PD-ABB-661
ISN 69129

ACTION MEMORANDUM FOR THE MISSION DIRECTOR, USAID/HAITI

DATE: July 6, 1990

FROM: Rosalie Fanale, D/C PPS

SUBJECT: Haiti -- Economic Stabilization Assistance (521-0235)

I. PROBLEM: Your action is required to authorize the Economic Stabilization Assistance (521-0235) PAAD at a grant level of $5,000,000 in Development Assistance (Various Account) funds. The program will include an additional $5,000,000, subject to the availability of funds, for a total program level of $10,000,000.

II. DISCUSSION

A. Description: The purpose of this FY 90 $10.0 million cash transfer is to support Haiti's transition to a functioning democracy and the GOH's economic stabilization efforts. This program of support to the transitional government is essential to promote a viable transition to a democratically elected government. It will also provide needed support for Haiti to maintain satisfactory performance in compliance with the IMF Stand-by. Funds will be disbursed in two tranches of $5.0 million each. Conditionality for each tranche will include action by the GOH to ensure prompt, fair and secure elections and a successful transition to an elected government. The GOH will covenant to promote financial stabilization, including appropriate actions in support of modification of and compliance with the IMF Stand-by; to continue to support exchange regime liberalization reforms adopted earlier this year; to continue to support trade liberalization reforms adopted in 1986 and 1987 and further liberalization of selected commodities; and to continue support for free market pricing and the avoidance of price controls.

The dollars will be used for the purchase of petroleum imports. The Government of Haiti will deposit an equivalent amount of Haitian gourdes in a special account for joint programming with USAID/Haiti, with uses to include a USAID/Haiti OE Trust Fund, budget support and local currency project activities. Cash disbursements will be in two tranches of $5,000,000 each. Both disbursements will be made in FY 90. Local currency generations will be used for: (a) USAID/Haiti OE Trust Fund ($1.0 million equivalent), and (b) budget support and project activities to be jointly programmed with the GOH ($9.0 million equivalent). It is planned that the latter will be held for programming with the newly elected government; however, depending on needs, a portion of these funds may be used to finance elections operating costs.

B. Findings: The DAEC Review of the PAAD was held on June 20, 1990. As indicated in the attached reporting cable (State 210169), the PAAD was approved with the Mission given programmatic approval to exercise its authority to authorize the program. In response to concerns expressed at the meeting, the bilateral agreement will provide that, if necessary, local currency generations will be used to support elections operating costs. In addition, with reference to satisfaction of conditions precedent to disbursement of the second tranche of $5.0 million, the Mission will give LAC notice prior to disbursement and LAC will then offer any comments it may in response.

The Congressional Notification for this activity was forwarded on June 21 and cleared on July 6.

C. Authority: Existing LAC Delegations of Authority to the field (88 State 417937, Section II of Delegation) give you the authority to authorize projects of this size and duration.

III. RECOMMENDATION: That you sign the attached Program Assistance Approval Document, thereby authorizing the Economic Stabilization Assistance Program (521-0235) for FY 90, at a level of $5,000,000.

Attachments
Programmatic Approval Cable
PAAD

Drafted: PPS: RFanale RF Date: 7-12-90
Clearances:PPS: AFord AF Date: 7-12-90
GCaprio __Date:__
CONT: INesterczuk IN Date: 7/13/90
D/DIR: FHerder Date: 7-13-90

PD-ABB-661

CLASSIFICATION

AID 1120-1

PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO: See Block 15 Project Number 521-0235 2. COUNTRY: Haiti 3. CATEGORY: Cash Transfer 4. DATE: July 5, 1990
5. TO: Gerald Zarr, Director, USAID/Haiti		6. OYB CHANGE NO.
7. FROM: Rosalie Fanale, PPS		8. OYB INCREASE TO BE TAKEN FROM: Development Assistance Funds (Various Accounts
9. APPROVAL REQUESTED FOR COMMITMENT OF $ 5,000,000		10. APPROPRIATION –
11. TYPE FUNDING: ☐ LOAN ☒ GRANT	12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE	13. ESTIMATED DELIVERY PERIOD: FY 90 / 14. TRANSACTION ELIGIBILITY DATE

15. COMMODITIES FINANCED

1) PAAD 521-K-603 LDEA-90-35521-IG31 $1,004,000.00 RCN P000237
2) PAAD 521-K-605 LDHA-90-35521-JG31 $1,000,000.00 RCN P000238
3) PAAD 521-K-601 LDNA-90-35521-IG31 $2,713,000.00 RCN P000239
4) PAAD 521-K-602 LDNA-90-35521-JG31 $ 183,000.00 RCN P000240
5) PAAD 521-K-604 LDHA-90-35521-IG31 $ 100,000.00 RCN P000241

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries: $5,000,000
Free World:	Local:
Cash: $5,000,000	Other:

18. SUMMARY DESCRIPTION

The purpose of this cash transfer (Economic Stabilization Assistance) is to support Haiti's transition to a functioning democracy and the Government of Haiti's economic stabilization efforts. The dollar funds will be used for the purchase of petroleum imports. The Government of Haiti will deposit an equivalent amount of Haitian gourdes in a special account for joint programming with USAID/Haiti, with uses to include a USAID/Haiti OE Trust Fund, budget support and local currency project activities. Cash disbursements will be in two tranches of $5,000,000 each, subject to availability of funds. Conditions precedent to disbursement will require evidence of measures by the Government of Haiti to ensure prompt, fair and secure elections and a successful transition to an elected civilian government. Covenants include GOH measures to promote financial stabilization, including appropriate actions in support of the IMF Stand-by; and to continue support for exchange regime liberalization, trade liberalization and free market pricing. Both disbursements will be made in FY 90.

19. CLEARANCES		DATE
PPS: AFord	AF	7-12-90
PPS: RFanale	RF	7-12-90
PPS: GCaprio	GC	July 12, 1990
LA CONT: INestercz uk		7/12/90
D/DIR: FHerder		7-13-90

20. ACTION

☒ APPROVED ☐ DISAPPROVED

Gerald Zarr — July 13, 1990

AUTHORIZED SIGNATURE — DATE

Gerald Zarr
Mission Director, USAID/Haiti

TITLE

CLASSIFICATION:

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I. SUMMARY AND RECOMMENDATIONS

A. Background

Haiti has endured political instability, civil strife and economic deterioration since the fall o the Duvalier dictatorship in February 1986. Four successive governments failed to make the hoped-for transition to a legitimately elected government. However, with the coming to power of a civilian provisional government headed by President Ertha Pascal Trouillot in March 1990, the prospects for fair elections and a successful transition to a democratic government have improved. The new government has committed itself to preparing for elections in the fall of 1990 and turning over power soon thereafter.

However, civil and political instability continues to threaten the fragile transition to a democracy. Popular frustration with continued economic deterioration contributes to the risk of disruptions. While comprehensive economic reforms initiated in 1986 and 1987 produced tangible improvements in the economy, subsequent cuts in foreign aid, political instability and economic mismanagement have produced inflation, exchange rate instability, rising unemployment and declining per capita income.

In an attempt to deal with the deteriorating economy, the GOH adopted a stabilization program supported by an IMF Stand-by in September 1989. While performance was satisfactory up through December 1989, disappointing revenue performance since has precluded full compliance with the program. The new government has proposed to adopt measures to increase revenues and lower expenditures, but effective implementation remains stalled and blocks a proposed modification of the Stand-by. U.S. economic assistance for critical imports is essential to getting the stabilization program back on track and avoiding further economic and political chaos. It should also pave the way for a timely resumption of a comprehensive structural adjustment program supported by the IMF and World Bank that could help a newly elected government restore growth to the economy and deepen popular support for the new democracy.

B. The Proposed Program

The Mission proposes to support Haiti's transition to a functioning democracy and the GOH's econonomic stabilization efforts with a $10 million Development Assistance (DA) grant. This assistance to the transitional government is essential to promote a viable transition to a democratically elected government. Conditionality would include GOH actions to ensure prompt, fair and secure elections and a successful transition to an elected civilian government; GOH measures to promote financial stabilization, including appropriate actions in support of modification of and compliance with the IMF Stand- by; continued GOH support of exchange regime liberalization reforms adopted earlier this year; continued support for trade liberalization reforms adopted in 1986 and 1987 and further liberalization of selected commodities; and GOH continued support of free market pricing and the avoidance of price controls.

The proposed uses of local currency funds include the following: 1) the equivalent of $9 million for joint programming with the newly elected government for budget support, labor intensive development projects, counterpart for Mission projects, and/or private sector credit institutions; and 2) the equivalent of $1 million for a trust fund to be used for USAID operating expenses.

C. Grantee

The Grantee would be the Government of Haiti (GOH) represented by the Ministry of Finance.

D. Recommendation

The U.S. Mission recommends authorization of a FY 1990 Development Assistance grant of $10 million. Two tranches of $5 million are recommended, with the first to be disbursed in July 1990 and the second to be disbursed in late August or early September 1990. This schedule will provide financing for critical petroleum imports and needed support for satisfactory performance with the Stand-by. Local currency programming will be reserved for the newly elected government. This support to the transition government is the minimum required to stabilize the economy and thereby promote a viable transition to a democratic civilian government. It will also provide significant tangible reward to the elected government's acceptance and continued implementation of needed economic reforms.

