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UNCLASSIFIED

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

HAITI

PROJECT PAPER

PROGRAM FOR THE RECOVERY OF THE ECONOMY IN TRANSITION
(PRET)

AID/LAC/P-918

PROJECT NUMBER: 521-0256

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete — Amendment Number — DOCUMENT CODE 3

2. COUNTRY/ENTITY: Haiti

3. PROJECT NUMBER: 521-0256

4. BUREAU/OFFICE: LAC

5. PROJECT TITLE (maximum 40 characters): Program for the Recovery of the Economy in Transition (PRET)

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 05 DD 31 YY 97

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 95 B. Quarter 2 C. Final FY 97

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(1,000)	(1,000)	(2,000)	(5,000)	(3,000)	(8,000)
(Loan)	( )	( )	( )	( )	( )	(
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	1,000	1,000	2,000	5,000	3,000	8,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1)						2,000		8,000	
(2)									
(3)									
(4)									
TOTALS						2,000		8,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

The purpose of this program is to increase employment generation and incomes in and by the private sector on a sustainable basis.

14. SCHEDULED EVALUATIONS: Interim MM YY MM YY; Final MM 01 YY 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [x] 000 [ ] 941 [x] Local [ ] Other (Specify) CACM

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

I have reviewed and approved the methods of implementation and financing for this project paper.

Jack Winn, FM Office Chief

17. APPROVED BY
Signature: Larry Crandall
Title: Director USAID/Haiti
Date Signed: MM 05 DD 11 YY 95

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

PROJECT AUTHORIZATION

Country: **Haiti**

Project Title: **Program for the Recovery of the Economy in Transition ("PRET")**

Project Number: **521-0256**

1. Pursuant to Chapter I of the Foreign Assistance Act of 1961, as amended, I authorize the Program for the Recovery of the Economy in Transition project ("PRET") for Haiti, involving planned obligations of not to exceed eight million dollars ($8,000,000) in grant funds over a period of two years from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The project assistance completion date is May 31, 1997.

2. The project will assist in promoting economic recovery by stimulating private investment through a combination of credit, assistance with respect to policy and regulatory reform, and support in providing access to non-financial services to non-bank institutions and certain commercial banks seeking new lending technologies for the small-scale market.

The components of the project are:

> 1. to promote a transparent and sound enabling policy, legal and regulatory environment for private enterprise to recover and prosper in Haiti;
>
> 2. to increase access to financial services by borrowers (small firms, micro-enterprises and agribusinesses), as well as services to small savers, through non-bank intermediaries and commercial banks; and
>
> 3. to help individual businesses gain/regain access to markets and to non-financial resources needed to re-establish or expand production that will create employment in the near-term (6 to 12 months).

3. The agreements which may be negotiated and executed by the officers to whom the authority is delegated in accordance with A.I.D. regulations and delegations of authority shall be subject to the following essential terms and covenants and major conditions, together with other terms and conditions as A.I.D. may deem appropriate.

P

4. Source and Origin of Commodities, Nationality of Services.

A. Commodities financed by A.I.D. under the project shallhave their source and origin in the United States, the Cooperating Country, or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

B. Except for ocean shipping, the suppliers of commodities or services shall have the United States, the Cooperating Country, or countries included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing.

C. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States, other countries in Code 941, or the Cooperating Country.

5. In providing credit assistance under the project, loan guarantees may be issued to qualified borrowers.

* Larry Crandall
Larry Crandall
Director, USAID/Haiti

Date: May 10, 95

Clearances: PCPS, GImhoff
CO, CBucher
FM, JWinn
RLA, EDragon EAD
DD, SClark SLC

* contingent upon expiry of CN w/o change to document.

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E.O. 12356: N/A
TAGS:
SUBJECT: HAITI PROGRAM FOR THE RECOVERY OF THE ECONOMY IN TRANSITION (PRET) PP REVIEW (521-0256)

1. THE REVIEW OF THE SUBJECT PROGRAM WAS HELD ON APRIL 20, 1995, CHAIRED BY THE AA/LAC. REPRESENTATIVES FROM LAC/SPM, LAC/RSD, M/B, G/EG/BD, G/EG/MD, G/EG/AFS, G/EG/AFS/AEMD, GC/LAC, AND ANE/RI WERE PRESENT.

