HAITI

ACTION PLAN SUPPLEMENT

FY 1986

Action Plan Supplement

USAID/Haiti

February 1986

I. SUMMARY AND COUNTRY TEAM RECOMMENDATIONS:

This supplement to the 1987/88 Haiti Action Plan responds to the points raised in the joint State/AID cable No. 045157. Prepared by the AID Mission, it has been reviewed by and reflects the views of the Ambassador and the Country Team.

During the preparation of this document, we examined a report entitled "Evaluation of the AID Program in Haiti" prepared by USAID/Port-au-Prince in 1963, at the time the program was being phased out in reaction to the government of Francois Duvalier. This 1963 report speculated that the end of the Duvalier regime would be marked by serious civil disorders, an empty GOH treasury and conditions of financial and economic chaos, precisely the situation in which we now find ourselves. It was also suggested that should a new government come to power, friendly to the U.S., and showing outward signs of embarking on constructive programs and should such a government request relatively large scale economic assistance, the U.S., "profiting from recent lessons", should not rush in alone to assume the basic responsibilities for Haitian recovery. Instead, working together with other donors and in a multi-lateral framework, the U.S. should:

1. Issue a statement of intent to assist Haiti;

2. Place pressure on the new government to remove the oppressive measures associated with the Duvalier regime;

3. Urge the GOH to give immediate attention to the formulation of a reform and long-term development program; and

4. Provide short-term balance of payment support through a restricted account for payment of essential imports, with the gourde counterpart, matched with GOH funds, to carry on an essential mutually agreed public works program for employment generation and a Public Law 480 food relief program.

This is indeed the situation which pertains today and these are essentially our recommendations for responding to it.

The major concern which must be addressed is the balance of payments gap, which our analysis, based on "best" and "worst" case scenarios, projects to be in a range of $40-$86 million for the next 12 months. The immediacy of this need is reflected by an apparent lack of foreign exchange to pay for March petroleum and food imports.

We propose an immediate $30 million of additional assistance this FY through a combination of $20 million in additional ESF and $10 million in additional PL 480 Title I/III assistance. These requirements could be scaled down if immediate additional assistance from other donors is forthcoming. However, we have no firm evidence as of this writing that this will be the case.

The major concern which must be addressed is the balance of payments gap. We propose that the additional ESF be provided in four tranches of $5 million per month on condition that it only be used for food and/or petroleum imports and subject to verification after the first month that previous disbursements have been used as agreed. Local currency equivalents from both the ESF and Title III assistance would be placed in special accounts and used only as jointly agreed by the U.S. and Haitian government for:

1. U.S./GOH development projects;

2. Counterpart funding for selected other donor development projects;

3. Private sector development activities;

4. A USAID operating expense trust fund.

The above assistance would be conditioned on GOH agreement to undertake a series of political, economic and administrative reforms which we deem essential to achievement of both short term stabilization objectives and longer term employment. The GOH cannot proceed with the democratization process and a stabilization program without an immediate infusion of funds for essential imports.

Part II of this Supplement discusses the direct employment impact of shifting resources within our existing budget for expanded and new activities with greater employment generating potential, particularly in urban areas. We estimate that 6,300 person years of additional employment could be created during the remainder of calendar 1986 by this reprogramming. This is inadequate to meet the needs of the situation and additional funds would be required to mount a sufficiently large program to generate more urban emplyment. An increase in funding to allow support of a major employment project is discussed, along with other new and expanded employment-generating activities. This would involve a substantial increase in ESF ($20 million) and in Title I/III resources ($10 million), generating about 20,000 additional person years of employment. A further scenario in which an additional $15 million only is provided to fund the major employment project is also outlined.

Part III discusses ways in which democratization and administration of justice can be further enhanced within the context of the USAID program. In addition to continuing policy dialogue elements and design implementation characteristics already incorporated within the Action Plan strategy, we have identified several additional activities which can be either incorporated into existing projects or made the subject of new projects. For example, we are considering that in conjunction with a new AID-financed primary education program, a national radio education program be mounted focusing on democratic principles, political and civil rights and responsibilities.

Part IV summarizes the current situation regarding resumption of the school feeding and associated Title II programs. Our analysis concludes that, barring a further deterioration in public order, we will be able to utilize the full supply of Title II food requested this FY in either the conventional feeding programs, which are now in the process of being resumed with priority emphasis on school feeding, or through alternative contingency uses which we are developing as a safeguard in case the normal programs are again disrupted. We do not feel it would be possible to absorb additional Title II food this fiscal year but would like to hold out the possibility of marginal increases in FY 87.

The final section provides information as available in Port-au-Prince on other donor assistance. The only possibility of other donor assistance which would have an immediate bearing on the current crisis is the possibility of long term credit for petroleum purchases revealed by the Venezuelan representative at a February 19, 1986 meeting of donors called by the Minister of Finance. Neither the amount nor timing of this assistance has been established as of this writing. The Inter American Development Bank has the capability through its current broadened authority for use of FSO in Haiti to make substantial additional financial inputs this year. However, since the IDB presently projectizes all of its lending assistance, we believe only minor short term stabilization assistance can be achieved by the IDB. This will be primarily through reconstruction within its projects which suffered physical damage during the recent disturbances, and credits for the refurnishing of damaged schools and medical facilities.

II. MACROECONOMIC ANALYSIS AND RECOMMENDATIONS

A. The Balance of Payments

1. Objective

The main objective of the balance of payments analysis is to estimate the foreign exchange resource gap in FY 1986 (October 1, 1985 - September 30, 1986) on the assumption that sufficient resources will be provided to maintain a constant real per capita Gross Domestic Product (GDP). This would require an increase in the real aggregate GDP of 1.5 to 2.0 percent. It must be emphasized that this balance of payments analysis does not seek to project what the balance of payments outlook will actually be; but rather, what additional amounts of foreign exchange would be required to permit maintenance of a constant per capita GDP, given reasonable expectations with regard to the behavior of exports and capital flows.

It must also be emphasized that the provision of the needed foreign exchange will not automatically ensure that the GDP target will be met, as the level of economic activity will depend, to a large extent, on the ability of the government to maintain order and inspire confidence in the business community, attract foreign investment and pursue economic policies consistent with stablization and growth objectives. The provision of the foreign exchange needed to close the estimated gap will provide the GOH with the opportunity and the means to prevent another decline in the living standard. It is an essential -- not a sufficient -- condition for the revival of investment and economic activity.

2. Scenarios and Basic Assumptions

It was decided to adopt the latest IMF projection (contained in the 1985 Article IV Consultation Staff Report of November 4, 1985) as the starting point of the analysis. The goal was to modify this program to take account of the impact of political developments over the period October 1985 to mid-February, 1986 on exports, imports, and capital flows. In effecting these adjustments, AID Mission staff consulted with central bank staff and the IMF Representative.

The considerable uncertainty that currently exists in Haiti with regard to the political situation and the ability of the GOH to maintain order suggested the desirability of projecting the balance of payments gap on the basis of two alternative scenarios - a favorable scenario based on relatively optimistic assumptions that would yield a conservative gap estimate, and a pessimistic or "worst case" scenario based on less favorable assumptions.

A number of positive and negative factors presently at work will affect the outcome. The positive factors include, first and foremost, the departure of Duvalier and the improved business and investment climate that this change government has engendered. It has also paved the way for a substantial expansion of support from bilateral donors and multilateral agencies. It is hoped that corruption will be curbed and that, once the regime has stabilized, some of the professionals and entrepreneurs the country has lost will return. The outflow of capital may be staunched or even reversed. A second positive development is the sharp rise in coffee prices that took place since November, 1985, which will substantially increase the value of one fourth to one fifth of the country's total export earnings.

The negative factors inherent in the current situation include the following: (a) damage to the public infrastructure, particularly in the countryside; (b) damage to commercial establishments and theft of inventories; (c) production losses of factories and businesses as a result of forced closures due to demonstrations and threats of destruction, along with the losses resulting from cancellation of contracts with overseas buyers; (d) considerable uncertainty over the stability of the government, its intentions and the policies it is planning to institute (with demonstrations against the government continuing); (e) strong pressure on the government to decree increases in the minimum wage which has remained unchanged since October 1, 1984; (f) a popular refusal to pay taxes, particularly in the provinces, as many interpret the revolution as freeing them from this obligation.

The optimistic or "best case" scenario assumes the following:

1. Emergence of a stable government; end to bloodshed and massive demonstrations.

2. Negotiations of a new IMF stand-by and observance of the agreed targets, expecially those related to government expenditures, the budget deficit and credit creation. Even if agreement with the IMF cannot be reached this fiscal year, the IMF proposed budget targets will be observed.

3. The ground lost as a result of business closures and unrest can be at least partially made up during the current fiscal year. Business confidence revives, capital outflow ceases and may even begin to flow back.