II. BACKGROUND

A. Political Background and US Interests

In February 1986, the Duvalier regime collapsed, ending almost 30 years of autocratic government under the Duvalier family. What remained was an impoverished population with the lowest per capita GDP in the Western Hemisphere, a bankrupt government, a faltering economy and no institutional base capable of promoting democracy. Between February 1986 and March 1990, four successive governments failed to eliminate the repressive symbols and practices of the Duvalier regime.

The Conseil National de Gouvernement (CNG), the first transitional government, remained in power from February 1986 through February 1988. The CNG oversaw the election of a constituent assembly to prepare the constitution which was overwelmingly approved in a March 1987 referendum. The CNG consistently carried out a broad range of economic policy reforms supported by the major donors. The period after June 1987, however, was marked by conflicts between the CNG and the Electoral Council (CEP). In November 1987, election violence disrupted the anticipated transition to a democratic government, which precipitated a cut off of foreign aid and a rapidly deteriorating economic situation. In February 1988, a civilian government was installed by the military. A coup within four months brought to power another military government that itself only lasted until September 1988.

The interruption of the democratic process and the deteriorating economic situation continued to characterize the military government of General Avril from September 1988 through March 1990. Moreover, in the last six months of his presidency, human rights abuses increased significantly and the government cancelled plans for elections. The Avril government collapsed in March 1990 as a result of widespread protests and civil disruptions.

Ertha Pascal-Trouillot, a legal scholar on Haiti's Supreme Court, accepted the responsibilities as interim President in March. President Trouillot is assisted by a 19-member Council of State, an advisory body composed of civic and regional representatives. The new transitional government is outspokenly committed to preparing for elections and cultivating democracy. It has supported an unfettered public debate in an open press and permitted the formation of public associations in many spheres of society. In addition, the army under the command of Lt. Gen. Herard Abraham, has committed itself to playing a supportive role in Haiti's transition to democracy.

Despite chronic social unrest, the democratization process has already started and should culminate in the free election of a successor regime in November 1990 and the inauguration of the new government soon thereafter. A new Electoral Council (CEP) has already been formed with representatives from various institutions of Haitian society (Supreme Court, government, churches, university, cooperatives, press, and unions). The representatives are reputable and committed, two having served in the first CEP in 1987. CEP members have met with various delegations of the UN and the OAS and have incorporated their recommendations on how to ensure fair elections. As a result, an elaborate electoral calendar has been prepared by the CEP and should be published shortly. The CEP and transitional government are generally given credit for their progress toward elections by the political parties, much of the population, and the international donor community.

Civil and political instability, nevertheless, remains an important issue for Haiti. Many anti-democratic elements allied in the past with the Duvalier dictatorship are still seen as a threat to the ongoing democratic progress. Political violence is increasing, putting this fragile transition to a democracy at risk.

The United States has a vital interest in the success of this overall democratization process, not only in seeing elections take place on schedule and the new government inaugurated, but also in seeing a democratic system of government institutionalized in a supportive economic environment. Strong social, economic and human links between our two countries, Haiti's proximity to our Southern shores and its centrality in the Caribbean region all argue for steady and strong support for Haiti - both to the transitional Trouillot government and its successor. Without support from the U.S. and other donors, the prospects are bleak. Large increases in illegal drug activities, illegal migration and a breakdown of the internal economic structure with consequent human catastrophe are only three of the probable outcomes contrary to U.S. national interests.

Immediate economic stabilization is crucial for political stability and the prospects for democracy. Restoration of the IMF Stand-by and adherance to the program's conservative fiscal and monetary policies are important in order to avoid increased inflation and a greater deterioration of the already difficult economic situation. Further economic decline would undoubtedly jeopardize the democratic transition. Although the transitional government of Mrs. Trouillot has affirmed its commitment to the policies specified under the IMF program, revenue shortfalls and implementation delays of needed reforms make additional assistance to the GOH essential at this time to restore the program. Financing for critical petroleum imports is also essential to avoid civil disruptions that could derail the democratic transition.

B. Economic Background

With a per capita income of only $360 a year (1989), Haiti is one of the world's least developed countries and is the poorest country in the Western Hemisphere. The vast majority of the 6.4 million Haitians live below an absolute poverty level of $150 per year. In the latter half of the 1970's, economic growth averaged 4.5 percent per year, and per capita income grew at 2 percent per year. In the early 1980s, however, the Haitian economy moved into a recession and output dropped by 5 percent. Real GDP stagnated up through FY 1987 (ending September 30)(Table 1). Political and civil unrest and cuts in foreign assistance beginning in late 1987 have produced absolute declines of real GDP o 1.5 percent in FY 1988 and 0.5 percent in FY 1989. Per capita income has consequently declined 20 percent since FY 1980, including 3.2 percent and 2.3 percent losses in FY 1988 and FY 1989, respectively.

Assuming that GOH would not successfully implement the stabilization program, it has been projected that real GDP would decline about 2 percent in FY 1990. Per capita real income would fall almost 4 percent. Alternately, if the stabilization program were successfully implemented, real GDP was projected to increase one percent in FY 1990. The decline in per capita real income would be limited to about one percent.

Gross domestic investment has declined from over 18 percent of GDP in the early 1980's to 12 percent in FY 1988. It is projected to remain around 10-11 percent of GDP in FY 1989 and FY 1990. Private sector investment declined from around 10 percent in FY 1980 to less than 6 percent in FY 1988. While reliable quantitative estimates are not yet available for FY 1989, it is apparent that residential construction was robust. Manufacturing sector investment is very depressed, with virtually no direct foreign investment taking place. A return to political and civil stability and implementation of the stabilization program should be expected to improve the investment climate, but only very slowly.

Inflation declined from its peak of 17 percent in FY 1980 and averaged around 8 percent up through FY 1986. Economic reforms developed in FY 1986 and FY 1987, including trade liberalization, tax cuts, price reductions for major consumer goods produced or controlled by the government and improved fiscal and monetary management combined with the influx of contraband produced a 5.1 percent decline in the consumer price index in FY 1987. However, excessive public sector credit was largely responsible for the increase in the parallel market exchange rate from around 5 percent in FY 1987 to over 20 percent in FY 1988 and the 8 percent inflation in FY 1988. Inflation increased further to an estimated 12 percent in FY 1989 as a result of mounting public sector credit expansion. Inflation was projected to increase in FY 1990 to around 17 percent if the stabilization program was not implemented. In contrast, if the program were implemented, inflation was projected to decline to around 7% by the end of 1990.

The structure of output has not changed much in recent years. The primary sector accounts for a little more than one third of total output. The primary sector involves agricultural activities as well as a few gold and marble operations. Bauxite mining operations were discontinued in 1982. In 1988, agriculture accounted for 67 percent of Haiti's employment and generated about 25 percent of merchandise export earnings. Agricultural production has stagnated and exports have declined over the long term.

The secondary sector includes manufacturing firms producing for exports and firms producing for the local market. The export oriented manufacturers have performed better in recent years than the firms producing for the domestic market. Within the export oriented manufacturing sector, production of apparel and textiles have increased, while footwear, electrical machinery and toys have declined in recent years. Construction represents the remainder of the secondary sector and has been doing well over the last several years. Cement plant sales as well as contraband cement sales have consequently been buoyant.

The service sector, which accounts for approximately 40 percent of GDP, performed well in FY 1986 and FY 1987. However, it has since declined, especially with the collapse of the tourist sector.

C. Economic Reforms in 1986 and 1987

In early 1986 the country faced social disturbances, originating in part from the deteriorating economic situation, that culminated in the fall of the Duvalier regime. Between March 1986 and November 1987, the government introduced a comprehensive reform program that focused on macroeconomic stabilization and the improvement of resource allocation. The program included reform of taxes, public expenditures, public enterprises, industrial incentives, and prices. Overall expenditures and taxes were cut by about 2% of GDP, while education and health spending were increased by over 20 percent. Taxes on basic food items were reduced, helping to lower prices and raise private consumption among the impoverished population. Income taxes were simplified, top marginal rates lowered and measures to strenghthen tax collection initiated. The public investment program was pruned and concentrated on completing priority ongoing projects while the domestic banking system's credit to the public sector was reduced. Trade monopolies, both public and private, were dismantled. Two uneconomic state-owned enterprises (sugar mill and vegetable oil mill) were closed, and another two (flour mill and cement factory) began to be restructured.

The trade regime was also liberalized. All but seven of the 111 quantitative restrictions on imports were eliminated. Specific tariffs were replaced by ad valorem tarifts. The general level of protection was reduced drastically to a range of zero to 50 percent (average of 20 percent), with a view to both lowering domestic prices and stimulating competitive efficiency. All export taxes (including coffee, cocoa and sisal) were eliminated.