2. AA/LAC OPENED THE MEETING BY THANKING THE MISSION FOR PRODUCING THE PRET DOCUMENT UNDER SEVERE TIME CONSTRAINTS IN RESPONSE TO HIGH LEVEL INTEREST IN SUPPORTING REACTIVATION OF THE PRIVATE SECTOR IN HAITI. THE MISSION REPRESENTATIVE PROVIDED AN OVERVIEW OF THE INITIATION AND DESIGN OF PRET AND ITS FIT WITH CURRENT MISSION STRATEGY AND REORGANIZATION EFFORTS, CIRCUMSTANCES IN THE HAITIAN PRIVATE SECTOR, AND RELATED DONOR EFFORTS UNDERWAY IN HAITI.

3. THE FOLLOWING ISSUES WERE DISCUSSED.

A) AGRIBUSINESS GUARANTEE OUTPUTS. AA/LAC ASKED THE MISSION REPRESENTATIVE WHETHER THERE WAS ANY MECHANISM IN

THE GUARANTEE ACTIVITY WHICH WOULD INSURE THAT POOR FARMERS WILL BENEFIT FROM THE GUARANTEE ELEMENT OF PRET.

THE MISSION REPRESENTATIVE RESPONDED THAT THERE WERE SEVERAL MECHANISMS IN THE GUARANTEE ACTIVITY WHICH WILL HELP TO INSURE THAT BENEFITS WILL FLOW TO POOR FARMERS. FIRST, THE GUARANTEE WILL BE OFFERED ON A COMPETITIVE BASIS AND ONE DECISION CRITERIA FOR PROVIDING A GUARANTEE WILL BE THE PASS-THROUGH OF BENEFITS FROM THE BORROWER TO THE SMALL FARMER. SECOND, THE GUARANTEE ACTIVITY WILL BE

4.

IV) DISPOSITION OF GUARANTEE FUND RESOURCES. THE MISSION SHOULD SPECIFY IN THE GUARANTEE AGREEMENT OPTIONS FOR DISPOSAL OF THE FUNDS AT THE END OF THE TWO YEAR PERIOD. THE GUARANTEE AGREEMENT SHOULD ALSO CLEARLY SPECIFY USAID OWNERSHIP OF THE CAPITAL ONCE THE GUARANTEE FUND HAS TERMINATED. THE MISSION SHOULD HAVE THE RIGHT TO SHIFT RESOURCES TO SUPPORT OTHER ACTIVITIES SPECIFIED WITHIN THE PRET PROJECT. MISSION WILL ADVISE AID/W OF THE OPTION SELECTED WHEN RESOURCES ARE SHIFTED TO ANOTHER USE. MISSION WILL CONSULT WITH USAID/WASHINGTON IF FUNDS ARE UTILIZED IN A MANNER OTHER THAN THOSE DESCRIBED IN THE PRET PROJECT PAPER.

V) AVAILABILITY OF MISSION MANAGEMENT RESOURCES. MISSION REPRESENTATIVE NOTED THAT THE ADDITION OF A PRIVATE SECTOR IDI TO THE MISSION USDH STAFF WOULD BE DESIGNATED TO ASSIST WITH THE MANAGEMENT OF PRET. ALSO, HE REITERATED THAT PRET REPRESENTED A CONSOLIDATION OF ALL ON-GOING AND PROPOSED PRIVATE SECTOR INITIATIVES WITH LOP OVER THE NEXT TWO YEARS. THERE WAS CONSENSUS THAT THERE WAS NO REASON THE PROJECT SHOULD NOT BE APPROVED BASED ON THE SUFFICIENCY OF MISSION MANAGEMENT RESOURCES. G/EG/AFS SUGGESTED THAT THE MISSION SHOULD LOOK TO RESOURCES AVAILABLE FROM THE GLOBAL BUREAU TO REDUCE CONTRACTING AND MANAGEMENT BURDENS ON MISSION STAFF.

VI) STRATEGIC ISSUES. LAC/DPB QUESTIONED WHETHER PRE WOULD BE PART OF AN ARTICULATION OF A LARGER MISSION STRATEGY, PARTICULARLY IN THE AREAS OF POLICY REFORM AND MICROENTERPRISE SUPPORT AND EXPRESSED THE EXPECTATION THAT THE MISSION WOULD DO SO WHEN IT SUBMITTED ITS STRATEGIC PLAN AS PART OF ITS ACTION PLAN SUBMISSION. SIMILARLY, IT WAS RECOMMENDED THAT ALTHOUGH LAND TENURE ISSUES WERE NOT RELEVANT TO ACHIEVING PRET OBJECTIVES, THEY SHOULD BE DISCUSSED IN THE MISSIONIS STRATEGIC PLAN.