4. The government is able to resist pressures for significant increases in the minimum wage.

The pessimistic or "worst case" scenario assumes that at least assumptions 1 and 2 are not met.

3. Conclusions

The Mission's balance of payments projections for 1986 on the basis of the two scenarios appear in Table 1. The assumptions underlying the projections of the major items, where these differ from those made by the IMF in its November 1985 Article IV Consultation Staff Report, are provided in the footnotes to the table.

The main conclusions of the analysis are as follows:

1. The financing gap (last line of table) is in the range of \$40 to \$86 million. This represents the additional net amount of resources the country is expected to require to meet the constant per capita GDP target. While the projection is nominally for FY 1986, the gap should be interpreted as the net requirement over the next twelve months. It makes allowance for the \$18 million repayment ("repurchase") requirement to the IMF that appears "below the line", i.e. it is in addition to the overall balance of payments deficit on line III which falls within the range of \$22 million and \$68 million.

2. There is a consensus at this point that the "best case" scenario is less likely to occur than the "worst case". The most probable outcome is for the total net additional resource requirement to fall between \$50 and \$65 million.

Aside from the size of the balance of payment gap, there is the problem of the immediacy of the need. Major concerns include \$2.5 million in arrears to the IMF, a \$5 to \$7 million monthly oil bill, and \$2.5 million for wheat imports. There are no funds to pay for the March oil and food shipments. The central bank claims to have only \$500,000 in its vault. Oil will only be sold on a cash basis; and a new IMF stand-by is out of the question while arrears remain unsettled. Without an IMF stand-by, loans from the World Bank and from foreign commercial banks will be all but impossible to obtain.

Table 2 presents the central bank's projection of its monthly foreign exchange cash flow for FY 1986. Note that the available "foreign exchange reserve" disappeared completely after January 31, 1986. For the balance of the fiscal year, there is a monthly cash deficit in the range of \$4 million to \$9 million. During the eight month period, February through September of 1986, the cash deficit is projected to total \$51 million, while the deficit for all of FY 1986 is estimated at \$77 million (Table 2).

TABLE 1

Haiti: Summary Balance of Payments
(Fiscal years Oct 1 - Sept 30)
(in millions of U.S. dollars)

	Actual 1984	Prelim 1985	Prior IMF proj 1986	Mission 1986 Worst Case	Mission 1986 Best C
I. CURRENT ACCOUNT	**-60.8**	**-56**	**-11**	**-73**	**-44**
Exports, f.o.b.	**229.5**	**228**	**248**	**225**	**244**
Coffee	**54.0**	**48**	**54**	**60[1]**	**66[1]**
Light assembly industry	**124.6**	**133**	**144**	**120[2]**	**130[2]**
Other	**50.9**	**47**	**50**	**45**	**48**
Imports, c.i.f.	**-352.0**	**-334**	**-322**	**-354[3]**	**-347[3]**
Services, net	**-61.5**	**-67**	**-68**	**-75**	**-72**
Travel	**28.0**	**25**	**26**	**20[4]**	**23[4]**
Interest	**-18.3**	**-15**	**-14**	**-14***	**-14***
Other	**-71.2**	**-77**	**-81**	**-81***	**-81***
Transfers	123.2	116	131	131	131
Private	45.0	48	50	50*	50*
Official	78.2	68	81	81*	81*
I. CAPITAL ACCOUNT	38.5	46	20	5	22
Official capital, net	55.3	37	24	24	24
Multilateral and bilateral	62.0	53	45	45*	45*
Commercial	-1.7	-13	-17	-17*	-17*
Trust Fund	-5.0	-3	-4	-4*	-4*
Private capital and errors and omissions[5]	-10.5	-1	5	-10[7]	0[7]
Required Reduction of Arrears (-)[6]	-6.3	10	-9	-9[8]	-2[8]
I. OVERALL BALANCE OF PAYMENTS DEFICIT (I+II)	-22.3	-10	9	-68	-22
V. TRANSFERS WITH FUND AND CHANGE IN NET INTERNATIONAL RESERVES					
Fund purchases (+) and repurchases (-)	21.8	-9	-18	-18*	-18*
Other, net (increase -)	0.5	20*	0	0	0
V. FINANCING GAP (III + IV)	0.0	0	9	86	40

Sources: First 3 columns from Bank of the Republic of Haiti and IMF estimates;
Last 2 columns from USAID Mission projections.

* As projected by the IMF in their November 4 Article IV Consultation Report.

Footnotes to Table 1

1/ Coffee exports an estimated as follows by the Central Bank:

1984-85	Crop	312,553	60 kg bags
1985-86	Crop	264,000	60 kg bags

1st quarter sale	: 93,000 bags x 60 kg x G 13.79 (i.e. $1.25 per pound) = G 76,948,200 : 5 =	$ 15,289,640
Balance of Year	: 171,000 bags x 60 kg x G 24.50 ($2.22 per pound) = G 251,370,000 : 5 =	$ 50,274,000
Total for Crop Year ("best case" scenario)		$ 65,663,640

For "worst case" scenario, a price of G 22.0 per kilo (i.e. $2.00 per pound) was assumed for the last three quarters of the crop year.

2/ Light assembly industry exports are projected to decline somewhat owing to interference with production, cancellation of contracts and reduction in new orders as a result of recent disturbances and uncertainty regarding future developments.

3/ Imports were projected in line with the objectives of a constant real GDP in FY 1986. Under the "worst case" scenario, imports were projected to increase by 6% above the 1985 level. This makes allowance for a 2% increase in real terms plus a 4% allowance for the increase in world prices. The "best case" scenario projects imports to increase by only 4% in FY 1986 on the assumption of reduced public consumption expenditure and a more efficient allocation of resources.

4/ The travel projection reflects the decline in foreign tourism as a dual result of fear of disturbances and irrational fears of AIDS.

5/ "Private capital" was combined with "Monetary Capital" in this presentation. The IMF lists the latter under its "financing" account (i.e. "below the line").

6/ The IMF also shows "arrears" below the line, under "financing". The logic for this is not clear. We shifted it into the capital account because the requirement to reduce arrears is a commitment that should be reflected in the overall deficit listed on line III.

7/ $10 million is an informal estimate of capital outflow during disturbances over November 1985 - February 1986. Under the "best case" scenario, this capital is projected to return during the balance of the fiscal year.

8/ \$9.0 million reduction is arrears under the "worst case", as projected by the IMF. The favorable scenario assumes that debt service to Argentina can be scaled down to \$200,000 a month, as hoped for by the President of the Central Bank following his visit to that country in February 1986.

9/ Refers to decline in net international reserves.

Table 2
FOREIGN EXCHANGE RESOURCES OF BRH
OCTOBER 85 - SEPTEMBER 86
IN THOUSANDS OF US DOLLARS

	Oct. 85	Nov. 85	Dec. 85	Jan. 86	Feb. 86	Mar. 86	April 86	May 86	June 86	July 86	Aug. 86	Sept. 86
AVAILABLE RESOURCES	-	-	1.800.0	1.200.0	-	-	-	-	-	-	-	-
IBRD	338.0	2.163.0	408.0	1.219.0	137.9	1.246.7	1.054.2	845.7	2.499.1	931.2	825.4	1.712.0
IDB	83.0	-	715.0	435.0	757.0	2.453.0	257.8	-	2.201.0	120.0	890.0	2.600.0
IMF	-	-	-	-	-	-	4.000.0	-	-	4.000.0	-	-
COMMERCIAL BANKS	1.500.0	-	800.0	2.200.0	1.800.0	2.000.0	2.500.0	1.500.0	1.000.0	2.500.0	700.0	1.200.0
US DOLLAR DEPOSITS	(1.500.0)	(-)	(800.0)	(2.200.0)	(1.800.0)	(2.000.0)	(2.500.0)	(1.500.0)	(1.000.0)	(2.500.0)	(700.0)	(1.200.0)
EXPORT REVENUE	4.798.0	5.478.0	6.677.0	8.440.0	7.600.0	6.500.0	4.100.0	5.000.0	4.800.0	4.600.0	4.100.0	3.500.0
OTHER RESOURCES	3.500.0	3.000.0	4.500.0	3.200.0	2.600.0	1.500.0	2.000.0	1.800.0	1.500.0	1.700.0	1.500.0	2.200.0
TOTAL OF RESOURCES	10.219.0	10.641.0	14.900.0	16.694.0	12.894.0	13.699.7	13.912.0	9.145.7	12.000.1	13.851.0	8.015.4	11.212.0