Haiti's economic policies during 1986 and 1987 drew significant international support. The medium-term program of structural reform was supported by a three-year IMF Structural Adjustment Facility (SAF) that was approved in December 1986, an Economic Recovery Credit from the World Bank, and AID ESF programs in 1986 and 1987. Capital grants and net loan disbursements from official sources, including use of IMF Credits, increased by 27 percent in FY 1986 and FY 1987 over the annual average amount disbursed in FY 1980-85.

The economic reforms and the external support helped to stabilize and restructure the economy during FY 1986-87: the public sector deficit declined to an equivalent of 6 percent of GDP, compared to 9 percent in FY 1980-85; the external current account deficit fell to 5 percent of GDP, compared to 8 percent of GDP in FY 1980-85; the rate of inflation was brought down to 2 percent per year, compared to 8 percent per year on average in FY 1980-85. In addition, the overall investment-savings gap in FY 1986-87 was narrowed to a more sustainable 5 percent of GDP, compared to 8 percent of GDP in FY 1980-85.

D. Economic Deterioration in 1988 and 1989

The Reform Program was disrupted by the outbreak of civil strife in late June 1987 and the failed elections in November 1987. Net foreign assistance disbursements were cut from $168 million in FY 1987 to an estimated $142 million in FY 1988 and $124 million in FY 1989 (Table 2).

In order to compensate for the reduction of external assistance to the public sector, the government in early 1988 took steps to improve its savings performance by cutting expenditures and adopting a package of emergency tax measures. However, these measures could not fully offset the reduction in foreign aid. As a result there was a significant increase in the domestic borrowing requirements of the public sector, which tripled from 0.8% of GDP to 2.4% of GDP from FY 1987 to FY 1989 (Table 4). Most of this increase took place in FY 1989 when Treasury spending expanded rapidly and mismanagement of the public enterprises led to a sharp deterioration in their financial position.
Overall economic performance worsened considerably during this period. Real GDP declined by 1.5 percent in FY 1988 and 0.5 percent during FY 1989. Domestic inflation, which had been eliminated in FY 1987, reemerged in FY 1988 and increased to 12 percent in FY 1989. Largely as a result of excessive public sector credit and counter-productive attempts by the GOH to directly control the foreign exchange market, dollar deposits in the banking system declined and the parallel market discount on the gourde shot-up to 50 percent in late FY 1989.

While the decline of net foreign assistance disbursements accounts for much of the decline of GDP, other contributory factors were also evident. The export assembly sector, which had been the most dynamic sector in the economy since the 1970s and demonstrated amazing resiliency in the face of civil and political unrest during the early post- Duvalier period, increased in nominal terms by only 4.8 percent in FY 1988 and declined by 10 percent in FY 1989 (Table 2).

The loss of foreign assistance and the decline of exports were also partially responsible for a significant deterioration in the balance of payments and foreign exchange situation. BOP surpluses around $30 million in FYs 1986 and 1987 deteriorated to a $17 million surplus in FY 1988 and a $12 million deficit in FY 1989 (Table 2). As a result, liquid foreign exchange holdings fell in early 1989 to the precariously low level of $8 million, representing the equivalent of just over one week of imports. Arrears on foreign debt increased from $12 million at the end of FY 1987 to $28 million in June 1989, including $12 million to the IMF.

III. CURRENT ECONOMIC SITUATION

A. IMF Stand-By Program

In response to the deteriorating economic situation, an IMF mission to Haiti in August 1989 proposed a Stand-by program which would reduce inflationary pressures, arrest the deterioration of the balance of payments, and restore private sector confidence and investment. The GOH and IMF concluded negotiations in early September 1989 for the 15-month Stand-by of SDR 21 million (approximately $26 million at SDR=$1.25). Commercial bank bridge financing was used to clear SDR 9.4 million arrears to the Fund over this period. The first tranche of SDR 11 million was released soon after Board approval of the Stand-by in September and provided for repayment of the bridge financing. Five subsequent tranches of SDR 2 million each were to be disbursed if quarterly performance targets were met and would roughly cover repayment obligations coming due to the Fund. As of June 1990, two tranches of SDR 2 million have been disbursed based upon satisfactory performance with the September and December 1989 targets.

1. Public Sector Operations

As part of the package of Stand-by supported reforms, the government initiated in September 1989 a number of revenue measures that were projected by the GOH and IMF to raise FY 1990 Treasury revenue to 1400 million gourdes (equivalent to $280 million at the official fixed exchange rate of 5 gourdes to the dollar or $187 million at the market exchange rate of 7.5 gourdes to the dollar)(Table 3). To increase the rate of taxation of imports, which had been eroded by the increasing parallel market discount on gourde, the value of imports for customs duty purposes was adjusted upward 30 percent. The rate was to be periodically adjusted to reflect changes in the parallel market rate. To deal with the problems arising from the widespread use of specific taxes, charges, and fees, and to generate additional revenue, the coverage of the value added tax (TCA) was broadened, and the minimum level of annual sales subject to the tax was lowered from $50,000 to $20,000. Additional measures taken included removal of tax deductions for investments in the newly created mortgage finance institutions and the elimination of some minor nuisance taxes.

The stabilization program limited the FY 1990 Treasury expenditure increase to 4 percent compared to the previous year. While the nominal level of expenditure is considerably above FY 1986-1988 levels, relative to GDP, expenditure has fallen each year since FY 1985 and is projected to only be 10.9 percent of GDP in FY 1990 (Table 3). To attain the required expenditure restraint, the GOH agreed to freeze overall government salary and employment levels, to cut the salaries of top officials by up to 30 percent, to reverse the proliferation of government bank accounts and to eliminate the overdrafting of government accounts. If the Stand-by's revenue and expenditure targets were met, the Treasury deficit for FY 1990 would be 15 million gourdes, or 0.1 percent of GDP.

The GOH also committed itself to actions to regain control of the public enterprises. Operating plans for FY 1990 were developed in cooperation with the Ministry of Finance. Monitoring and control by the Ministry of Finance were to be implemented by a new staff committee reporting directly to the Minister and with access to monthly reports on public enterprise operations. All public enterprise borrowing would require the prior approval of the Ministry of Finance and the Central Bank. Excess bank account balances of the enterprises were to be used to reduce outstanding Central Bank credit and/or be transferred to the Treasury. Public enterprise investment was to be cut, and hiring and salary freezes were imposed on all public enterprises. The program also committed the government to price increases, including 10 percent for flour, 100 percent for wheat shorts, and 8 percent for electricity.

Implementation of these Stand-by supported reforms in FY 1990 was projected by the GOH and IMF to allow the public enterprises to transfer 85 million gourdes to the Treasury while limiting net domestic financing to 50 million gourdes (Table 3). Implementation was also projected to limit domestic financing of the public sector (Treasury, public enterprises and donor financed development activities) to 75 million gourdes, or 0.6 percent of GDP (Table 4).

2) Credit and Monetary Policy

The significant reduction in the public sector's domestic financing requirement as envisioned by the Stand-by was expected to help reduce inflation pressures and slow the growth of broad money to about 8.5 percent. Combined with a deceleration in the growth of credit to the private sector, this would provide for an increase in Haiti's net official reserves of $14 million during the program period (Table 5). To achieve the target for the build-up of net official international reserves, the growth of the net domestic assets of the monetary authorities was limited to 87 million gourdes in FY 1990, compared with an expansion of about 215 million gourdes in FY 1989.

The very rapid increase in credit to the private sector in FY 1989 exceeded the requirements of normal business activity and may have served to put additional pressure on prices and the exchange rate. To avoid any further expansion of credit based on a draw down of excess reserves held by the banks at the Central Bank, the authorities increased the statutory reserve requirement on demand deposits from 49 to 52 percent in August 1989.

3) Balance of Payments

IMF prepared balance of payments projections for FY 1990, based on the assumption of full implementation of the stabilization program, provided for some improvement in the overall BOP situation (Table 2). Manufactured exports, estimated at $124 million in FY 1989, were projected to grow 7 percent in nomimal terms in FY 1990. Most of this growth is in the apparel sector. Coffee export prospects are dim. Coffee rust and lower international prices as a result of the collapse of the International Coffee Agreement are expected to further depress the value of coffee exports to $24 million in FY 1990, well below half of their level during the FYs 1983-1986 period. The trade balance deficit was projected to increase marginally as import growth kept pace with the projected 1 percent GDP growth in FY 1990. There was anticipated to be little or no growth of tourism and private transfers. On capital account, official grants were projected to increase from $101 million in FY 1989 to $113 million in FY 1990 as donors increased their programs in response to the Stand-by and progress with elections. Official capital, most notably World Bank projects which have recently been approved, was projected to increase from $17 million in FY 1989 to $36 million in FY 1990. The net effect of these projections on the overall BOP balance is that the FY 1989 deficit is turned into a $14 million surplus in FY 1990.