VII) GC/LAC SAW NO APPARENT ISSUE WITH FAA SECT. 599/647 BUT EXPECTS MISSION TO ENSURE THAT DESIGN AND IMPLEMENTATION OF GUARANTEE WILL ADHERE TO 599/647

LIMITATIONS AND THAT USAID WILL PLAY A ROLE IN GUARANTEE APPROVALS.

4. CONSISTENT WITH THE CHANGES DISCUSSED ABOVE, THE MISSION IS HEREBY DELEGATED AUTHORITY TO AUTHORIZE THE PRET PROJECT PAPER. OBLIGATION OF FUNDS UNDER PROJECT SHOULD AWAIT EXPIRATION OF CONGRESSIONAL NOTIFICATION WHICH WILL BE COMMUNICATED TO MISSION IN SEPTEL.
CHRISTOPHER
BT
#9268

THE NON-BANK INTERMEDIARIES WOULD DEPEND ON THEIR SUCCESS IN MOBILIZING SOURCES OF CAPITAL, EITHER THROUGH THE FORMAL FINANCIAL SECTOR OR THROUGH SAVINGS. TECHNICAL ASSISTANCE TO NON-BANK INTERMEDIARIES SHOULD INCLUDE ASSISTING THESE INSTITUTIONS TO MOBILIZE FINANCIAL RESOURCES TO INCREASE THE AVAILABILITY OF CREDIT AND ACHIEVE SUSTAINABILITY. IN ADDITION, FINANCIAL ASSISTANCE TO SUCH INSTITUTIONS SHOULD BE CONDITIONED ON THEIR DEVELOPMENT OF STRATEGIES/BUSINESS PLANS TO ACHIEVE SUSTAINABILITY IN A REASONABLE PERIOD.

D) GUARANTEE PROGRAM. SEVERAL RECOMMENDATIONS WERE MADE FOR ISSUES TO BE CONSIDERED IN THE DEVELOPMENT OF THE GUARANTEE FACILITY.

I) INCENTIVES. THE GUARANTEE PROGRAM MUST BE DESIGNED TO PROTECT THE INTERESTS OF BOTH USAID AND PARTICIPANT BANKS. THUS, THE ECONOMIC INCENTIVES FOR THE GUARANTEE FUND MANAGER MUST PROVIDE BENEFITS FOR BOTH PROTECTING THE INTEGRITY OF THE FUND, AND FOR PROVIDING RAPID AND RESPONSIVE SERVICE TO BORROWERS SEEKING TO AVAIL THEMSELVES OF GUARANTEES AND BANKS SEEKING TO COLLECT ON GUARANTEES FOR LOANS IN DEFAULT. FOR EXAMPLE, WERE THE FUND MANAGER TO BE COMPENSATED FOR ONLY THE FINANCIAL PERFORMANCE OF THE FUND, IT MIGHT BE UNWILLING TO FULFILL GUARANTEES, AND SEEK WAYS TO NULLIFY OTHERWISE VALID CLAIMS. BANKS SHOULD BE INVOLVED IN THE NEGOTIATIONS FOR ESTABLISHMENT OF THE GUARANTEE FUND SO THAT THEIR INTERESTS ARE PROTECTED IN THE STRUCTURE OF THE FUND.

II) LETTERS OF CREDIT. THE PROGRAM SHOULD EXPAND THE COVERAGE OF THE GUARANTEE PROGRAM TO INCLUDE LETTERS OF CREDIT BETWEEN U.S. AND HAITIAN CORRESPONDENT BANKS. LETTERS OF CREDIT FACILITATE INTERNATIONAL TRADE, AND ARE A NECESSARY ELEMENT OF MODERN IMPORT AND EXPORT OPERATIONS. HOWEVER, CONSIDERATION SHOULD BE GIVEN ON THIS POINT TO ENSURE THAT LARGE AMOUNTS OF RESOURCES ARE NOT DEDICATED TO THE MOST AFFLUENT BORROWERS.