FOREIGN EXCHANGE LIABILITIES OF BRH
OCTOBRE 86 - SEPTEMBER 86
IN THOUSANDS OF DOLLARS

	Oct. 85	Nov. 85	Dec. 85	Jan. 86	Feb. 86	Mar. 86	April 86	May 86	June 86	July 86	Aug. 86	Sept. 86
LIABILITIES TO COMMERCIAL BANKS	2.750.0	2.300.0	2.700.0	4.600.0	4.100.0	4.500.0	4.700.0	2.900.0	2.800.0	5.500.0	2.900.0	3.100.0
LETTERS OF CREDIT	850.0	900.0	1.200.0	1.800.0	1.700.0	1.900.0	2.000.0	1.200.0	1.000.0	2.200.0	1.400.0	1.300.0
SWAP OPERATIONS	400.0	400.0	500.0	600.0	600.0	600.0	200.0	200.0	800.0	800.0	800.0	600.0
TRANSFER/DEPOSITS	1.500.0	1.000.0	2.000.0	2.200.0	1.800.0	2.000.0	2.500.0	1.500.0	1.000.0	2.500.0	700.0	1.200.0
OIL COMPANIES	4.900.0	3.380.0	5.500.0	6.000.0	5.500.0	5.000.0	6.800.0	6.000.0	4.300.0	7.800.0	6.200.0	5.900.0
GOVERNMENT	2.700.0	900.0	1.800.0	2.800.0	3.800.0	2.700.0	2.400.0	2.000.0	2.600.0	900.0	1.500.0	800.0
FOREIGN DEBTS	1.163.4	4.999.0	5.505.0	4.471.0	4.043.7	4.465.0	1.044.0	3.870.8	4.702.0	3.921.0	4.547.5	3.958.0
PUBLIC SECTOR DEBT	613.4	1.986.0	800.0	795.0	845.0	1.600.0	100.0	1.364.0	371.0	290.0	1.486.0	288.0
IMF	-	2.462.9	4.155.5	2.126.4	2.648.7	2.315.5	394.0	1.955.8	3.781.0	3.081.0	2.511.5	3.120.0
ISRAEL & OTHERS	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0
EXIMBANK	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
MINOTERIE D'HAITI (Flour)	2.540.0	1.200.0	1.032.0	1.300.0	1.200.0	500.0	1.700.0	1.600.0	1.400.0	1.800.0	1.900.0	1.880.0
DARBONNE/SODITIC (Sugar)	-	-	-	1.988.0	-	-	-	-	-	1.988.0	-	-
TELECO	530.6	550.0	700.0	800.0	1.700.0	1.000.0	900.0	340.0	530.0	620.0	350.0	500.0
ENAOL (Edible Oil)	170.0	170.0	5.300.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0
TOTAL OF LIABILITIES	14.754.0	15.485.0	23.537.0	24.397.0	19.781.7	18.403.0	17.782.0	16.948.0	16.770.0	22.767.0	17.635.5	15.676.0
NET FOREIGN EXCHANGE REQUEST (Shortfall)	4.535.0	4.844.0	8.437.0	7.703.0	6.887.0	4.703.3	3.870.0	7.803.1	4.769.9	8.916.0	9.620.1	4.464.0

B. International Reserves

The recent trends in the level of gross and net foreign assets (combined) of the Bank of the Republic of Haiti (BRH) and the National Credit Bank (NCB) is presented in Table 3. Note that total net foreign assets are sharply negative -- minus $64.8 million as of February 17, 1986. There has been a steady deterioration between September 1983 and September 1985, though no significant change since then, according to official statistics.

It is also to be noted that the gross foreign assets of $23.6 million belong, for the most part, to the National Credit Bank, a state-owned commercial bank, and are not at the disposal of the central bank. Moreover, a substantial proportion of the combined BRH-NCB deposits are not liquid, and the claims against their combined foreign exchange assets exceed their total amount by some $65 million.

The combined BRH-NCB gross international assets as of February 17 are equal to only 3.7 weeks of imports. To raise these gross reserves to two months of imports (the usually recommended target), they would have to be increased to $55 million, or 2.3 times the present level.

Table 3
International Reserves of the Central Bank and
Banque Nationale de Credit
(2 million of US Dollars)

	Sept. 83	Sept. 84	Sept. 85	17 Feb. 86
1. Net foreign Assets (lines 2-3)	- 49.3	- 57.2	- 63.5	- 64.8
2. Gross Foreign Assets	27.9	31.5	20.1	23.6
3. Foreign Liabilities	- 77.2	- 88.7	- 83.5	- 88.4

Note: Gross foreign assets on February 17, 1986 amounted to 3.7 weeks of imports. Two months of imports = $ 55.7 million.

C. Debt Service Ratio

Fortunately, Haiti's debt ratio is not high by international standards. According to the most recent IMF estimate, the ratio of total interest and amortization payments to exports of goods and services at the end of FY 1985 was 12.4%. That ratio has increased only slightly since 1981, when it stood at 9%. The ratio of total external public debt to GDP is 34.3%, up from 29.1% in 1981.

D. Public Finances

The deterioration in the balance of payments is in part a result of the deteriorating GOH fiscal situation enduced by the ongoing civil and political crisis. The following fiscal analysis uses the GOH's budget as the starting point for developing two scenarios, a best case and a worst case, for FY 1986. In the best case, the need for financing to cover the deficit is expected to rise from 45 million gourdes to 90 million gourdes in FY 1986.1/ In the worst case, financing needs are projected to be 253 million gourdes.

The original FY 1986 (October 1, 1985 - September 30, 1986) Treasury budget was built on the assumption that Treasury revenues would rise by nearly 8 percent, or at about the same rate as the projected growth in nominal income (see Table 4). New revenue measures were introduced in October 1985 to ensure attainment of the revenue forecast, including increased taxes on airline tickets and petroleum products. To balance the treasury accounts, the budget called for a reduction of 2 percentage points of GDP (Gdes. 112 million) in treasury expenditures. This reduction reflected in part an expected easing of political tensions that had previously led to heavy spending.

GOH fiscal performance during the first four months of the fiscal year was generally consistent with budget projections and the informal IMF program. Total Treasury receipts for the period (October 1985 - January 1986) were 476 million gourdes, or 22 million gourdes over the program's revenue target of 454 million gourdes. However, Treasury expenses for the four month period were 453 million gourdes, or slightly over the 451 million gourdes expense target. The cumulative Treasury surplus of 23 million gourdes is well over the targeted surplus of 3 million gourdes.

While hard fiscal data is not yet available, it is clear that the crisis of the past two weeks has led to both dramatic losses of revenues and over-budget expenditures. Revenue losses have resulted from the port and airport closures, destruction of twelve Internal Revenue offices in the provinces, uncertainty associated with the rapidly changing political and civil crisis, and widespread taxpayer revolt. Excessive GOH expenditures resulted from the military mobilization and attempts to buy allegiance to the old regime. Given the uncertainty and fluidity of the current situation, two

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1/ 5 Haitian Gourdes = 1 U.S. Dollar

judgmental forecasts incorporating the views of the Ministry of Finance, IMF, U.S. Embassy, and USAID were developed for the full fiscal year. FY 1986 revenues and expenditure are projected to deviate from the FY 1986 budget as follows (see Table 4):

- In the worst case, domestic tax revenues will be 136 million gourdes below the budget level as a result of the civil disturbances, the associated administrative chaos and popular resistance to tax payments, and the January 1986 tax cuts on petroleum, flour, sugar and milk products. Even under the best case scenario, lost revenue is estimated to be at least 61 million gourdes.

- Export taxes are projected to be above the budget projections in both scenarios as a result of coffee price increases. The 63 to 68 million gourdes range for export tax collections reflects uncertainties with regard to both export prices and quantities.

- Transfers from public enterprises are projected to be 61 million gourdes in both scenarios, or 24 million below budget, as a result of the edible oil price reduction announced in January 1986.

- Total revenues are therefore projected to range between 1128 and 1208 million gourdes, in both cases below the 1285 million gourdes FY 1986 budget forecast. Only in the best case will revenues be above their FY 1985 level of 1193 million gourdes.

- Current expenditures are projected to range between 1120 and 1201 million gourdes. The best case assumes that the 31 million gourdes expenditure reduction decreed in January 1986 will be respected. The feasibility of this expenditure cut will be enhanced with the elimination of the National Security Volunteer force (VSN) and excessive expenditures by the Presidential Palace. However, the costs of the military mobilization and the pressures for public works employment suggest that the orignal budget expenditure level may be exceeded by 50 million gourdes ("worst case" scenario).

- Capital expenditures are expected to remain at their budgeted level.

- Total expenditures are therefore expected to range between 1256 and 1337 million gourdes compared to the budget projection of 1287 million gourdes. In both scenarios, government expenditures will be below expenditures in FY 1985.

- The resulting overall deficit is projected to increase from the 2 million gourdes budget level to 48 million gourdes in the best case. The worst case will bring the deficit back up to the FY 1985 level but below the FY 1984 level.