In sharp contrast, if the stabilization program is not fully implemented, USAID projected that the BOP situation would deteriorate significantly in FY 1990. The major impacts of a failed reform program would be on exports, imports, and official capital flows. Increasing inflation and foreign exchange controls, which effectively tax exports, would reduce exports by at least 10 percent as exporters move to competing locations in the Caribbean and Central America, shift out of exports and into domestic production, and/or cease production. Imports would also be depressed as real GDP fell and foreign exchange shortages increased the real cost of imports. Capital inflows would remain depressed. As a result the overall BOP deficit would increase to an estimated $21 million and would be financed primarily by increased arrears. Gross foreign exchange holdings of the monetary authorities would also decline to operationally unacceptable levels compared to the normal needs for debt service and imports. Central Bank foreign exchange obligations for FY 1990 are approximately $100 million. The largest obligations are for the import of petroleum products (approximately $45 million), and the servicing of the debt ($35 million). The Central Bank would be forced to deal with exchange shortages by shifting petroleum imports to the parallel market and by accumulating arrears.

B. Program Implementation

Implementation of the Stand-by has suffered mainly from weak Treasury revenue performance, resulting largely from rising contraband imports that have lowered customs revenue and domestic taxes relative to the amount projected under the program. The plan to improve tax enforcement that had been envisaged under the program has not been put into effect; in fact, there is evidence that there has been further slippage in this area. Additionally, as a result of civil disturbances, revenue collections fell sharply in March. This seriously aggravated the deterioration of public finances during the first six months of the fiscal year. Cumulative treasury receipts in March were 613 million gourdes, or 135 million gourdes below the Stand-by indicative target of 748 million gourdes (Table 6). Cumulative treasury receipts for April and May of 721 million gourdes and 814 million gourdes, respectively, were well below the indicative June target of 1071 million gourdes (Table 6).

Treasury expenditures have been scaled down to 712 million gourdes (or 42 million gourdes below the Stand-by target of 754 million gourdes) during the first half of FY 1990 (Table 6). Cumulative expenditures for April and May suggest that the June third quarter expenditure target will be met.

As a result of the deteriorating revenues, the 39 million gourdes margin under the ceiling on net credit to the public sector that existed at the beginning of the fiscal year had been used up by March (Table 6). Nevertheless, with the exception of external payment arrears and short-term debt, all other performance targets were met in March. External arrears exceeded the target of $ 8 million by $900,000. Short-term debt also increased by $ 2.5 million over the program limit as a result of commercial wheat imports.

The GOH has implemented a number of measures to reinforce the program including a significant strengthening of monetary policies in December 1989, when the reserve requirement was raised from a weighted average of around 40 percent of deposits to 45 percent, and the penalties for noncompliance were increased sharply. These policy changes have helped to stabilize the exchange rate on the gourde in the free market, and the decline in real financial savings has been reversed.

Important reforms were also initiated in January 1990 to increase the share of exchange transactions that pass through the free market. Since January, commercial banks have been permitted to operate freely in this market along with exchange houses. At the same time, the surrender requirement for export earnings (at the rate of 5 gourdes to the dollar) was reduced from 100 to 40 percent. This represents a first step toward creating more competitiveness in the assembly sector which has lost its dynamism. In February, most remaining official exchange transactions were transferred to the free market, leaving payments for public debt service and petroleum products at the historical rate of 5 gourdes to the dollar.

IV. PROPOSED ASSISTANCE PROGRAM

A. Renewed Stabilization Program with U.S. Assistance

The provisional government, which assumed office in March, has affirmed its commitment to the policy program of the Stand-by. In the face of mounting economic difficulties, it has informally expressed its intent to implement a revised set of economic policies to restore the Stand-by. These policies are essential to ensure financial stability in Haiti during the difficult period of political transition and to allow a newly elected government to focus its efforts on the structural reforms needed for economic growth. A successfully restored and implemented stabilization program would also help to set the stage for a return of IFIs' support of a multi-year structural adjustment program (e.g., IMF Enhanced Structural Adjustment Facility and World Bank Structural Adjustment Loan).

The most critical elements of the proposed revised stabilization program include efforts to increase public sector revenue, to reduce public expenditures, and to limit public sector use of credit. Complementary measures to further reform the trade and exchange regimes are under consideration.

A renewed effort is proposed to strengthen domestic revenue performance over the remainder of the fiscal year (ending September 30). This includes increased emphasis on collecting tax arrears and an extension of the value-added tax to a number of previously exempted products. To support these measures and to strengthen tax enforcement further, the GOH has allocated funds for equipment to establish an automated taxpayer filing system that would facilitate better control and cross-verification of tax returns. These efforts are projected to generate an additional 27 million gourdes over the remainder of the fiscal year.

Proposed customs reform measures are projected to generate an additional 30 million gourdes. Contraband trade has proliferated in recent years, and is estimated to be about $200 million per year, or about 40 percent of total imports. It is especially important in the provinces and has been the main source of growth of income in provincial ports. The government is of the view that contraband can be brought under control over time only by stricter enforcement supported by a reduction of economic incentives to evade tariffs and quantitative import restrictions. The government's proposed reform program includes both. In order to limit the undervaluation of imports and reduce the associated loss of customs revenue, exemptions from overseas inspection of goods consigned for Haiti have been reduced by requiring ministerial authorization for such exemptions. Customs authorities have taken from the army control of inspections at the international airport and an action program to strengthen the authority of customs administration at provincial ports has been developed. Proposed liberalization reforms include the elimination of government's monopoly on sugar imports and the elimination of the 33 percent tariff on cement. The government is also considering lowering tariffs on a number of commodities from current excessive levels (e.g., sugar 50 percent, flour 50 percent, and iron construction bars 35 percent) and liberalizing some of the remaining 7 agricultural import restrictions. The revenue impact of most of these proposed trade regime reforms would be nil or even positive in some cases as contraband is reduced and value added tax collections are extended to more imports. Besides reducing customs evasion incentives, these reforms would help to improve efficiency in local production and at the same time reduce the local prices of some key commodities.

A passive projection based upon the revenue performance up through March and assuming no new reforms pointed to over a 228 million gourde shortfall for the year compared to the Stand-by revenue target of 1400 million gourdes (Table 7). The net impact of the proposed revenue measures is a projected 57 million gourde increase in revenues during the April-September 1990 period. However, this revenue gain was predicated upon prompt GOH action on the measures beginning in April. Since these proposals have yet to be effectively acted upon, the projected improvement in revenue performance would be only partially realized even if serious implementation began immediately.

Revenue measures alone will not provide the necessary improvement in the finances of the Treasury. Therefore, a supplemental budget law has been proposed that calls for a reallocation of spending priorities and a 65 million gourde reduction in outlays for the remainder of the fiscal year. If successfully implemented, expenditures would be held to a revised Stand-by target of 1334 million gourdes, or 3% below the original Stand-by expenditure target of 1450 million gourdes (Table 7). The net effect of the earlier weak fiscal performance and the proposed revenue and expenditure measures would be an increase of the need for net Treasury financing from 50 to <u>at least</u> 95 million gourdes.

Stricter control over the financial operations of the public enterprises is also proposed. The public enterprises' use of net credit is to be restricted to amounts determined on the basis of monthly cash-flow budgets approved by the Ministry of Finance and the Central Bank. Payments in excess of these amounts will not be honored by the Central Bank. General wage increases will not be allowed. Improved financial performance as a result of other measures is anticipated, including the recent installation of a new electric generator at the cement plant and a new impulse-based tariff system for the telephone company. As proposed by the GOH and IMF, the net credit use of the public enterprises would be held to 57 million gourdes for the fiscal year. This is higher than the original program target of 25 million gourdes primarily to account for a 30 million gourde build-up of flour mill deposits into a blocked account to meet repayment obligations on U.S.G. guaranteed GSM-102 loans coming due.

To keep the overall credit expansion within manageable levels, the net use of special public sector accounts (includes PL-480, ESF and other donor local currency programs) will need to be severely limited. The net use of these special deposits was recently projected to increase during the fiscal year by 9 million gourdes instead of the zero net use as anticipated under the Stand-by (Table 7). However, with additional local currency deposits equivalent to the recently approved $6 million PL-480 and USAID's projected uses of the PL-480 account through September, net use of the deposits would be held to approximately zero.

Local currency deposits generated by the proposed U.S. DA funded economic stabilization assistance are needed to further reduce the net use of the special accounts. To meet the revised overall net credit to the public sector target for the end of the fiscal year, a net addition of 50 million gourdes would need to be built up in the special accounts. To accomplish this, USAID proposes that almost all of the generated local currency (equivalent to $9 million) be held in a blocked account to be released for disbursement only when jointly authorized by an elected government and USAID. The remaining local currency (equivalent to $1 million) is proposed for a Trust Fund for USAID operating expenses beginning next fiscal year. This would facilitate the revised Stand-by September overall public sector credit target being met, given the likely revenue shortfalls associated with the delays in implementing proposed reform measures. As currently envisioned, there would be only a 9 million gourdes credit margin in September to cover any increased public sector credit needs resulting from revenue shortfalls (Table 7).