III) ALLOW PROGRAM TO COVER INVESTMENT CREDIT. THE GUARANTEE SHOULD COVER INVESTMENT AS WELL AS WORKING CAPITAL LOANS AS OUTLINED IN PROJECT PAPER. HOWEVER, IN REVIEW OF GUARANTEE PROPOSALS, INVESTMENT CAPITAL GUARANTEES SHOULD BE LIMITED TO A SMALL PROPORTION OF THE FUND COMMITMENTS AND WHEN NECESSARY TO ALLOW WORKING CAPITAL TO RESULT IN INCREASED IMPACT ON THE PROPOSED ACTIVITY FOR WHICH GUARANTEES HAVE BEEN REQUESTED. GUARANTEE FUND COVERAGE OF COMMERCIAL BANK LENDING TO NON

BANK INTERMEDIARIES SHOULD BE EXPLORED BY THE MISSION.

MICROENTERPRISE CREDIT FOR THIS FISCAL YEAR. THE QUESTION OF WHETHER SOME RESOURCES CURRENTLY ALLOCATED TO TECHNICAL ASSISTANCE/TRAINING WOULD NOT PRODUCE A GREATER IMPACT IF THEY WERE USED TO INCREASE THE AVAILABILITY OF CREDIT WAS DISCUSSED. AA/LAC FURTHER NOTED THAT THERE IS NO MENTION

OF LEVERAGING IFI FUNDING FOR CAPITALIZATION OF MICROENTERPRISE CREDIT INSTITUTIONS AND THAT THE MISSION SHOULD DEVOTE EFFORTS TO COORDINATING WITH OTHER DONORS TO INCREASE THE IMPACT OF ITS EFFORTS IN THIS SECTOR. IN ADDITION, THE MISSION SHOULD IMPLEMENT PRET IN CONCERT WITH THE ACTIVITIES OF OTHER DONORS TO AVOID DUPLICATION OF EFFORTS IN WORKING WITH SPECIFIC NBIS.

PARTICIPANTS MENTIONED THAT CREDIT TO MICROENTERPRISES IS GENERALLY MORE EFFECTIVE THAN TECHNICAL ASSISTANCE, WITH THE EXCEPTION OF LARGER MICROENTERPRISES AND ON A SECTORAL BASIS, AND THAT WHILE THERE WAS CURRENTLY NO INFRASTRUCTURE FOR TECHNICAL ASSISTANCE, THERE WAS FOR PROVISION OF CREDIT. FURTHERMORE, THE PRIORITY FOR THE MARKET RENOVATION WAS SEEN AS LOW BY MOST PARTICIPANTS. IT WAS DECIDED THAT FUNDING FOR TA TO SMALL AND MICRO BUSINESSES AND THE MARKET RENOVATION BE SUBSTANTIALLY REDUCED AND THAT FUNDS FOR MICROENTERPRISE CREDIT SHOULD BE CORRESPONDINGLY INCREASED, WITH SOME BEING MADE AVAILABLE THIS YEAR.

(ALTHOUGH IT WAS LATER LEARNED THAT THE MISSION HAS $850,000 AVAILABLE THIS YEAR FOR MICROENTERPRISE CREDIT, THERE WAS STILL CONCERN ABOUT THE EFFICACY OF FUNDING TA FOR MICRO AND SMALL BUSINESSES AND RENOVATING MARKETPLACES. FUNDING FOR THESE ACTIVITIES SHOULD BE REDUCED IN FAVOR OF OTHER PRET ACTIVITIES).

ON THE QUESTION OF MOBILIZING OTHER RESOURCES FOR MICROENTERPRISE CREDIT, THE AA/LAC OFFERED THE ASSISTANCE OF LAC STAFF TO WORK WITH G/EG/MD STAFF TO IMPROVE THE PRIME FUND PROPOSAL IN ORDER TO OBTAIN RESOURCES AVAILABLE THROUGH THAT PROGRAM. THE MISSION SHOULD ALSO MAKE EVERY

EFFORT TO SUPPORT THE APPROVAL OF G/EG/MD (IPG) IMPLEMENTATION PROGRAM GRANT PROPOSALS TARGETED FOR HAITI WHICH WILL BEST COMPLEMENT THE MICROENTERPRISE COMPONENT OF THIS PROJECT. IN THIS REGARD, THE BUREAU ENCOURAGES THE MISSION TO CLOSELY REVIEW WITH THE GLOBAL BUREAU, THE PADF/ADEMI PROPOSAL SUBMITTED FOR G/EG/MD IPG FUNDING. IT WAS SUGGESTED THAT THE MISSION CONCURRENCE CABLE WOULD BE THE APPROPRIATE VEHICLE FOR THE MISSION TO PROVIDE ADDITIONAL INFORMATION REGARDING IPG PROPOSALS.