Table 4 Haiti Treasury Operations

(in millions of Gourdes)

	Actual 1984	Estim. 1985	Budget 1986	Best Case 1986	[illegible]
TREASURY RECEIPTS	1005.0	1193.2	1205.0	1208.4	[illegible]
Domestic tax revenue	857.2	1055.9	1140.0	1079.0	[illegible]
Export taxes	56.9	64.1	60.0	60.4	[illegible]
Transfers from public enterprises	90.9	73.2	05.0	61.0	[illegible]
TOTAL EXPENDITURE	1305.7	1399.2	1207.4	1256.0	[illegible]
Current expenditure	1122.8	1259.2	1151.4	1120.0	[illegible]
Capital expenditure	182.9	140.0	136.0	136.0	[illegible]
OVERALL SURPLUS/DEFICIT	-300.7	-206.0	-2.4	-47.6	[illegible]
FINANCING	300.7	206.0	2.4	47.6	[illegible]
Foreign concessional financing (net)	-23.1	-24.5	-20.2	-20.2	[illegible]
Nonconcessional financing (net)	323.8	230.5	22.6	67.8	[illegible]
Foreign commercial loans	18.4	-5.5	-22.4	-22.4	[illegible]
Domestic bank credit	305.4	236.0	45.0	90.2	[illegible]
MEMORANDUM ITEMS:					
Expenditure authorized by the Treasury	1004.7	1160.0	1330.0	1290.6	[illegible]
Current account surplus	-117.8	-66.0	133.6	88.4	[illegible]
GDP	9104.0	10042.0	10790.3	10790.0	[illegible]
	(in percent of GDP)				
TREASURY RECEIPT	11.0	11.9	11.9	11.2	[illegible]
Of which: Domestic tax revenue	9.4	10.5	10.6	10.0	[illegible]
TOTAL EXPENDITURE	14.3	13.9	11.9	11.6	[illegible]
OVERALL SURPLUS/DEFICIT	-3.3	-2	0.0	-0.4	[illegible]

Sources: Ministry of Finance, Economy, and Industry; Bank of the Republic of Haiti, IMF estimates, and US Mission estimates.

As a result of the projected increases in the deficit, domestic bank financing is projected to increase from the 45 million gourdes budget forcast to 90 million gourdes in the best case and 253 million gourdes in the worst case (see Table 4). The worst case would require financing at levels comparable to the previous two fiscal years.

These increases in central bank financing, unless offset by credit reductions to the private sector, will result in increases in net domestic assets. Compared to the informal IMF program year-end target (1590 million gourdes), net domestic assets of the monetary authorities would rise by 3 percent in the best case and 13 percent in the worst case. These credit increases would result in domestic price increases in addition to the five to seven percent inflation that was expected with the informal IMF program. These increases should be expected to add additional pressure on the already faltering parallel market exchange rate, which is currently 15 to 20 percent above the official five gourdes to one dollar rate.

E. Recent Trends in Consumer Prices and Money Supply

The rise in the consumer price index since 1982 has been relatively moderate - an annual rate of 8 to 9% through FY 1985. Still, over the past three years, this rate of increase has been twice as high as that of the United States. As a result, the fixed exchange rate has resulted in an increasingly overvalued gourde, causing Haiti's exports to become less competitive and providing a growing stimulus to import foreign goods at the official exchange rate. This has led to the development of a parallel market and to a growing differential between the official and parallel market rates.

The money supply has increased more rapidly than the consumer price level in recent years. Between the end of FY 1980 and 1985, the money supply (M_1) increased at an average annual compound rate of nearly 13% (M_2 increased at an annual rate of 10%). The more rapid rise of money supply in relation to the price level suggests that the rate of inflation could easily accelerate unless the government succeeded in curbing significantly the rate of credit expansion.

F. Balance of Payments Support

Given the large balance of payments gap and the current low level of foreign exchange holdings of the Central Bank, the need for essential imports to avoid further economic and civil disturbances, and the arrearages on international obligations, the US Mission believes there is a critical need for emergency balance of payments assistance, with disbursements starting immediately.

The balance of payments gap requiring financing is estimated to range between [illegible] and [illegible] million US dollars. Assuming that an eighteen month [illegible] were approved by the IMF Board in [illegible] million could be made available this calendar year. However, it should be emphasized that an IMF stand-by would not be available to finance imports, and thus cannot be utilized to reduce the balance of payments [illegible] estimated above. It can only be utilized to reduce arrears and to increase the country's gross (not net) international reserves, thus providing a temporary cushion of resources. Hopefully, it would induce other donors, and perhaps the commercial banks, to provide additional foreign exchange on the strength of the remedial measures that the GOH would agree to adopt to resolve its balance of payments problem. The amount of resources that might be obtained indirectly as a result of an IMF agreement cannot be estimated at this time.

The US Mission requests that AID provide a total of $30 million this fiscal year through a combination of increased Title III and ESF.

The Mission requests an additional $10 million for the FY 1985-86 Title III Agreement (for a total of $25 million) to be negotiated immediately. This level of Title III Assistance could be readily accommodated if the UMR requirements for wheat imports were waived and/or other commodities imported (eg. edible oil and corn). Increased Title III financing of food imports would provide balance of payments support beginning the summer of 1986. However, given the urgent need for immediate balance of payments support, the Mission requests $20 million additional in ESF, with four equal disbursements over a period of four months beginning as soon as possible.

Given concerns over the integrity of government operations, the Mission recommends that the ESF should be provided as a Cash Transfer to the GOH with the condition that it be used for critically needed imports of petroleum and/or food. After the first month, the disbursements would only be made upon verification that the previous disbursement had been used as agreed to by the GOH and the Mission. The ESF funds would be deposited in a U.S. correspondent bank for the GOH. The GOH would transfer local currency in the equivalent of U.S. $20 million in four tranches into a special account similar to the Title III Program Account at the National Bank of Haiti (BNH). The local currency in the account would be used to support development activities as jointly agreed to by the GOH and USAID, including budgetary support for government development projects, other donor projects, private sector activities, NGO's, and a trust fund for USAID operating expenses. The Title III Management Office would be responsible for monitoring and reporting on all activities supported by the additional ESF with the exception of the USAID Trust Fund Account.

The Mission has considered other means of providing balance of payments support (CIP and projectized ESF) and rejected them on grounds of their failure to provide immediate disbursements for BOP support and their administrative cumbersomeness (CIP). The proposed modality for the ESF provides for both the needed emergency BOP support and control of the use of the dollar and gourde funds.

C. Policy Reforms for Stabilization

The policy reform program would focus on two related areas: [illegible] demand management and investment climate improvement. [illegible] monetary and fiscal policies, including improved revenue performance, limits on Treasury spending and the public sector deficit, BNC credit to the private sector, and net domestic assets of the monetary authorities are essential for stabilization. The US Mission proposes that a joint IMF, World Bank, and USAID economic mission develop with the GOH the required stabilization program. In addition to setting the macro targets for the stabilization, the following policy reforms to increase Treasury revenues and improve the effectiveness of government expenditures will be considered for negotiation as conditions for disbursement of the ESF and signing of the Title III Agreement:

- Improved Customs and Tax Administration. The GOH will agree to continue to cooperate with the technical assistance provided by USAID and other donors to implement needed reforms. In particular, the GOH will agree to fully implement the new Customs Code, improve the control of franchised goods through full implementation of the Investment Code, reform the anti-contraband program, eliminate all consumer goods import franchises other than those granted for diplomatic or foreign assistance reasons, and develop a tax appeals court independent from the Internal Revenue Service.

- Revised Petroleum Import Contracts and Taxes. The GOH will revise the procedures for taxing and contracting for oil imports to enable Haiti to benefit from the world petroleum price decreases. This will generate increased GOH revenues and lower domestic petroleum prices.

- ENAOL Closure. The GOH will remove ENAOL's monopoly on edible oil seed and oil imports, establish a tariff applied equally to all edible oil imports and production that allows for a decline in consumer prices, and liquidate all ENAOL assets.

- Other Parastatal Reforms. The GOH will replace import restrictions with tariffs for all parastatals, including the flour mill, cotton gin, sugar refineries, and cement plant, forcing pricing policies to be more consistent with free international market prices. In addition, all governmental subsidies will be removed from parastatals, including preferential access to foreign exchange and credit. No new parastatal acquisitions will be made.

- Administrative Reforms. The GOH will develop and implement administrative reforms which will make it more cost effective, including significant staff reductions in Port-au-Prince, increased salary levels, longer working hours, and greater importance given to the delivery of services to the local population, particularly in rural areas.

To improve the private sector investment climate, especially in the foreign exchange earning export sector, the following policy reforms will be considered for negotiation as conditions of increased Title III [illegible] funding:

- Permanent Mixed Committee for Investment Promotion. The GOH will agree to increasingly use the Committee on all economic policies affecting the private investment environment. In this regard, the Committee and the GOH will develop a priority list and timetable for addressing all items on the Committee's original agenda.