The GOH has proposed to continue with tight monetary policies and to allow interest rates to be freely market-determined during the remainder of the Stand-by. To help facilitate the management of monetary policy, the Central Bank has proposed to raise the rediscount rate to above the banks' lending rates, and at the same time lower the legal reserve requirements to allow the banks to repay their outstanding rediscounts and to provide adequate credit to the private sector. The Central Bank intends to maintain the rediscount rate above banks' lending rates in the future.

While the GOH and IMF have been actively discussing these measures since early April, the GOH has not effectively pursued the required reforms. The IMF has advised the GOH that until appropriate measures are taken to improve its performance, the GOH's request for a waiver for nonobservance of performance criteria established for the quarter ending March 1990 and the request for a modification of some performance criteria for the quarters ending June and September 1990 will not be forwarded to the IMF Board. The required GOH actions include removal of the interest rate ceiling of 22 percent, extension of the value added tax to a number of commodities, passage of a supplemental budget law reducing expenditures, increase of the Central Bank discount rate to above commercial banks' lending rates, liberalization of sugar imports and elimination of the cement tariff, and removal of price controls on sugar.

In addition to the above measures, the GOH has under consideration proposals by the IMF and USAID to further liberalize the foreign exchange regime. The basic concern is the need to reduce the disincentive to exports (implicit export tax of over 10 percent) caused by the requirement that 40 percent of export earnings be surrendered to the Central Bank at the official overvalued exchange rate, and the subsidy accorded imports purchased using this rate. Recognizing that a decision for a full devaluation will not be taken by the provisional government, proposals to date have focused on a de facto devaluation by reducing or eliminating the export surrender requirement and shifting more imports to the market-determined rate. The GOH has made considerable progress in this direction over the past year. The surrender requirement was reduced from 100 percent to 40 percent and almost all exchange transactions other than petroleum and official debt were shifted to the free market in January 1990.

The GOH has been encouraged to go further with de facto devaluation by totally eliminating the export surrender requirement and shifting all petroleum imports to the free exchange market. Shifting petroleum to the free exchange market would reduce Central Bank foreign exchange outflows by between $4 and $5 million per month, and would alleviate the need for exchange inflows generated by the export surrender requirement. Telephone company dollar earnings and official capital inflows could then provide for official debt service. While this is feasible in terms of the foreign exchange budget of the Central Bank (Table 8), the GOH has been reluctant to shift petroleum to the free market because of the need to then either increase pump prices or reduce petroleum taxes. A full pass-through of the shift to free exchange market would require petroleum prices to increase between 17 percent and 25 percent above current pump prices ($2.13 per gallon for gasoline, $1.68 for diesel, and $1.49 for kerosine). Pump price increases of anything approaching this magnitude are seen by both the GOH and the U.S. Mission as a probable cause for civil disturbances which could destabilize the fragile political environment and the transition to an elected government. While smaller pump price increases may be judged by some to be feasible, many decision makers will be unwilling to take the political risk before elections this fall. Price increases could be temporarily postponed with petroleum tax reductions. The potential monthly revenue loss to the Treasury is estimated to be 2.3 million gourdes for gasoline, 4.4 million gourdes for diesel, and 1.6 million gourdes for kerosene. In addition, fuel oil purchased by the state electric company at the free exchange rate would increase costs by 1.3 million gourdes per month. The combined net loss of nearly 10 million gourdes per month to the public sector is not financially feasible.

A compromise proposal initially proposed by the IMF and considered by the U.S. Mission would be to reduce the surrender requirement (e.g., to around 20 percent), shift only gasoline to the free market, and encourage the government to adopt a phased plan of gasoline price increases or budget adjustments to account for the revenue loss over the coming year. While the revenue shortfall this fiscal year conceivably could be covered by the proposed U.S. assistance (Table 7), the U.S. Mission has determined that this is not the time to push for further foreign exchange reforms, given the GOH's political status as a caretaker government and its weakened managerial capacity. As discussed above, the GOH has its hands full attempting to come to grips with needed measures to get the Stand-by back on track.

It is expected that once a democratic government is in place, both USAID and the IMF will strongly press for a unified market- determined exchange rate. With political stability, increased foreign assistance, and a resumption of export growth, the free market rate should be expected to appreciate and reduce the rate of official devaluation needed to unify the rates.

B. Proposed DA Economic Assistance Program

1. Rationale

Haiti is undergoing a delicate transition to democracy. Elections are planned for fall 1990, with the then-elected government taking office soon thereafter. Expectations for continued chaos are high. Support to the transition government is crucial to avoid a significant deterioration in income and provision of public services to the population while effecting the transition to an elected government, as well as avoiding retrogression on reforms adopted in 1986 and 1987. Without significantly expanded assistance from the international donors, Haiti is unlikely to be able to meet these objectives during this critical period. The revised economic program that the new transitional government aims to implement is designed to hand to an elected government a policy framework that will promote economic stabilization. USG support of the resumption of the current Stand-by is critical to avoiding further economic and political chaos. It should also pave the way for a timely resumption of the IFIs' support of a comprehensive structural adjustment program aimed at restoring growth to the Haitian economy (IMF Enhanced Structural Adjustment Facility and World Bank Structural Adjustment Loan). Economic performance over the next year will be heavily determined by the level of economic assistance. This assistance must increase the availability of foreign exchange to the private sector and provide resources for the government to maintain public services at an adequate level while staying within the fiscal and monetary targets required for economic stability. This will be especially difficult in the remaining months of this fiscal year, with the shortfalls of revenue, and pressing need to be able to demonstrate increased foreign support for the planned elections. The proposed U.S. DA stabilization assistance to the transitional government is essential if a viable transition to democratically elected government is to occur.

2. Policy Dialogue and Conditionality

The Mission's negotiating strategy will aim at a combination of conditionality and continuing policy dialogue, both with the transition government and the newly elected government. The Mission believes that, given the political and managerial weaknesses of the government and the difficulties of making a successful transition to a functioning democratic government, this is not the time to be calling for a myriad of new policy reforms.

Rather it is a time for reinforcement of continued and improved implementation of policy initiatives already adopted or under consideration by the government. It is also a time to articulate the long-run benefits of continued implementation of economic reforms developed to date to minimize pressures to retrogress toward the inappropriate policies o the past. The proposed tranching of the U.S. assistance would provide essential foreign exchange for imports of petroleum and financial support to the transition government so that it can meet its obligations under a revised Stand-by, thereby helping to ensure an economic climate supportive of a successful transition. However, all of the local currency except that used for a U.S. Trust Fund would be held for the newly elected government to provide immediate and tangible rewards for policy discussions in support of continued and renewed policy reform.

The Mission recommends that the $10 million DA stabilization assistance be disbursed in two tranches. The first tranche of $5 million would be disbursed in late July to assist the GOH to meet the quarterly Stand-by targets and provide needed financing for petroleum imports. It would include the following condition precedent:

-- Evidence that the GOH is taking all appropriate measures, including needed financial support to the Electoral Council (CEP), to ensure prompt, fair and secure elections and a successful transition to an elected civilian government.

The second tranche of $5 million is recommended to be disbursed in late August or early September to purchase critical petroleum imports. It would also assist the GOH to meet the last quarterly performance targets of the Stand-by. It would include the following conditionality:

a. Evidence that the GOH is continuing to take all appropriate measures to ensure prompt, fair and secure elections and a successful transition to an elected civilian government.

b. Evidence that the GOH has taken appropriate steps to demonstrate its compliance with the covenants.

The following four covenants will be included in the grant agreement:

a. Macroeconomic Stabilization: The GOH will take appropriate actions to ensure (i) financial stabilization, including appropriate fiscal and credit policies to facilitate prompt modification of the IMF Stand-by, (ii) compliance with the Stand-by as and when revised, and (iii) adoption of an appropriate stabilization/structural adjustment program upon completion of the revised Stand-by. The GOH will cooperate with the IMF, World Bank and USAID to develop as soon as is feasible the necessary analyses so that a multi-year comprehensive reform program supported by the IFIs and USAID can be expeditiously developed for consideration by the elected government. The GOH will also agree to share with USAID studies and reports developed in cooperation with the IFIs and to provide monetary and fiscal performance data to USAID on a monthly basis.

b. Foreign Exchange Liberalization: The GOH agrees to support the exchange regime liberalization reforms adopted early this year. Export surrender requirements will not be increased. The fixed exchange rate of five gourdes to the dollar will be provided by the Central Bank only for petroleum imports and official debt service. The GOH will adhere to current provisions precluding access by the public enterprises to foreign exchange at the fixed rate.

c. Trade Liberalization: The GOH agrees to continue its program of liberalizing Haiti's trade regime. The government will continue to support trade reforms adopted in 1986 and 1987, including lowered tariffs and the limiting of import licenses to seven agricultural commodities. In addition, the GOH will eliminate the tariff on cement, reduce the flour tariff and eliminate the government monopoly on sugar imports.

d. Free Market Pricing: To ensure fair, competitive, and low prices that do not create artificial shortages, the GOH will continue to support free market pricing and will nc impose any additional price controls on commodities or capital markets.

The program agreement will include a termination clause giving A.I.D. the unilateral right to terminate the program, if deemed necessary.

