewed, we interviewed 48 borrowers and visited sites to observe certain activities funded under the DCA loans. We selected sites based on time and distance constraints and the need to cover all three lenders. Since the testing and the site visit selections were based on judgmental samples, the results and conclusions related to this analysis were limited to the items and areas tested, and they cannot be projected to the entire audit universe.

We did not set a materiality threshold for the audit objective because the nature of the audit did not lend itself to establishing such a threshold.

MANAGEMENT COMMENTS

MEMORANDUM

TO: Jon Chasson, Regional Inspector General

FROM: Herbert Smith, Acting Mission Director /s/

CC: Lewis Tatem, EGAD, Office Chief
Claire Johnson, Controller
Ana Luisa Pinto, E3/DC, Portfolio Manager

DATE: January 22, 2013

SUBJECT: **Management Comments on Draft Audit Report, Dated December 14, 2012, Regarding USAID/Haiti's Development Credit Authority Activities**

I. ACTION REQUESTED

We are requesting your approval of the management comments on the draft audit report submitted by the Regional Inspector General/San Salvador (RIG/San Salvador) as part of the audit of USAID/Haiti's DCA active loan portfolio guarantee agreements.

II. BACKGROUND

RIG/San Salvador has conducted an audit of the Haiti's active DCA Loan Portfolio agreements. A draft report dated December 14, 2012 was submitted to the Mission for review and comment. Below, we list USAID/Haiti and the Office of Development Credit's comments to the recommendations made in the report.

III. MANAGEMENTS COMMENTS

Recommendation 1- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, 1) provide more assistance to lenders with guarantees that are underutilized, or 2) reduce the maximum authorized portfolio amounts for lenders that do not intend to utilize the entire guarantee.

Agree. We have provided assistance and will continue to do it when necessary. Le LEVIER has received extensive support from USAID to design and implement the agricultural credit product.

SOGEBANK has also received strategic and capacity building support from the International Finance Corporation to design and implement the SME lending product.

We are confident that Le Levier will utilize the entire guarantee facility. There is a pending *amendment to reduce the sub-limits assigned to two credit unions' guarantee facilities that are underutilized and to allocate a portion of the agreement reserved facility amount to new credit unions that have been approved to participate in the agreement. This amendment should be executed by March 2013.*

It took longer than planned for the financial institution partners that entered new credit markets to launch their products and bring them to scale. Product deployment suffered setbacks due to the effects of the January 2010 earthquake on the economy and the impact of the various storms and droughts on the country's agriculture in 2012. The financial institutions continue to closely monitor the new products to calibrate them to the market needs and ensure that they reach scale.

We will continue to monitor utilization. This is an ongoing effort for the current and the newly signed FY 2012 DCA agreements.

Recommendation 2- We recommend that USAID/Haiti, in coordination with the Office of Development Credit and the lenders, develop a process to screen borrowers from prohibited activities and remove non-qualifying loans from coverage.

Agree. USAID has a process in place to screen borrowers from prohibited activities and remove non-qualifying loans from coverage when necessary.

USAID does not approve loan by loan with Loan Portfolio Guarantees (LPGs). All DCA guarantees in Haiti are LPGs. Under an LPG, USAID defines the type of borrower that qualifies under the guarantee prior to signing the legal agreement with the lender. Once defined, the lender bears responsibility for selecting the borrowers, ensuring that the borrowers satisfy the eligibility criteria and assessing the risk. USAID conducts spot checks to see if loans that are put under coverage comply with Qualifying Borrower and Qualifying Project definitions in the legal agreement and a thorough review is conducted during the claims process. However, it is during the claims process that USAID reviews all the loan files to confirm that loans are in compliance. If they are not valid then the claim requests will be rejected. The lenders pay fees to use the DCA guarantees. If a loan is not qualifying, the lender will lose out as it will be responsible for the whole defaulted amount. USAID/Haiti in coordination with the Office of Development Credit will hire a portfolio manager. This allows for more frequent spot checks.

We have removed the indicated prohibited borrowers from guarantee coverage. We are investigating the questionable borrowers to determine if they must be removed from coverage. This should be completed by January 31, 2013.

In addition, we will provide lenders with support to improve their internal process for selecting qualifying loans for guarantee coverage. A group training that covers this topic was held for their credit administration staff in August 2012.

Recommendation 3- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, develop a plan to promote SOGEBANK lending in targeted areas outside of Port-au-Prince.

Agree. SOGEBANK's plan is to provide SME lending countrywide. However, the pilots are conducted in Port-au-Prince. The institution has spent significant time designing and launching the product and is still monitoring it for adjustment to the market needs. We will offer assistance to support a quicker expansion of the product. We will follow-up with the institution on their *projections for lending outside of Port-au-Prince for the next year. This will be done by March 31, 2013.*

Recommendation 4- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, 1) develop annual performance targets for the number of women and the number of first time borrowers it aims to reach, and 2) develop a plan to lend to these preferred groups.