- Investment Code. The GOH will fully implement the new Investment Code, including legislated responsibilities of the Consultative Commission and the Appeals Commission.

- Liberalize Trade Regime. Replace all import licenses, quotas, and other import restrictions with tariffs which allow consumer prices to fall towards CIF import levels, promote competition and otherwise encourage cost reductions in domestic industry so as to promote increased linkages with the export sector, and generate increased government revenues.

- Reduce Surrender Requirements. The GOH will develop and implement a program of gradual reduction of surrender requirements on earned foreign exchange.

- Free Agricultural Imports. The GOH will remove all taxes, tariffs and quantitative restrictions on the import of agricultural inputs, and otherwise ensure private sector access to agricultural inputs.

- Remove Administered Price. The GOH will gradually eliminate administered prices, especially on goods that face increasing competition as import restrictions are removed.

III. EMPLOYMENT GENERATION

As the attached fiscal analysis shows, Haiti is entering a very difficult period in which the national economy will suffer strains due to a shortage of foreign exchange as well as a disruption of internal commercial channels. The already widespread level of unemployment is likely to be exacerbated. To help address this problem, the Mission is considering reorienting its program to assure that poor people in the urban and rural areas have access to a source of employment in this difficult time.

The following analysis considers two means for increasing employment in the current portfolio: (1) reprogramming funds for ongoing projects to direct them towards projects with higher employment creation potential; and (2) increasing the level of ESF and Title III, which will allow the current portfolio to proceed and permit the undertaking of new employment-creating projects through increased local currency generations.

1. NO ADDITIONAL FUNDING

Our review of opportunities in the existing portfolio indicates that we could achieve substantial additional CY 1986 employment impacts within the existing DA/ESF and PL 480 Title III program levels through directing resources into ongoing projects with public works components. As shown in Table I, this exercise would cause the creation of over 6,300 additional jobs. There would be, however, certain adverse impacts upon the program as a whole, as is explained below, and the rate of job creation would be insufficient relative to the needs of this emergency situation.

The specific reprogramming would be undertaken as follows: under the assumption of unchanged DA, ESF and Title III funding, resources would be shifted from projects with low employment generation potential to those that could create more employment in the short run. The emphasis of this reprogramming exercise would be upon urban job creation, despite the fact that our ongoing program is primarily rural in nature. The reprogramming is made more difficult by the division of the DA program into functional accounts, and the Mission's lack of authority to shift funds between these accounts. Because of this division into functional accounts, there is relatively little flexibility in moving DA funds among projects. For example, while health and population projects have less immediate employment impact than some other accounts, we cannot move health or POP funds to agriculture or the private sector. Title III, which does not have this constraint, provides a greater opportunity for reprogramming. The following changes would be undertaken.

(a) In Agriculture, Title III funds would support a $1,000,000 allocation for the construction of small-scale irrigation facilities by IICA. An additional $[illegible],000 Title III would be provided to [illegible] for soil conservation and $[illegible] for construction of [illegible] by the Ministry's Direction des Ressources Naturelles: both these activities could be implemented [illegible]. Funds [illegible] unprogrammed Title III. Finally, an additional [illegible] in [illegible] [illegible] techniques. Funds for this would come from a reduction in Targeted Watershed Management, which would begin late in the fiscal year, and Community Water Systems.

(b) The FY 86 obligation for the Rural Health Delivery System could be reduced, since the FY 86 increment will not be obligated until late in the fiscal year. This $300,000 reprogramming would be used to fund a mosquito vector control project with SNEM, which would use labor intensive methods to drain mosquito breeding areas.

(c) In the private sector, $500,000 would be taken from Investment and Export Promotion, which will start late in the year, and be used as the first tranche of funding for the new Private Sector Initiative project, which will coordinate the private sector's response to the current emergency situation.

(d) Intended obligations for NGO Support IV and Technical Consultants and Training would be eliminated. $1,000,000 of the funds released by this would support a new project, PVO Employment Generation, a grant to HAVA to make small sub-grants to PVOs for employment generating activities.

(e) Finally, another new project, Urban Infrastructure Rehabilitation, would provide $2,580,000 to the Ministry of Public Works and Transportation and a selected PVO to fund labor-intensive projects in Port-au-Prince and secondary cities. ESF funds would largely come from Technical Consultants and Training, with the remainder of the funding from Title III health and population programs.

These reprogrammings would create 6,342 additional person years of employment for the remainder of calendar year 1986. This would provide short-term employment to over 25,000 people during CY 1986. While this may seem to be a large figure, it falls far short of the country's needs. Further reprogramming is not feasible without substantial damage to the ongoing program, and the constriants discussed above, and additional funding must be sought in order to have the requisite impact.

2. ADDITIONAL FUNDING

With additional funds in this fiscal year, the program could simultaneously pursue its ongoing long-term objectives with no negative effects, and create thousands of new jobs in the urban and secondary-city zones.

In the event of a large infusion of additional Title III and ESF resources, generating large amounts of local currency, no reprogramming of the current program would be necessary and all currently planned [illegible] be carried out. There would be much more extens[illegible] activities as well as expansion of projects generating inc[illegible] for the [illegible] [illegible] sectoral programs would be affected as follows:

(a) In Agriculture and Rural Development, the largest increase would be to Secondary Roads Development ($3,529,000) for additional construction of roads using labor intensive methods. This would create 1,768 person years of employment in calendar 1986. The Community Action Maintenance Program for rural road maintenance would also be supported ($750,000).

(b) In addition to the other agriculture projects described in the preceding section, Agroforestry Outreach would receive an additional $1,467,000 which could be quickly absorbed by the PVOs and contribute to rural income, and several other agriculture projects would be increased. Two new projects--Gros Morne Farming Organization, a groupement activity, and Commercial Seed Multiplication, which would quickly produce improved maize and sorghum seeds--would also be supported.

(c) In health, vector source control would be supported as described in the preceding section and Management of Malaria would be increased by $300,000 to fund additional spraying, a labor intensive activity.

(d) In the private sector, the Private Sector Initiative would be fully funded at $1,500,000. The PVO Employment Generation project would be increased to $1,500,000 to allow funding of one or more large public works projects, in addition to the small grants, and Urban Infrastructure Rehabilitation would be raised to $15,000,000, greatly increasing the employment generation of that project, as described below.

These project expansions and new projects would create over 20,000 person-years of employment during the remainder of CY 1986, putting about 80,000 people to work at various times during that period. It should be noted that all additional funds are assumed to be local currency generations, so the division between ESF local currency generations and Title III is somewhat arbitrary. Some of these activities, however, will require some foreign exchange and further examination of the foreign exchange/local currency requirements would be required to determine the feasibility of this program without additional dollar funding. It might turn out that some additional dollar funding would be necessary to undertake some of the activities, such as the Private Sector Initiative, which would require substantial foreign exchange.

In the event that the level of resources discussed above is not available, an increase in ESF/Title III resources would still be required to fund the Urban Infrastructure Rehabilitation Project at the recommended $15.0 million level, as only $2,585,000 would be available from reprogramming within the current budget. This project would have an immediate impact on employment in Port-au-Prince and secondary cities through labor intensive public works activities. The Ministry of Public Works, Transport and Communication has numerous shelf projects in drainage, road upgrading and other areas and is designing additional ones. This could be begun very quickly once funding is made available. About $1[illegible].0 million would be provided direct[illegible] [illegible] the

Ministry; virtually all of the costs would be local currency. The remaining \$3.0 million would be provided to local PVOs to carry out labor intensive activities, following the model of the FY 1984 Secondary Cities project. Most of this would also be local currency. This two-track approach would enable numerous projects to begin immediately, with others requiring more design work coming onstream in later months.

Rapid implementation of this project would require waiving some project design and approval requirements and making funds available to the Mission very quickly. Since little foreign exchange is required, either Title III or ESF local currency generations could be the funding source.

3. EFFECTS UPON THE ONGOING AID PROGRAM

Although the above analysis is encouraging in terms of numbers of jobs created, it must be stressed that the reorientation of the program to accommodate the need to create new jobs cannot be undertaken without damaging the ongoing AID country program. Without a substantial source of supplementary funds, the Mission would sacrifice long-term sustainable income and employment generating activities for short-term job creation objectives.

In a larger sense, it makes little sense to withhold resources from ongoing projects in order to attain short-term employment goals, as the projects whose budgets would be reduced were designed in order to promote income generation in the first place. Virtually every project in the agriculture and rural development sector, for example, is geared toward raising farm income, either through improving farming techniques (PDAI, ADS II, Local Resource Development) or through improving commercial and credit systems (Strengthening Rural Credit, Strengthening Coffee Cooperatives II, etc.)