3. Uses of the Dollars

The $10 million would be provided in two equal tranches for the importation of petroleum. Refined petroleum imports amount to between $4 and $5 million per month and are critica to the Haitian economy and the avoidance of civil disorder. The GOH would open a separate bank account to be used exclusively for this purpose. The account would provide dollars to pay for current import billings approved by the Central Bank and upon payment by the private petroleum companies of the equivalent local currency to the Central Bank. The dollars would be disbursed in a timely fashion to avoid delays in petroleum deliveries to Haiti. All waivers as determined necessary, including petroleum source (Curacao, code 935) and origin (code 941 countries) waivers, would be adopted as part of the grant agreement to facilitate this. The Central Bank would manage the dollar account and maintain documentation of all transactions needed for audit purposes. The customary source of petroleum products in Haiti is Curacao (Code 935).

4. Local Currency Uses

a. Special Account: The Central Bank of Haiti will deposit the gourde equivalent at the highest not-illegal exchange rate of the grant disbursements into a special account at the Central Bank established for the program.

b. Uses of Local Currency: The Mission recommends that the local currency be used as follows:

--U.S. Trust Fund: Ten percent of the local currency (equivalent to $1 million or approximately 7.5 million gourdes) will be used by USAID for operating expenses. The Trust Fund Agreement will be signed within seven days of the Grant Agreement. The Central Bank will credit the Trust Fund account within seven days of the disbursement of the first tranche. The USAID controller's office, which will manage the account, will not permit disbursements from the account until after September 1990, to avoid any possible conflict with the current Stand-by.

-- Newly Elected Government: The remaining local currency (equivalent to $9 million or approximately 68 million gourdes) will be deposited into the special account and reserved for joint programming with the newly elected government. Priority will be given to budget support, labor intensive public works projects, local currency costs of Mission projects, and private sector credit institutions.

ANNEX A

Tables 1 to 8

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TABLE 1. HAITI: SELECTED ECONOMIC INDICATORS

	1985	1986	1987	1988	Proj. 1989	Program Proj. 1990	Without Proj. 1990
POPULATION							
Thousands	5944.1	6051.1	6160.0	6270.9	6383.8	6498.7	6498.7
Growth Rate (%)	1.8	1.8	1.8	1.8	1.8	1.8	1.8
NATIONAL ACCOUNTS							
GDP, curr. prices (mill. Gourdes)	10047.0	11218.0	10811.3	11043.2	11987.9	13003.7	13744.1
GDP, 1976 prices (mill. Gourdes)	5084.0	5118.0	5142.0	5065.0	5039.7	5090.1	4938.9
Real GDP Growth Rate	0.3	0.6	0.6	-1.5	-0.5	1.0	-2.0
Real Per Capita GDP (1976 Gourdes)	855.3	845.0	834.7	807.7	789.5	783.2	760.0
Real Per Capita GDP Growth Rate (%)	-1.5	-1.2	-1.2	-3.2	-2.3	-0.8	-3.7
Gross Domestic Investment/GDP (%)	14.2	10.9	12.9	11.8	11.4	11.4	10.0
Private	6.0	5.2	5.7	5.6			
Public	8.2	5.7	7.2	6.2			
Gross National Savings/GDP (%)	5.3	4.3	4.3	4.0	2.8	3.4	3.0
Private	4.3	3.8	4.8	3.5			
Public	1.0	0.5	-0.5	0.5			
Foreign Savings/GDP (%)	8.9	6.6	8.6	7.8	8.6	8.0	7.0
PRICES							
GDP Price Deflator (1976=100)	197.6	219.4	210.3	218.0	237.9	255.5	278.3
Annual Change (%)	10.3	11.0	-4.2	3.7	9.1	7.4	17.0
Consumer Prices (End of FY, 1980 = 100)	162.1	161.3	153.0	165.8	186.0	199.0	217.6
Annual Change (%)	16.0	-0.5	-5.1	8.4	12.2	7.0	17.0

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TABLE 2. HAITI: BALANCE OF PAYMENTS

	1985	1986	1987	1988	Proj. 1989	Program Proj. 1990	Without Proj. 1990
BALANCE OF PAYMENTS ($ mill.)							
Current Account	-130.7	-96.4	-130.0	-107.5	-135.6	-134.2	-137.8
Trade Balance	-116.7	-82.2	-120.4	-98.2	-127.5	-128.8	-132.4
Exports, f.o.b.	216.4	216.2	200.5	205.2	186.2	195.9	167.6
Manufactures	126.9	160.1	131.8	138.1	123.5	132.3	111.2
Coffee	48.0	57.5	35.8	32.5	25.8	24.2	23.2
Other	41.5	28.6	32.9	34.6	36.9	39.4	33.2
Imports, c.i.f.	333.1	298.4	320.9	303.4	313.7	324.7	300.0
Services, net	-62.2	-66.2	-65.8	-72.7	-76.6	-79.4	-79.4
Tourism	25.1	19.6	19.0	15.6	14.1	13.8	13.8
Interest	-18.1	-16.1	-12.8	-13.2	-14.8	-15.2	-15.2
Private Transfers	48.2	52.0	56.2	63.4	68.5	74.0	74.0
Capital Account	116.5	126.6	158.9	124.5	123.6	148.2	117.2
Official Grants	87.8	106.7	121.8	108.4	100.5	112.5	100.5
Public Sector	72.4	94.0	99.4	68.2	59.5	64.7	59.5
Official Capital	17.9	24.9	37.7	21.2	16.7	35.7	16.7
Monetary Capital	18.6	-7.1	-6.1	-3.2	6.4	0.0	0.0
Private Capital, errors & ommissions	-2.8	2.1	5.5	-1.9	0.0	0.0	0.0
Overall Balance	-14.3	30.2	28.9	17.0	-12.0	14.0	-20.6
Change Net Internat. Reserves (incre. -)	14.3	-30.2	-28.9	-17.0	12.0	-14.0	20.6
Net use of Fund resources (decre. -)	-9.4	-16.7	-13.0	-24.1	-1.2	-0.4	-10.8
Other, net (incre. -)	14.1	-16.9	-19.2	3.8	14.3	-9.5	11.8
Arrears (decre. -)	9.6	2.4	3.3	3.3	-1.1	4.1	19.6
EXTERNAL DEBT							
External Public Debt ($ mill.)	687.6	716.4	768.3	756.5	782.5	805.1	805.1
Debt/GDP (%)	34.2	31.9	35.3	34.3	32.6	31.0	29.3
Debt Service/Exports+NFS (%)	14.7	15.3	19.9	20.4	19.0	17.9	17.9

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TABLE 3. HAITI: TREASURY OPERATIONS

	1985	1986	1987	1988	Proj. 1989	Program Proj. 1990	Without Proj. 1990
TREASURY OPERATIONS(mill. gourdes)							
TREASURY REVENUES	1197.4	1284.5	1107.1	1111.9	1212.0	1400.0	1280.0
Tax Revenues	1124.2	1129.9	1016.1	1010.4	1126.0	1315.0	1220.0
Transfers from pub. enterprises	76.2	104.6	91.0	101.5	86.0	85.0	60.0
TOTAL EXPENDITURE	1408.8	1619.4	1380.9	1253.7	1358.1	1415.0	1480.5
Current Expenditure	1281.5	1271.4	1262.6	1209.0	1295.1	1357.0	1422.5
Wages and Salaries	584.0	561.0	699.6	777.5	805.0	820.0	885.5
Interest Payments	121.7	129.0	127.5	103.0	111.0	116.0	116.0
Other Current Expenditures	625.8	581.4	485.5	328.5	379.1	421.0	421.0
Capital Expenditure	127.3	48.0	68.3	44.7	63.0	58.0	58.0
Deficit (-) before Grants	-211.3	-85.0	-223.8	-141.8	-146.1	-15.0	-200.5
Cash Grants	0.0	40.0	92.0	83.5	0.0	0.0	0.0
Overall Deficit (-)	-211.3	-45.0	-131.8	-58.3	-146.1	-15.0	-200.5
External Financing	-38.6	-24.7	-29.9	-47.5	-35.0	-35.0	-35.0
Domestic Financing	244.9	69.7	161.7	105.8	181.1	50.0	235.5
Total Outlays(including amortization)	1446.5	1348.2	1368.1	1301.5	1393.1	1450.0	1515.5
TREASURY OPERATIONS (percent of GDP)							
TREASURY REVENUES	11.9	11.0	10.2	10.1	10.1	10.8	9.3
Tax Revenues	11.2	10.1	9.4	9.1	9.4	10.1	8.9
Transfers from pub. enterprises	0.7	0.9	0.8	0.9	0.7	0.7	0.4
TOTAL EXPENDITURE	14.0	11.8	12.3	11.4	11.3	10.9	10.8
Current Expenditure	12.8	11.8	11.7	10.9	10.8	10.4	10.3
Wages and Salaries	5.8	6.0	6.5	7.0	6.7	6.3	6.4
Interest Payments	1.2	1.1	1.2	0.9	0.9	0.9	0.8
Other Current Expenditures	6.2	5.2	4.0	3.0	3.2	3.2	3.1
Capital Expenditure	1.3	0.4	0.6	0.4	0.5	0.4	0.4
Deficit (-) before Grants	-2.1	-0.8	-2.1	-1.3	-1.2	0.1	-1.5
Cash Grants	0.0	0.4	0.9	0.8	0.0	0.0	0.0
Overall Deficit (-)	-2.1	-0.4	-1.2	-0.5	-1.2	-0.1	-1.5
External Financing	-0.3	-0.2	-0.3	-0.4	-0.3	-0.3	-0.3
Domestic Financing	2.4	0.6	1.5	1.0	1.5	0.4	1.7
Total Outlays(including amortization)		12.0	12.6	11.8	11.6	11.2	11.0