Agree. However, this is a negotiating point with the financial institutions; we cannot enforce targets as these have not been stipulated in the legal agreement definitions for Qualifying Borrowers in the existing agreements. We agree that women and first time borrowers should be targeted for lending, and we will strongly pursue that women and first time borrowers are included in the Qualifying Borrower definitions of new guarantee agreements.

Recommendation 5- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, provide training to lenders so that they fully understand the types of loans that should be guaranteed versus those that should not be guaranteed.

Agree. Qualifying Borrower/Qualifying Project definitions are reviewed prior to the first reporting period; however, it would be helpful to conduct a specific training for the DCA partners to review the prohibited activities. This will be completed by March 31, 2013.

Recommendation 6- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, work with each lender to implement a plan of action to improve its borrower screening process to ensure that underserved borrowers are targeted.

Agree. We will work with each lender to review the Qualifying Borrower/Qualifying Project definitions and help them improve their borrower screening process. We will strongly encourage that the lenders target new borrowers and expand to geographic areas outside Port-au-Prince. This will be an on-going activity.

Recommendation 7- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, implement a plan to increase its monitoring and evaluation efforts to ensure that program goals are being met.

Agree. We have enhanced the monitoring and evaluation efforts with improved monitoring plans that capture utilization targets and development indicators for the newly signed FY 2012 guarantees. This will be an ongoing effort. Due to the increasing number of DCA activities, the Mission plans to hire a local Portfolio Manager to assist with all the DCA activities with a focus on collecting development impact information. This person will report both to the Mission and the Office of Development Credit. This person should be on board by September 30, 2013.

Recommendation 8- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, send periodic reminders to all lenders about the importance of completing every data field accurately and timely.

Agree. This was raised during the August 2012 DCA training with all partners. We send reminders one month before the loan schedule reports are due and subsequent reminders right before the reports are due. This is an ongoing activity.

Recommendation 9- We recommend that USAID/Haiti, in coordination with the Office of

Development Credit, update its indicator tracking table to include performance targets and results.

Agree. The indicator tracking table reports performance targets and results for all F-indicators. We will work with the Office of Development Credit to set targets for the other performance indicators in the table, i.e. the number and value of claims placed under USG guarantees, and generate reports from CMS to update the indicator table.

Recommendation 10- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, clearly document the definition of each loan indicator or attribute and specify how the information should be entered in the Credit Management System.

Agree. This was reviewed with all DCA partners in the August 2012 training and this is also reviewed with new partners. The Office of Development Credit will develop a document that can be shared with all DCA partners on the definitions for the data parameters so all reporting can be standardized. This will be completed by June 30, 2013.

Recommendation 11-We recommend that USAID/Haiti, in coordination with the Office of Development Credit, implement a plan of action for increased monitoring when loan portfolio guarantees exceed the threshold of 10 percent of loans 90 days in arrears.

Agree. The Office of Development Credit will develop a plan of action for increased monitoring when loan portfolio guarantees exceed the threshold of 10 percent of loans 90 days in arrears. This plan will include follow-up with the partner on how they are resolving the issue; closely examining their asset quality; consulting with Chief Risk Officer if agreement warrants a temporary suspension, etc. This will be completed by March 31, 2013.

Recommendation 12- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, work closely with SOFIHDES to develop a plan to encourage timely repayment of loans, including the possibility of providing technical assistance to SOFIHDES or its borrowers.

Agree. We will meet with SOFIHDES to discuss this issue in detail and work with them on improving repayment of their loans. This should be completed by June 30, 2013.

The institution is committed to upgrade its monitoring system. It will recruit and train staff, to the extent necessary, to effectively monitor and review its credit portfolio. SOFIHDES plans to strengthen its internal loan collection process to supplement outsourced collection service. It has just hired a collection specialist. In addition, the institution has received assistance from USAID to reinforce its portfolio monitoring through an effective management information system. The implementation of the system should be finalized this summer.

Recommendation 13- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, implement all DCA mitigation measures described in the initial environmental examination.

Agree. A group training session for all DCA guarantee partners is scheduled for the last week of February to introduce to them Environmental Issues and Best management practices for financial institutions engaged in micro, small and medium enterprises (MSMEs) financing. USAID 22CFR 216 Environmental Compliance will be presented as well as screening templates that will be developed or adapted for MSME lending. The Mission's Pesticide Evaluation Report *and Safer use Action Plan (PERSUAP) will also be presented and a list of approved pesticides will be given to the agricultural lending DCA partners in order for them to include it in the credit process.*

Separate training sessions can be offered on demand for specialized lending products such as Agricultural Lending or Housing Microfinance.

Recommendation 14- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, amend its initial environmental examination to include an evaluation of the pesticide procurement and use for DCA agricultural activities.

Disagree. USAID/Haiti has a Mission-wide Pesticide Evaluation Report and Safer use Action Plan (PERSUAP). The current PERSUAP is under revision to include best management practices. The partner institutions will be updated and the institutions will be required to follow the plan.