In the private sector development portfolio, the intermediate credit institution projects are all designed to create jobs and develop industrial and manufacturing enterprises, and the training activities are designed to develop Haitians' skills to manage small, medium and large enterprises. These are employment-creating projects. Health and education projects, through improving human capital, are clearly also employment-generating in the long run.

The principal effect of an exercise in which needed resources were taken away from these income-oriented projects would be to destroy many of the gains made toward longer-term progress. In a very real sense, there is <u>no</u> choice in Haiti between short-term employment/stabilization needs and the Mission's larger strategy. While it can be argued that unless the immediate crisis is resolved, it will not be possible to achieve the long-term goal of resolving the growing disequilibrium between the carrying capacity of the land and the population trying to survive on it, it is also true that if this latter problem is not resolved in the not too distant [illegible] short-term stabilization will be a hollow victory.

REPROGRAMMING WITH CURRENT RESOURCES

		CURRENT DA/ESF	REVISED DA/ESF	CHANGE +/-	CURRENT TITLE III	REVISED TITLE III	CHANGE +/-	TOTAL CHANGE	ADDL. DIRECT P/Y OF EMP. IN CY 86
...ATION AND SOIL CONSERVATION		---	---	0	1,585	2,585	1,000	1,000	1,200
...FEDERAL DEVELOPMENT SUPPORT II	521-0092	846	846	0	500	500	0	0	0
...ENING RURAL CREDIT SERVICES	521-0121	800	800	0	1,500	1,500	0	0	0
...ESTRY OUTREACH - PVO	521-0122	2,533	2,533	0	0	0	0	0	0
...ER ROADS DEVELOPMENT	521-0149	---	1,000	1,000	3,400	3,400	0	1,000	200
...ITY WATER SYSTEMS DEVELOPMENT	521-0155	1,000	500	(500)	150	150	0	(500)	0
...L RESOURCE DEVELOPMENT	521-0156	500	500	0	300	500	200	200	330
...SWINE REPOPULATION	521-0170	1,197	1,197	0	2,500	2,500	0	0	0
...ED WATERSHED MANAGEMENT I	521-0191	2,500	1,500	(1,000)	0	600	600	(400)	1,000
...HENING COFFEE COOPERATIVES II	521-0193	500	500	0	500	500	0	0	0
...PLANNING OUTREACH	521-0124	2,063	2,063	0	300	150	(150)	(150)	0
...FAM. PLANNING RESOURCE CENTER	521-0189	1,000	1,000	0	0	0	0	0	0
...E HEALTH DELIVERY SYSTEM	521-0091	1,756	1,456	(300)	2,000	700	(1,300)	(1,600)	0
...OP SOURCE CONTROL	521-01XX	0	300	300	0	0	0	300	250
...GEMENT OF MALARIA	521-0143	950	950	0	1,100	900	(200)	(200)	0
...ING MOTHERS FOR CHILD SURVIVAL	521-0194	2,400	2,400	0	0	0	0	0	0
...ATE ENTERPRISE MANAGEMENT CENTER	521-0183	800	800	0	0	0	0	0	0
...IVES TO IMPROVE PRIMARY RD.	521-0190	1,200	1,200	0	0	0	0	0	0
...DEVELOPMENT ACTIVITIES	521-0062	300	300	0	0	0	0	0	0
...EXPORT CENTER	521-0179	50	50	0	0	0	0	0	0
...ATE SECTOR INITIATIVE	521-01XX		500	500	0	0	0	500	0
...MENT AUTHORITY	521-01XX	1,450	950	(500)	0	0	0	(500)	0
...OPMENT FINANCE CORPORATION	521-0154	1,800	1,800	0	0	0	0	0	0
...MORTGAGE BANK	521-0163	---	---	0	0	0	0	0	0
...CONSULTANTS AND TRAINING	521-0167	600	0	(600)	0	0	0	(600)	12
...PORT IV	521-0185	600	0	(600)	0	0	0	(600)	50
...INFRASTRUCTURE REHABILITATION	521-0XXX	0	700	700	0	1,885	1,885	2,585	2,500
...MENT GENERATION	521-0XXX	0	1,000	1,000	0	0	0	1,000	800
(UNPROGRAMMED TITLE III)					4,165	2,130	(2,035)	(2,035)	0
TOTAL		24,845	24,845	0	18,000	18,000	0	0	6,342

REPROGRAMMING WITH EXPANDED ESF AND TITLE III RESOURCES

		CURRENT DA/ESF	REVISED DA/ESF	+/- CHANGE	CURRENT TITLE III	REVISED TITLE III	+/- CHANGE	TOT+/-	ADDL. DIRECT P/Y OF EMP. IN CY 88
...ION AND SOIL CONSERVATION		0	0	0	1,585	2,585	1,000	1,000	1,200
...TURAL DEVELOPMENT SUPPORT II	521-0092	846	1,000	154	500	700	200	354	10
...ING RURAL CREDIT SERVICES	521-0121	800	800	0	1,500	1,500	0	0	0
...STRY OUTREACH PVO	521-0122	2,533	4,000	1,467	0	0	0	1,467	20
...ARY ROADS DEVELOPMENT	521-0149	0	1,979	1,979	3,400	4,950	1,550	3,529	1,768
...ITY ACTION MAINTENANCE SUPPORT	521-01XX	0	0	0	0	750	750	750	450
...ITY WATER SYSTEMS DEVELOPMENT	521-0155	1,000	1,000	0	150	150	0	0	0
... RESOURCE DEVELOPMENT	521-0156	500	500	0	300	500	200	200	330
... SWINE REPOPULATION	521-0170	1,197	1,197	0	2,500	2,500	0	0	0
...TED WATERSHED MANAGEMENT I	521-0191	2,500	2,500	0	0	600	600	600	1,000
...THENING COFFEE COOPERATIVES II	521-0193	500	1,000	500	500	500	0	500	10
...ORE FARMING ORGS.	521-01XX	0	500	500	0	0	0	500	0
...ICAL SEED MULTIPLICATION	521-01XX	0	1,000	1,000	0	0	0	1,000	20
...Y PLANNING OUTREACH	521-0124	2,063	2,063	0	300	300	0	0	0
... FAM. PLANNING RESOURCE CENTER	521-0189	1,000	1,000	0	0	0	0	0	0
... HEALTH DELIVERY SYSTEM	521-0091	1,756	1,756	0	2,000	2,000	0	0	0
... SOURCE CONTROL	521-00XX	0	100	100	0	200	200	300	250
...MENT OF MALARIA	521-0143	950	1,250	300	1,100	1,400	300	600	80
...ING MOTHERS FOR CHILD SURVIVAL	521-0194	2,400	2,400	0	0	0	0	0	0
... ENTERPRISE MANAGEMENT CENTER	521-0183	800	800	0	0	0	0	0	0
... TO IMPROVE PRIMARY ED.	521-0190	1,200	1,200	0	0	0	0	0	0
... DEVELOPMENT ACTIVITIES	521-0062	300	300	0	0	200	200	200	0
...XPORT CENTER	521-0179	50	50	0	0	0	0	0	0
...TE SECTOR INITIATIVE	521-01XX	0	1,500	1,500	0	0	0	1,500	0
...ENT AUTHORITY	521-01XX	1,450	1,450	0	0	0	0	0	0
... FINANCE CORPORATION	521-0154	1,800	1,800	0	0	0	0	0	0
... MORTGAGE BANK	521-0163	0	0	0	0	0	0	0	0
... CONSULTANTS AND TRAINING	521-0167	600	600	0	0	0	0	0	0
... IV	521-0185	600	600	0	0	0	0	0	0
...STRUCTURE REHABILITATION	521-0XXX	0	10,000	10,000	0	5,000	5,000	15,000	14,000
...MENT GENERATION	521-0XXX	0	1,500	1,500	0	0	0	1,500	1,200
OPERATING EXPENSE TRUST FUND		0	1,000	1,000	0	0	0	1,000	0
...PROGRAMMED TITLE III FUNDS)					4,165	4,165	0	0	0
TOTAL		24,845	44,845	20,000	18,000	28,000	10,000	30,000	20,338

IV. DEMOCRATIZATION AND ADMINISTRATION OF JUSTICE

AID/W has asked that the Mission consider a US role in support of the democratization process and other initiatives that would enhance a respect for and protection of human rights. The Mission agrees that fostering the development of human rights and democratization are priorities of the highest order for the post-Duvalierist US foreign assistance program. Whether this objective can be achieved through a separately designed democratization project or similar activity, however, is doubtful. The Mission does not propose developing a new project in this area, for reasons outlined below.