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TABLE 4. HAITI: PUBLIC SECTOR OPERATIONS

	1985	1986	1987	1988	Proj. 1989	Program Proj. 1990	Without Proj. 1990
'UBLIC SECTOR OPERATIONS (mill. gourdes)							
Total Revenue	1382.5	1325.2	1213.5	1260.5	1284.0	1498.0	1380.0
Current Expenditures	1281.5	1271.5	1262.6	1209.0	1295.1	1357.0	1422.5
Capital Expenditures	823.6	643.5	780.1	679.1	673.9	724.0	724.0
Overall Deficit	-722.5	-589.8	-829.2	-627.6	-685.0	-583.0	-766.5
Grants	359.5	470.0	497.0	341.0	297.5	323.5	297.5
Deficit After Grants	-363.0	-119.8	-332.2	-286.6	-387.5	-259.5	-469.0
External Financing	146.7	156.5	246.4	160.4	101.0	184.5	101.0
Domestic Financing	216.3	-36.7	85.8	126.2	286.5	75.0	368.0
'UBLIC SECTOR OPERATIONS (Percent of GD							
Total Revenue	18.8	11.8	11.2	11.4	10.7	11.5	10.0
Current Expenditures	12.8	11.3	11.7	10.9	10.8	10.4	10.3
Capital Expenditures	8.2	5.7	7.2	6.1	5.6	5.6	5.3
Overall Deficit	-7.2	-5.3	-7.7	-5.7	-5.7	-4.5	-5.6
Grants	3.6	4.2	4.6	3.1	2.5	2.5	2.2
Deficit After Grants	-3.6	-1.1	-3.1	-2.6	-3.2	-2.0	-3.4
External Financing	1.5	1.4	2.3	1.5	0.8	1.4	0.7
Domestic Financing	2.2	-0.3	0.8	1.1	2.4	0.6	2.7

TABLE 5. HAITI: BANKING SYSTEM ACCOUNTS

	1985	1986	1987	1988	Proj. 1989	Program Proj. 1990	Without Proj. 1990
MONETARY AUTHORITIES							
NET FOREIGN ASSETS	-464.4	-322.3	-198.1	-119.1	-172.6	-102.5	-276.3
Assets	100.2	117.5	200.0	207.4	187.2	188.9	87.1
Foreign Liabilities	-564.6	-489.8	-398.1	-326.5	-359.8	-291.4	-363.4
Arrears	-60.0	-26.2	-42.5	-59.0	-53.3	-27.8	-151.4
Liabilities to Fund	-406.1	-367.1	-322.6	-207.8	-195.5	-193.2	-141.6
Other	-98.5	-46.5	-33.0	-59.7	-111.0	-70.4	-70.4
NET DOMESTIC ASSETS	1514.9	1521.2	1518.5	1629.1	1842.9	1929.6	2191.3
Credit to Public Sector	2080.8	2084.0	2183.9	2307.8	2574.8	2649.8	2942.8
Treasury	2091.6	2165.3	2333.3	2439.4	2620.5	2670.5	2856.0
Rest of Government	-34.0	-85.1	-188.5	-118.0	-125.2	-125.2	-92.7
Public Enterprises	28.2	3.8	34.1	-15.5	79.5	104.5	179.5
Credit to Private Sector	293.9	287.9	284.6	219.9	270.0	307.5	307.5
Net Liabilities to Private Banks	-598.1	-678.4	-819.3	-816.7	-920.8	-966.2	-1028.7
Of which: Free Reserves	-171.2	-97.4	-135.3	-96.3	-77.3	-70.0	
Other	-261.7	-177.3	-190.7	-81.8	-81.1	-61.5	-30.3
LIABILITIES TO PRIVATE SECTOR	1050.5	1198.9	1320.4	1510.0	1670.3	1827.1	1915.0
Currency in Circulation	689.1	749.1	823.0	981.9	1080.1	1171.9	1238.3
Deposits	411.4	449.8	497.4	528.1	590.2	655.1	676.7
BANKING SYSTEM							
NET INTERNATIONAL RESERVES	-482.2	-254.4	-99.6	-4.4	-90.0	-20.0	-193.7
NET DOMESTIC ASSETS	3066.8	3178.2	3327.0	3577.5	4131.3	4415.0	4827.0
Credit to Public Sector	2150.2	2116.5	2199.3	2325.9	2612.1	2687.1	2980.1
Credit to Private Sector	1164.7	1177.3	1185.0	1279.2	1632.7	1800.6	1919.6
Other	-249.1	-114.3	-57.3	-27.6	-113.5	-72.7	-72.7
LIABILTIES TO PRIVATE SECTOR	2688.6	2921.8	3227.4	3573.1	4041.3	4395.0	4633.4
Monetary Liabilities	1204.2	1381.2	1584.7	1865.3	2080.1	2251.9	2384.8
Quasi-money	1348.3	1454.1	1548.9	1598.0	1833.4	1994.2	2102.0
Private Capital and Surplus	86.1	86.5	93.8	109.8	127.8	148.9	146.5

TABLE 6 HAITI: QUANTITATIVE PERFORMANCE CRITERIA 1/

	Sept 1989	Dec 1989	Mar 1990	Apr 1990	May 1990	June 1990
			(In million of gourdes)			
Cumulative treasury receipts						
Programmed 2/ 3/	--	394	748	864	973	1071
Actual		352	613	721	814	—
Margin		-42	-135	-143	-159	—
Cumulative treasury outlays	--					
Programmed		391	754	870	984	1085
Actual		358	712	822	944	—
Margin		38	42	48	40	—
Net domestic credit to the nonfinancial public sector						
Programmed	2620	2635	2650	2656	2663	2669
Actual	2581	2577	2650	2675	2745	—
Margin	39	58	0	-19	-82	—
Net domestic assets of monetary authorities						
Programmed	1850	1970	1923	1914	1904	1895
Actual	1789	1906	1880	1922	1919	—
Margin	61	64	43	-8	-15	—
Credit to the private sector from national credit bank						
Programmed	276	290	295	297	298	300
Actual	279	290	295	288	292	—
Margin	2	0	0	9	6	—
			(In million of US Dollars)			
Net international reserves of the monetary authorities						
Programmed	-36	-30	-28	-26	-25	-23
Actual	-22	-15	-25	-30	-35	—
Margin	14	15	3	-4	-10	—
External payment arrears						
Programmed	11	9	8	7	7	7
Actual	7	7.5	8.9	9.8	11.2	—
Margin	4	1.5	-0.9	-2.8	-4.2	—

Source: IMF (All figures are preliminary figures)

1/ During the period of the arrangement the nonfinancial public sector will not increase its outstanding debt with maturity of less than one year, and the outstanding amount of commercial debt owed or guaranteed by the public sector will not increase.

2/ Indicative

3/ Cumulative from October 1, 1989

Corrected Table

TABLE 7: PUBLIC SECTOR FISCAL AND CREDIT ADJUSTMENTS

Millions of Gourdes

	Original Program Oct/Sept	Passive Projection Oct/Sept	Proposed Measures Apr/Sept	Revised Program Oct/Sept
I. Treasury				
Revenue	1400	1172	57	1229
Internal	1052	911	27	938
Customs	263	180	30	210
Transfer from public enterprises	85	81	--	81
Expenditure	1450	1354	-20	1334
Overall balance	-50	-182	77	-105
Net financing	50	182	-77	95
II. Net Use of Special Deposits				
Increase (-) in Outstanding balance	0	9	-59	-50
III. Net Credit to Public Enterprises				
Net use	25	57	—	57
IV. Net Credit to Public Sector				
Total net uses	75	248	-136	112
Build-up blocked account	..	-30	—	-30
Net use for purpose of ceilings	75	218	136	82
Ceilings	75	75	—	91
Margin	0	-143	--	9

Source: Central Bank, IMF, and USAID

TABLE 8: CENTRAL BANK FOREIGN EXCHANGE BUDGET

(In millions of U.S. dollars)

	April/June	July/Sept.
INFLOWS	29.4	26.5
Export Surrender Requirement	20.1	16.5
Telephone Company	2.7	3.3
Official Loans (excel. IMF)	6.6	6.7
OUTFLOWS	39.2	25.6
Petroleum	15.3	13.4
Petroleum Bills Due	5.0	0.0
Debt, not IMF	7.4	9.6
IMF net	2.0	-1.6
Other Obligations	9.5	4.2
LIABILITIES (-increase)	6.8	-0.2
IMF	1.9	-1.8
Other	4.9	1.6
CHANGE NIR	-3.0	0.7
REVISED STAND-BY TARGET	2.0	2.0
SHORTFALL	5.0	1.3
PROPOSED US ASSISTANCE	5.0	5.0

Source: Central Bank, IMF, and USAID

ANNEX B

REPUBLIQUE D'HAITI

MINISTERE
DE L'ECONOMIE ET DES FINANCES

No ....SEC\AID\07-90\C-964

PORT-AU-PRINCE, LE 06 JUIL. 1990 19

Monsieur Gérald ZARR
Directeur
Agence pour le Développement International
En ses Bureaux

Monsieur le Directeur,

Durant la période délicate précédant les élections prévues pour le 4 novembre prochain, le Gouvernement Haitien souhaite fermement, parallèlement aux travaux préparatoires et au financement du processus électoral, freiner la dégradation de l'économie ainsi que la détérioration du niveau de vie de l'ensemble de la population.