Recommendation 15- We recommend that USAID/Haiti, in coordination with the Office of Development Credit, establish a plan to include the mission environment officer in site visits to ensure that environmental compliance spot checks are conducted.

Agree. This will be an ongoing activity. The plan will be established by the end of March 2013.

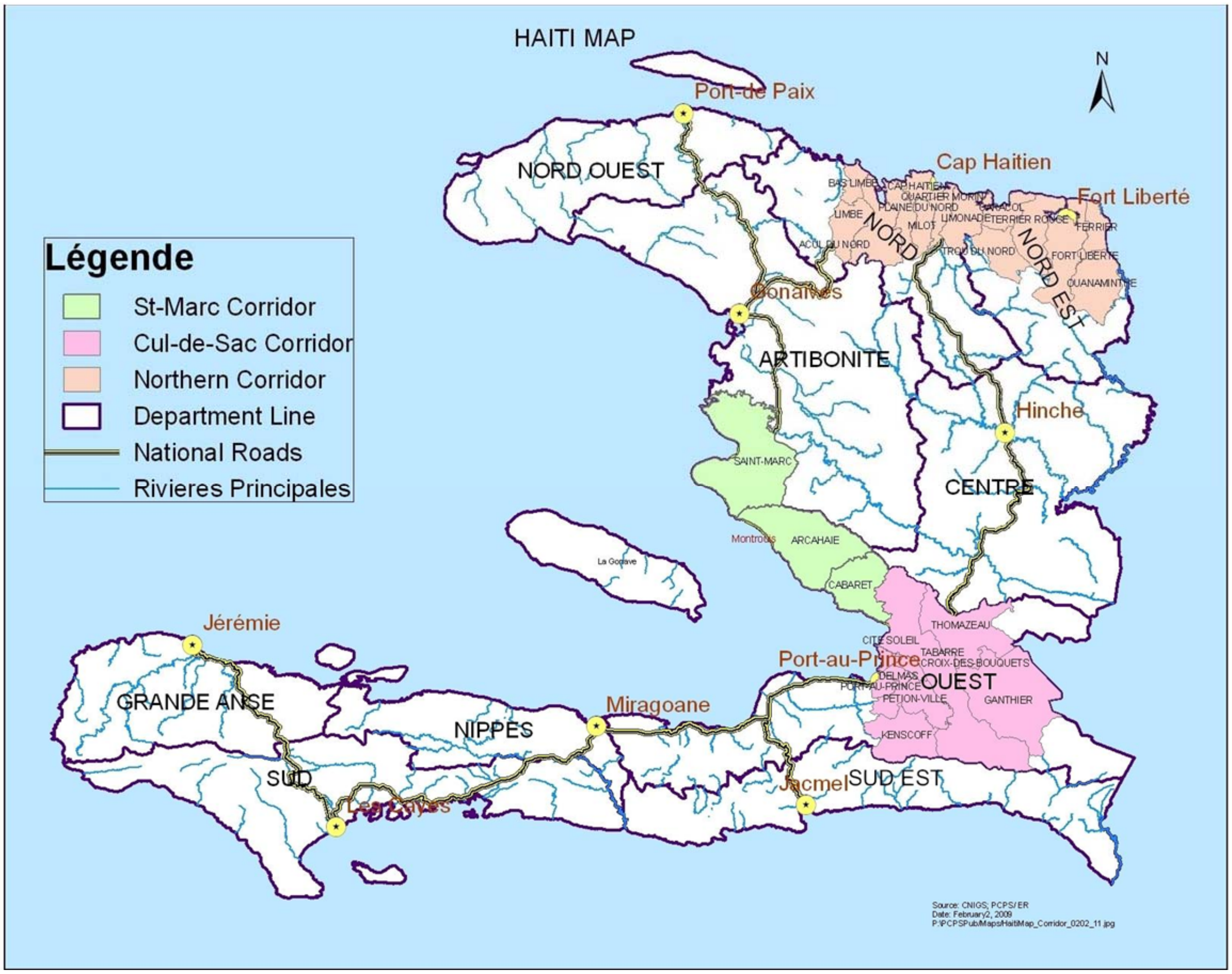
Recommendation 16- We recommend that USAID/Haiti, in coordination with the Office of Development Credit incorporate technical assistance for pesticide use into DCA agricultural activities as one form of a mitigation measure.

Agree. We will work with USAID programs that provide assistance to farmers to see how technical assistance (TA) for pesticide use could be provided through their partners associations; for example, TA could be provided through WINNER and/or HIFIVE projects' partner associations and the financial institutions would refer their clients to these associations in addition to providing to them the list of approved pesticides. This activity should start no later than May 31, 2013.

IV. RECOMMENDATION

That you approve the management comments that will be included in the DCA audit report.

Map of Haiti Corridors Targeted by DCA



Source: USAID/Haiti Strategic Plan.

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