Background. One of the principal characteristics of the Haitian governmental system since Independence in 1804 has been the excessive centralization of decision making. This fact has been responsible, above all others, for the exclusion of the poor masses (primarily rural) from the governmental process. Further, the central authorities have traditionally demonstrated insensitivity to the social and economic needs of the local population, resulting in the eventual stagnation of the national economy and a marginalized peasantry. The Haitian peasant has little or no expectation that the State will provide services, and no public interest performance is expected on the part of political leaders. The Haitian populace, by and large, does not believe that a government of laws can work. For a democratic system to take root in Haiti, these fundamental attitudes toward the role of the State must change.

How, then, can AID foster the appropriate change in attitude on the part of the Haitian people, so long neglected by the State? It is clear that no short-term, high-impact project can reverse the trend that has been so long in the making. What must change--and this can take place only over the long term--is the way in which the public sector and makes decisions and delivers resources. In economic assistance terms, this means that the way in which projects are designed and implemented must depend upon the principles of popular participation and by insisting upon government performance which reflects public interests. Only in this way will communities eventually be able to organize and to express their needs.

The following design and implementation characteristics will be stressed in all future projects in Haiti:

(1) emphasis on local organizational development, involvement of the local population and local action;

(2) emphasis upon decentralization and deconcentration of Ministry functions and personnel, designing a system of government that can be responsive of the needs of the rural poor at the local level; and

(3) emphasis upon fiscal accountability.

The policy dialogue elements of the Action Plan for [illegible] incorporate these principles to a large degree. Among the objectives for which AID resources are already being used as leverage are :

(1) increasing the commitment of GOH resources to rural sector investments;

(2) increasing the financial autonomy of water user associations to collect water user fees and apply these fees to the maintenance of irrigation systems;

(3) regionalizing the delivery systems for primary health care (PHC) and agricultural extension;

(4) promoting universal education through supporting the educational reform for public and private schools;

(5) promoting the principles of self-government by peasant groups, through supporting and encouraging local organizational development projects (e.g., Local Resource Development); and

(6) altering land use and access policies to promote public interests and ecologically sound economic growth.

Potential activities within current portfolio. Even in the absence of additional funds targetted upon democratization and related topics, the Mission can use its resources already in place in creative ways to promote the same objectives. For example:

(1) Under the proposed Incentives to Improve Basic Education project (521-0190), certain elements of training in civics, Haitian history, and democratic principles can be incorporated into materials for distribution to schools. Further, the project could be modified to undertake a radio education program based on developing citizenry skills among illiterate peasants. This could eventually be coordinated with provision of direct support to the Catholic Church's ongoing literacy campaign, pending a favorable outcome of the evaluation of the program soon to be conducted by World Education;

(2) The Technical Consultants and Training Project (521-0167) could be extended or modified to provide long or short-term assistance, to the Ministry of Justice, for example, by substituting for currently planned activities; and

(3) The Mission can continue its ongoing program of encouraging the public and private sectors to work together to promote a development program that allows for participation by all members of Haitian society.

(4) Funds for the LAC Training Initiatives Program could be used for a variety of purposes supportive of democratization and administration of justice. The Mission plans to request additional funds in FY 1986 under the program for disadvantaged students from secondary cities. Approximately 15 four-year scholarships will be awarded annually. USAID is working closely with USIS to respond to [illegible] will continue to cooperate with the [illegible] future.

<u>Possible projects.</u> Although the GOH has made no formal or informal requests for AID assistance in the areas of democratization, administration of justice, or human rights, several types of assistance projects have been suggested and discussed within the official American community, and the Mission remains open to future active participation in the Haitian democratization process. We are actively developing certain of these project ideas, and hope that some will eventually come to fruition. In descending order of interest to the Mission, the following are activities which might be appropriate for eventual AID funding:

(1) buying into the centrally-funded Administration of Justice project for Central America for the purpose of assisting the GOH to develop just and efficient judicial procedures. This could involve assistance in drafting the new Constitution, or courses at the Faculty of Law on the subjects of judicial procedure, civil and political rights, and due process;

(2) assistance to the GOH in preparing for, carrying out and analyzing the results of the elections, a date for which has not yet been announced; or

(3) seminars, possibly organized through USIS and implemented through a local institution, on the topics of human rights, freedom of the press, and similar subjects.

It should be stressed that these project ideas are only under development at this point. Each suggestion would require a close examination before approval. None could be accomplished [redacted]

V. PL 480 TITLE II

A. Status of Food Supply and Demand

During the recent civil disorders, the Title II program suffered substantial damage. Of the ten central and regional food warehouses, six were looted of food, supplies and equipment. Of these, five are presently unusable. Approximately 3,000 metric tons, just less than 10% of the total FY 86 Title II program tonnage, have been lost.

The amount of Title II commodities in undamaged warehouses, in the port or en route from the U.S. Gulf Ports, is the following (in metric tons):

Location	SFBulgur	SFCM/CM	NFDM	Vegoil
Undamaged warehouses	458.85	2.97	213.52	78.07
Port of Port-au-Prince	889.25	873.17	1,271.40	134.55
In U.S. Gulf Ports	2,899.00	0.00	1,753.00	420.00
TOTAL AVAILABLE	4,247.10	876.14	3,237.92	632.62

At the new Government's request, the decision was made to concentrate on the School Feeding Program. It is a sound decision considering the role the program has played in attracting students to school, encouraging them to remain and in providing what for many students is the only nutritious hot meal they receive daily. Since approximately 560,000 primary school students (approximately 65% of all primary school students in Haiti) participate in this program, and they have not had the benefits of this program since schools closed on January 8, 1986, the GOH, USAID and the PVOs agree that the resumption of this program should be the highest priority.

In order to re-establish the school feeding program, the PVOs have agreed to pool all food resources presently in the country and en route from the Gulf ports.

Using as a basis for calculation the normal school feeding ration and a total number of beneficiaries of 558,550 (552,500 school children and 6,050 pre school children), the Combined School Feeding Program can provide 51 school days of feeding (dividing the total available by the daily ration).

It is not expected, however, that normal attendance patterns will be attained for some time. Also, numerous schools that [illegible] before the disorders lost all or most of their equipment and supplies and their depots and school buildings were severely damaged. [illegible] they will be unable for some time to either [illegible]

Moreover, PVOs report that some school principals throughout the country are afraid to accept food into their depots for fear of again becoming a target for theft. As a result, the available food will last even longer than expected. This also indicates that it will be possible to allocate some of the available food to continue MCH and selected Food for Work programs as needed.

Consequently, USAID does not foresee the need to request any Title II commodities in addition to those approved by the Inter-Agency Working Group for FY 86 per the PVOs' Annual Estimates of Requirements. The possible need for additional food in 1987 is being evaluated by AID and the PVOs. The ability to distribute whatever additional food may be needed, however, depends on resolution of financial issues raised in paragraph C. below.

If it proves to be impossible to implement a sustained school feeding program due to continued or intermittent unrest, The USAID is developing alternative contingency food use plans, e.g. distributing food through the Haitian Association of Voluntary Agencies (HAVA), the PVOs that participate in the Section 416 Dairy Program Donation Program, the Catholic Church or the Haitian Council of Churches. Thus we feel confident all food available in country and in route can be used.

B. Status of Food Delivery and Storage

The Combined School Feeding Program will operate on the principle of combined food resources. When commodities arrive at port, the consignee will complete customs clearance procedures and handle marine claims, per normal operating procedures. The commodities will be taken to whatever warehouse has space, regardless of which PVO operates it. Each PVO will deliver commodities to the schools they normally cover, using their own vehicles and staff, and the schools will report back to them, as would normally be the case. Once the delivering PVO loads the commodities onto its vehicles at the warehouse of the PVO storing the commodities, the delivering PVO assumes responsibility for them through end use.

The GOH has assigned an officer with the rank of Lieutenant Colonel to act as liaison between USAID, the PVOs and the Haitian Armed Forces. Arrangements have been made to provide armed guards to all PVO food warehouses and armed escorts for both food delivery trucks and inspectors' vehicles. Warehouses will be guarded around the clock, and vehicles will be escorted at all times during their trips. The liaison officer has been extremely responsive to USAID and PVO requests for security assistance. We have every reason to believe that this initial cooperation will be continued, especially since we have made it clear to the GOH that the food program will not resume, or continue, if security cannot be assured. In addition, both U.S. and GOH authorities have made public appeals for popular support for the resumption of the feeding program.

CARE, CRS and CWS/SCH have already begun the repairs needed to render their Port-au-Prince warehouses minimally usable. The work is expected to take from one to two weeks. At the same time, they will carry out necessary repairs on vehicles and purchase sufficient furniture, supplies and equipment to restart operations from these warehouses. CARE does not plan to repair its Gonaives and Cap-Haitien warehouses/offices at all. For security reasons, they plan to locate other sites and construct new warehouses. This process will take at least several months. In the meantime, they will rent warehouse space as needed. 20,000 sq.ft. of warehouse space in Gonaives and 13,000 sq.ft. in Cap-Haitien have already been located. CARE is following up on securing the amount needed.