IT WAS AGREED THAT IN THE LONG TERM, THE SUSTAINABILITY OF

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THE SUBJECT OF EVALUATION AND MONITORING BY LOCATION AND SOCIO-ECONOMIC GROUP AS THE ACTIVITY IS IMPLEMENTED. THIRD, NON-BANK INTERMEDIARIES WHICH LEND TO THE POOR MAY ALSO BE ABLE TO ACCESS THE GUARANTEES.

AA/LAC MADE THE POINT THAT THE ABILITY TO WORK WITH FARMER ASSOCIATIONS COULD BE A VERY VALUABLE ELEMENT OF ASSISTANCE TO THE AGRICULTURAL SECTOR. IN REGARD TO MEASURING THE RESULTS OF THE GUARANTEE ACTIVITY, AA/LAC RECOMMENDED THAT INDICATORS BE DESIGNED TO MEASURE THE BENEFIT TO SMALL FARMERS INCLUDING INCREASED ACCESS TO CREDIT, AND THAT THE INDICATOR FOR NUMBER AND VALUE OF LOANS GUARANTEED BE DISAGGREGATED BY ENTERPRISE SEGMENTS E.G. MICROENTERPRISE, SMALL, OR MEDIUM FIRMS, AND SMALL FARMERS. AA/LAC ADDED THAT IT IS A CONCERN OF THE GOH THAT SMALL FARMERS BENEFIT FROM THIS AND OTHER PROGRAMS.

AA/LAC ASKED FURTHER HOW THE FUND MANAGER WOULD APPROVE GUARANTEE APPLICATIONS IF VERY FEW GUARANTEE APPLICATIONS HAD ELEMENTS WHICH FILTERED CREDIT TO SMALL FARMERS? THE MISSION REPRESENTATIVE REPLIED THAT THIS WOULD BE UNLIKELY GIVEN THE NATURE OF THE AGRICULTURAL EXPORT SECTOR AND GIVEN THE COMPETITIVE PROCESS FOR APPLYING FOR GUARANTEES. THERE WAS GENERAL AGREEMENT THAT THE BENEFIT TO SMALL FARMERS WAS ONLY ONE CRITERION FOR THE SUCCESS OF THIS COMPONENT, WHOSE-OBJECTIVE IS ECONOMIC REACTIVATION OF THE SECTOR.

B) TRAINING OF BANKERS. AN ISSUE WAS RAISED WITH RESPECT TO THE TRAINING COMPONENT AS TO WHETHER TRAINING BANKERS WOULD CHANGE BANKING BEHAVIOR AND INCREASE ACCESS TO CREDIT. THE MISSION REPRESENTATIVE RESPONDED THAT SOME NEWER BANKS IN HAITI ARE PREDISPOSED TO WORKING WITH PORTFOLIOS OF SMALLER LOANS AND THAT THESE ORGANIZATIONS NEED ASSISTANCE IN LEARNING TO HANDLE LOWER COST LOAN MANAGEMENT METHODOLOGIES TO ENTER THIS MARKET NICHE IN A COST-EFFECTIVE MANNER.

AA/LAC DECIDED THAT A REDUCED AMOUNT OF FUNDING BE BUDGETED FOR BANKER TRAINING AND SPECIFICALLY FOR LOW COST

TECHNIQUES WHICH WILL ENABLE THE PROCESSING OF LARGE NUMBER OF SMALL LOANS. THERE WAS CONSENSUS THAT THE TECHNIQUES OUTLINED FOR BANKER TRAINING IN THE PP WERE NOT APPROPRIATE FOR INCREASING THE NUMBER OF SMALL LOANS FROM COMMERCIAL BANKS. AA/LAC ADDED THAT BANKER TRAINING SHOULD BE ONLY FOR THE PURPOSE OF INCREASING THE ACCESS OF SMALL BORROWERS TO CREDIT AT THOSE BANKS WHICH ARE ALREADY COMMITTED TO INITIATING AND MAINTAINING OPERATIONS IN THIS MARKET NICHE.