Dans ce contexte, en vue de relancer la croissance économique, et sauvegarder les effets de la politique de réformes entamée après le 7 février 1986, le Ministère de l'Economie et des Finances, au nom du Gouvernement Haitien, sollicite la mise en train d'un programme d'assistance économique additionnelle pour un montant total de US$ 10 Millions. Je profite de l'occasion pour souligner l'intérêt particulier que porte le Gouvernement Haitien à l'assainissement des finances publiques, à une discipline fiscale et monétaire accrue et à l'élimination des contraintes au commerce international.

Le Gouvernement Haitien, à travers le Ministère de l'Economie et des Finances, se tient à votre entière disposition pour envisager les modalités d'un mécanisme de contrôle et de suivi des montants à dépenser dans le cadre de cette assistance additionnelle.

En vous remerciant des suites que vous voudriez bien donner à la présente requête, je vous prie d'agréer, Monsieur le Directeur, l'assurance de ma considération distinguée.

MINISTERE DE L'ECONOMIE ET DES FINANCES
Haïti

Jean-Pierre Moïse PIERRE-LOUIS
Ministre a.i.

5788

REPUBLIQUE D'HAITI

MINISTERE
DE L'ECONOMIE ET DES FINANCES

No ....SEC\AID\07-90\C-964

PORT-AU-PRINCE, LE 06 JUIL. 1990 19

Mr. Gerald ZARR
Directeur
United States Agency for
International Development
Port-au-Prince

Dear Mr. Zarr:

During the delicate period preceding the elections projected for November 4th 1990, and in addition to the preparatory work and the financing of the electoral process, the Haitien Government firmly intends to stem the degradation of the economy as well as the deterioration of the standard of living of the totality of the population.

In order to rekindle economic growth and salvage the results of the policy reforms undertaken after February 7, 1986, the Government of Haiti, through the Ministry of Economy and Finance, requests an additional development assistance program in the amount of $10 million. I take advantage of this opportunity to express the particular interests that my government has in improving public finances, in increasing fiscal and monetary discipline and in the elimination of international trade barriers.

The Government of Haiti, through the Ministry of Economy and Finance, remains at your disposal to further refine the control and monitoring mechanisms for the expenditures to be made in the context of the additional development assistance.

While thanking you in advance for following up on the present request, I remain,

Sincerely yours,

MINISTERE DE L'ECONOMIE ET DES FINANCES
Haiti

Jean-Pierre Moïse PIERRE-LOUIS
Ministre a.i.

578F

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

Yes Country checklist completed with FY 90 CLASP II Project Paper.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

Congressional Notificatior cleared July 6, 1990.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action required.

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No.

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	This cash transfer progra will support GOH economic stabilization efforts and economic reforms in the areas of exchange control trade, and free market pricing. It should indirectly contribute to (a), (b), (d) and (e), in particular.
5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	A stabilized economy and associated market liberalization should encourage trade linkages with the U.S. private sector.
6. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?	N/A
B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE	Funds are DA
1. Nonproject Criteria for Economic Support Fund	
a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	
b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?	

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

e. FY 1990 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 592. If assistance is in the form of a cash transfer: (a) Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? (c) Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available? (d) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a). Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

Program Support will contribute to Haiti's transition to democracy which will create a better climate for GOH efforts to involve the poor in development. Local currency generation will support labo intensive and local level project activitie

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out

N/A.

under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach. N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education N/A

30

and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for energy, private voluntary organizations, and selected development problems; if so, extent activity is:

Assistance will support an improved economic climate favorable to private investment, business development and development-related financial institutions.

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

ANNEX D

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

LAC-IEE-90-3

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Haiti
Project Title	:	Economic Stabilization in Suppo of a Democratic Transition
Project Number	:	521-0235
Funding	:	$10 million (DA Grant)
Life of Project	:	One year (FY 90)
IEE Prepared by	:	Michelet Fontaine USAID/Haiti
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	None
Copy to	:	Gerald Zarr, Director USAID/Haiti
Copy to	:	Rosalie Fanale, USAID/Haiti
Copy to	:	Michelet Fontaine, USAID/Haiti
Copy to	:	Dianne Blane, LAC/DR/CAR
Copy to	:	REA/CAR
Copy to	:	IEE File

John O Wilson Date JUL 9

John O. Wilson
Deputy Environmental Officer
Bureau for Latin America
and the Caribbean

JUN 29 1990

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OO RUEHC
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ZNR UUUUU ZZH
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FM AMEMBASSY PORT AU PRINCE
TO SECSTATE WASHDC IMMEDIATE 6824
BT
UNCLAS PORT AU PRINCE 04670

CLASS: UNCLASSIFIED
CHRGE: AID 06/27/90
APPRV: S/ADO:LHARMS
DRFTD: ADO:MFONTAINE:ABH
CLEAR: 1.D/ADO:KJMULLALLY
2.PPS:RFANALE
DISTR: AMB DCM DIR
ADO CHRON C&R

ADM AID

FOR LAC/DR, ENVIRONMENTAL OFFICER, JAMES HESTER

E.O. 12356: N/A
SUBJECT: ECONOMIC STABILIZATION IN SUPPORT OF DEMOCRATIC TRANSITION PAAD: INITIAL ENVIRONMENTAL EXAMINATION

1. FOLLOWING IS THE INITIAL ENVIRONMENTAL EXAMINATION FOR THE ECONOMIC STABILIZATION IN SUPPORT OF DEMOCRATIC TRANSITION PAAD, NO. 521-0235. PLEASE REVIEW AND PROVIDE YOUR CONCURRENCE ASAP.

2. INITIAL ENVIRONMENTAL EXAMINATION

A. PROJECT LOCATION: HAITI

B. PROJECT TITLE: ECONOMIC STABILIZATION IN SUPPORT OF A DEMOCRATIC TRANSITION PAAD

C. TOTAL A.I.D. FUNDING: $10.0 MILLION

D. LIFE OF PROJECT: FY 1990

E. IEE PREPARED BY: MICHELET FONTAINE MISSION ENVIRONMENTAL OFFICER (ADO)

F. THRESHOLD DECISION RECOMMENDED: CATEGORICAL EXCLUSION PER REG. 16, SECTION 216.2

G. CONCURRENCE: ROSALIE FANALE OFFICE OF PROGRAM AND PROJECT SUPPORT FOR USAID/HAITI PROJECT COMMITTEE

H. MISSION DIRECTOR'S DECISION GERALD ZARR

3. PROJECT DESCRIPTION:

THIS $10 MILLION DEVELOPMENT ASSISTANCE (DA) GRANT WILL SUPPORT HAITI'S TRANSITION TO A FUNCTIONING DEMOCRACY AND THE GOH'S ECONOMIC STABILIZATION EFFORTS. THIS ASSISTANCE TO THE TRANSITIONAL GOVERNMENT IS ESSENTIAL TO PROMOTE A VIABLE TRANSITION TO A DEMOCRATICALLY ELECTED GOVERNMENT.

PROJECT ACTIVITIES:

THIS PROJECT CONSISTS OF A GRANT TO THE GOVERNMENT OF HAITI. IT IS PROGRAMMED AS A CASH TRANSFER FOR BALANCE OF PAYMENTS SUPPORT. THE DOLLARS WILL BE USED FOR PETROLEUM IMPORTS. THE LOCAL CURRENCY GENERATED FROM THE PETROLEUM SALES WILL BE USED FOR:

- BUDGET SUPPORT TO THE NEWLY ELECTED GOVERNMENT; ANI

- AN OE TRUST FUND FOR THE MISSION.

RECOMMENDED THRESHOLD DECISION:

IN ACCORDANCE WITH SECTIONS 216.1 AND 216.2 OF A.I.D. REGULATION 16, A CATEGORICAL EXCLUSION IS RECOMMENDED, AND NO FURTHER ENVIRONMENTAL EXAMINATION IS DEEMED NECESSARY.

4. PLEASE GIVE COPY OF THE APPROVED IEE TO DIANE BLANE LAC/DR/CP.
ADAMS
BT
#4670

NNNN