C. Complementary Input Requirements

1. PVO requirements

The GOH has given its approval to the PVOs to use remaining Title I local currency proceeds to carry out the minimal repairs needed to make warehouses and vehicles usable, to rent warehouses, offices and vehicles as needed and to minimally equip warehouses and offices. USAID is presently discussing with the GOH the possibility of revising PVO Title III budgets to allow for repair of feeding centers, warehouses and offices to bring these facilities as close to their former status as possible. Title III funds, however, will not cover the major warehouse construction needs of CARE, certain recurrent costs, program enrichment activities and vehicle requirements for which the PVOs had requested Outreach Grant funding from AID/W. In addition, Title III funds cannot cover the dollar costs of replacing tools, spare parts, and other materials which were damaged or stolen and which require off-shore procurement.

The PVOs had requested the following in Outreach Grants support.* We have been informed, however, that such funds may be cut by 50% or more.

	ADRA	CARE	CRS	CWS/SCH
Storage	$17,600	$1,010,500	$7,600	$30,000
Vehicles	82,200	132,200	69,400	120,000
Equipment: Office/Feeding Sites	69,000	30,000	51,500	17,000
Personnel	80,000	110,000	115,000	40,000
TOTAL	$248,800	$1,282,700	$243,500	[illegible]

*Calculated for remaining months of FY 86 only. $1.0[illegible] added CARE Storage for construction of CARE warehouses in [illegible] [illegible].

USAID and the PVOs have often conveyed to AID/W the critical importance of Outreach Grant support. It is even more important now that the GOH has requested our assistance in providing once again the food aid that contributed to development in the past and provided much needed nutritional support, thus mitigating the potential negative impact of occasional food shortages. Any reduction in the above dollar funding will bring about an even greater reduction in program coverage, due to recent losses of equipment and facilities. Any reduction in program coverage now may be seen by the GOH in most negative terms and exacerbate the effects of food shortages resulting from disruptions in normal food production and marketing. If Outreach Grant support is not available, other emergency dollar funding must be provided from other sources.

2. USAID Requirements

USAID is also seeking funds for the PL 480 Title II Program Advisor. This position was created in January 1983 in response to a RIG/ALA audit of Haiti's Title II program. The Audit recommended the immediate upgrading of USAID's Title II management capacity, which it had found to be deficient. The Program Advisor's performance has contributed greatly to USAID's improved program management, which has drawn praise from AID/W in recent years. USAID considers this position to be essential to Title II program management given the scope, size and complexity of Haiti's program, and cannot be combined with any other staff position. The Program Advisor has become even more essential since she devised and is assuring implementation of the Combined School Feeding Program. The Program Advisor is playing the central day-to-day coordinating role in this program, without which the program will not succeed.

The Program Advisor position was originally funded by USAID. AID/W subsequently agreed to fund it for one year under the Title II Program Support and Management project (No. 938-0700), through March 31, 1985. USAID has been informed that funding for the Program Advisor is no longer available under the above project. The Mission has requested funds for this position for FY 87. However, the Mission has not as yet been informed of its 1986 operating expense budget level. If our requests for FY 86 and 87 Operating Expense funds are not approved, it is doubtful that we will be able to find funding for this position. Therefore, to prevent the weakening of our Title II management capacity at this critical time, USAID requests once again that AID/W provide funding for this position, at least through December 31, 1986, as follows:

Salary:	$18,774.53
Per diem (in-country):	2,709.00
Health Insurance:	352.53
Total:	$21,836.06

This contract must be renegotiated in March 1986.

VI. OTHER DONORS

Table 1 summarizes development assistance levels for FY 86 by donor and sector of economic activity.

A. Major Bilateral Donors

France (FAC, CCCE) and Germany are not planning at this time to increase financial assistance to Haiti over and above 1986 planned levels (see Table 1), although they would consider emergency aid requests from the GOH. According to the latest available figures, the Germans are programming 43 million DMs (about 18 million U.S. dollars) for CYs 86 and 87 to fund projects in the infrastructure, energy, health and agriculture sectors; while France is expected to provide $16.7 million to fund projects primarily in the infrastructure and energy sectors.

As early as 6 months ago, the Germans had planned to increase the level of assistance for CYs 86 and 87 by about 50% over and above that of CYs 84-85 (28.4 million DMs or about $11.8 million). The reason assistance was reduced in 84-85 was to allow for substantial reduction of the pipeline. Aid was resumed upward to the 82-83 level following the successful outcome of this action.

Two German projects suffered setbacks during the turbulent February period. The offices of the Organization for the Development of the Gonaives Plain (ODPG) - one of the Government's regional development agencies active in the Gonaives area - were ransacked, and housing units constructed in the Port-au-Prince slums area of Cite Simone were taken over by ineligible families. Both the ODPG and the BID/UNDP assisted ODVA project (discussed below) will have difficulty re-starting, due to the physical damage sustained and to the apparently calculated destruction of land records.

The Canadians (CIDA) are instituting plans to respond to the crisis situation with the start of the 1986 fiscal year (April 1 - March 31). A food aid program is scheduled for implementation during the first part of April to assist the GOH in meeting the food needs of the poor. Though the particular commodity mix, implementation arrangements and target population have not been determined, the monetary value is expected to be about 3 million Canadian dollars, or U.S. $2.14 million. It is also envisaged that school furniture will be donated to the Ministry of Education to help replace furniture destroyed during the month of February.

At a Feb 19 meeting with donors called by the Minister of Finance, the representative of the Venezuelan Embassy revealed that his government may provide long term credits for petroleum purchases, a development which we have strongly endorsed.

[illegible] Major Multilateral Donors

The [illegible] and the World Bank have [illegible]

[illegible]

both organizations have indicated a willingness to assist the GOH in efforts with longer term economic stabilization. (The IMF representative has been active in soliciting short-term emergency support from other donors). Provided that the GOH is current on all financial obligations, the IMF would be prepared to consider negotiating an 18-month $24 million SDR agreement in June 1986 with the GOH, thereby providing balance of payments support over the medium term. For FY 86, however, only about $4.0 - $8.0 million of this amount would be released.

The World Bank is willing to take the lead in coordinating efforts of other donors within the CGCED mechanism to mobilize external resources for Haiti. The World Bank also indicated that it is planning to present soon for Board consideration a $26.2 million transportation maintenance and reconstruction credit project to provide increased employment, but cautioned that implementation could be delayed due to possible failure by the GOH to provide the required counterpart funding. (Additional Title III funds could be used to help the GOH meet this requirement.) While other activities are planned primarily in the agricultural and industrial sectors, they are not likely to come on stream until sometime next year.

Neither the IDB nor the EEC (locally managed by the French) is contemplating any special balance of payments or other support, but would continue implementing their project portfolios. IDB is in a position to make a major development finance contribution to Haiti this year due to the special authorization for FSO use. It could program as much as $150 million in new commitments over the next 18 months but it is our view that neither the BID nor the GOH could achieve timely development of these projects without considerable outside help. Given the IDB's experience with sector and program loans it is not likely it would agree to depart from the project mode of assistance in order to expedite funding.

The Offices of the IDB supported Artibonite Valley regional development authority, active in Haiti's "rice bowl" were completely destroyed, as were their files including land records. Equipment was also stolen. Irrigation and other structures were not apparently damaged, though the IDB does not yet have a complete field report. The IDB Resrep indicated that some project funds would likely be reprogrammed for reconstruction purposes within the Artibonite Regional Project and has also offered to make funds available for both school and health center rehabilitation and refurnishing.

TABLE 1

FY 1986 MAJOR DONOR ASSISTANCE ALLOCATED TO DEVELOPMENT SECTORS ($000) 1/

SECTOR	WORLD BANK	IDB	UN SYSTEM 2/	EEC	FRANCE	GERMANY 3/	CIDA	USA	TOTAL
Agriculture	5,100	10,068	1,481	2,783	433	5,167	480	23,824	49,336
Health/Pop	-	1,000	1,050	-	-	250	-	16,888	19,188
Education	4,900	-	1,305	-	-	-	2,841	6,129	15,175
Energy	15,800	-	-	-	5,250	5,833	1,531	190	28,604
Industry	600	5,000	138	-	-	-	-	4,917	10,655
Infrastructure	3,600	-	360	-	11,000	2,500	-	-	17,460
Urban Devt.	-	-	-	-	-	4,167	-	-	4,167
TOTAL	30,000	16,068	4,334	2,783	16,683	17,917	4,852	51,948	144,585

1/ Tentative planning figures obtained from the Ministry of Plan, GOH.
2/ UNDP, FAO, UNFPA, UNICEF
3/ CYs 86 and 87