C) MICROENTERPRISE CREDIT AND NBI STRENGTHENING. IT WAS OBSERVED THAT THERE WERE NO FUNDS ALLOCATED TO

Program for the Recovery of the Economy in Transition (PRET)

USAID/HAITI

April 26, 1995

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PROGRAM FOR THE RECOVERY OF THE ECONOMY IN TRANSITION (PRET)

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LIST OF ACRONYMS

ADEMI	Asociacion para el Desarrollo de Microempresas (Dom. Rep.)
AOJ	Administration of Justice project
APN	National Port Authority
CBD	Commerce and Business Daily
CBI	Caribbean Basin Initiative
CN	Congressional Notification
Ed'H	Electricity D'Haiti (State Electric Company)
EERP	Emergency Economic Recovery Program
EIB	European Investment Bank
EU	European Union
FAO	United Nations Organization for Food and Agriculture
FDI	Fond de Developpement Industriel
FHAF	Fond Haitien d'Aide à la Femme (Women small credit)
GDP	Gross Domestic Product
GFAR	Guarantee Fund for Agribusiness Revitalization
GOH	Government of Haiti
HAFED	Haitian Americans for Economic Development
HDF	Haitian Development Foundation
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Financial Institutions
IRR	Internal Rate of Return
IEE	Initial Environmental Examination
LAC	Latin America Bureau
MEDA	Mennonite Development Associates
MIF	Multilateral Investment Fund (IDB)
MIGA	Multilateral Investment Guarantee Authority (World Bank)
Minoterie	National Flour Mill company
NBI	Non-Bank Intermediary
NTAE	Non-Traditional Agricultural Export(s)
MPEP	Multilateral Private Enterprise Program
OAS	Organization of American States
OPIC	Overseas Private Investment Corporation
PACD	Project Assistance Completion Date
PAR	Policy and Administration Reform
PED	Provincial Enterprise Development
PRET	Program for the Recovery of the Economy in Transition
PROBE	Promotion of Business and Exports (now SURGE)
RFP	Request for Proposals
SHEC	Société Haitienne d'Epargne et de Credit
SOFHIDES	Société Financière Haitienne de Developpement
SURGE	Sustainable Use of Resources for Growth and Equity
TA	Technical Assistance
TELECO	State Telephone Company
UN	United Nations
USAID	United States Agency for International Development
USG	United States Government
VITA	Volunteers in Technical Assistance

EXECUTIVE SUMMARY

A new and consolidated **Program for the Recovery of the Economy in Transition** is proposed herein by USAID/Haiti, as an accelerated, short-term effort to address major constraints impeding the recovery of the private sector in Haiti. It emphasizes providing financial and technical services to small firms, microenterprises and agribusinesses who lack access to those services and have been decapitalized by the embargo. PRET also seeks to strengthen the financial sub-sector, including both commercial banks and the non-bank intermediaries in ways which will increase their ability to provide access to credit and other financial services to a much broader range of clients.

PRET is scheduled to span a time period of just over two years (to September 1997), in order to stimulate a quick response to the urgent needs of the private sector and to underscore that we are in a transitional period. The decisions and actions taken by both the Haitian Government and the international community and donor agencies in the next year will set the tone for Haiti's long-term political and economic future.

A relatively slow response by the private sector to reinvest since the return of the constitutional government six months ago can be attributed mainly to:

- a lack of confidence in the full extent of the commitment of the present Haitian government and the one whose composition will be determined by the December 1995 Presidential election, as well as the commitment of the United states and the United Nations, to reverse Haiti's decline, restore political stability, establish the rule of law and improve the policy and regulatory environment affecting all business decisions to invest in Haiti's future; and

- the extent of decapitalization of most middle level and smaller businesses, particularly affecting those in the agribusiness area, as a direct result of the trade embargo and the loss of markets.

PRET seeks to address these major constraints directly through three program components designed to:

- promote a transparent and sound enabling policy, legal and regulatory environment for private enterprise to recover and prosper in Haiti;

- increase access to financial services by borrowers (small firms, microenterprises and agribusinesses), as well as services to small savers, through non-bank intermediaries and commercial banks; and

- help individual businesses gain/regain access to markets and to non-financial resources needed to re-establish or expand production that will create employment in the near-term (6-12 months).

PRET represents a consolidation of all of USAID/Haiti's present and proposed activities to assist the private sector over the next two years. Activities include:

- technical assistance to the Presidential and Tripartite Commissions aimed at improving the policy and enabling environment for business and improving cooperation between the private sector and Government (and labor through the Tripartite Commission);

- providing analytical support to the GOH through a grant to the International Finance Corporation (IFC), in its efforts to privatize state-owned enterprises;

- financial and technical support to non-bank intermediaries to promote broader access to financial services by small businesses and microenterprises;

- business training for targeted microenterprise groups, especially those that are labor-intensive, women-owned, or export-oriented, such as the artisan/handicraft field and small couturier/seamstresses; and,

- a loan guarantee fund to enable agribusinesses decapitalized as a result of the embargo to restart their operations; among the beneficiaries will be many thousands of small farmers who grow mangoes and sell to the processors.

Some of these activities are now funded under other projects, which are scheduled to terminate in 1996. The Mission plans to expend funds in these projects during the coming year and then transfer their functions to PRET.

PRET constitutes the USAID response to the Multilateral Private Enterprise Program (MPEP), which is a framework proposed by the Mission to serve as a catalyst for all donors in the financial area, especially the international financial institutions (IFIs), and to encourage an accelerated response by the international community to the most urgent needs of the Haitian private sector. PRET is, however, designed to stand on its own as a response mechanism by USAID and is not directly dependent on any input from other donors. PRET has received the benefit of substantive inputs from external analytical teams in Haiti (the Nathan Associates analysis of the legal and regulatory environment and the agribusiness assessment performed for the GOH/FAO), as well as from scores of Haitian business people and bankers and several Washington-based USAID officers who made valuable contributions in their brief visits to Haiti.

(PROJECT PAPER EQUIVALENT)

Program Title: PROGRAM FOR THE RECOVERY OF THE ECONOMY IN TRANSITION (PRET) (521-0256)

Life of Project Funding:	$ 8 million
FY '95 Obligation:	$ 3 million
FY '96 Obligation:	$ 5 million
Project Assistance Completion Date:	September 30, 1997

I. PROGRAM PURPOSE

PRET's[1] purpose reinforces one of USAID/Haiti's strategic objectives of increasing employment generation and incomes in and by the private sector on a sustainable basis. It is a transitional program involving a short-to-mid-term stimulus package aimed at restoring and rebuilding both Haitian and foreign investor confidence in the GOH's commitment to revitalizing the economy. The steady creation of permanent jobs will reinforce political stability and signal that the restoration of economic growth. The program will also begin the integration and consolidation of USAID/Haiti's private sector portfolio, integrating activities already underway with new initiatives designed to support the rapid reactivation of the private sector. The program also supports longer term activities that will promote sustainable employment generation by segments of the private sector that heretofore have been stymied by non-transparent policies, a regulatory framework that limited competition and market access, and a legal system that denied recourse or contract enforcement. While the program itself is a short-to-mid-term transitional effort to stimulate the recovery of the private sector from the negative effects of the embargo and the irresponsible macroeconomic policies of the de facto governments from 1991 to 1994, it also supports the overall long-term goal of the USG in Haiti: broad-based sustainable economic growth and the development of an open, participatory democratic society.

[1] The acronym for the program, **PRET**, has symbolic significance in Haiti, as it is the French word for <u>loan</u> (lending and loan guarantees are major features of the program) and also the word for <u>ready</u> (the program seeks to help make the private sector ready for a full recovery).

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II. PROGRAM RATIONALE

A. Background

Haiti's private sector is moribund following three years of embargo, disinvestment and decapitalization. Steady economic retrenchment since 1991, the closing of productive enterprises resulting in massive unemployment as high as 80 percent, and stagnation in the financial sector have combined to produce a pessimistic attitude within the private sector, which will be difficult to reverse. In the setting of the past three years, no significant donor activity to stimulate the economy was feasible, and in fact USAID was the only donor agency with any active program in the private sector.

From the 1991 coup d'état until the intervention by the multinational force in September 1994, USAID/Haiti's private sector activities were limited to support to the Haitian Development Foundation (HDF) for small and microenterprise lending under the Provincial Enterprise Development project (PED). This project, suspended for nine months following the coup, was reactivated in mid-1992 under the rubric of humanitarian assistance as a means of helping to mitigate the negative effects of the embargo on small enterprises, which lacked the resources to respond to shortages of materials and inflation. An estimated 100,000 jobs in the manufacturing and assembly sector in Port-au-Prince were lost during the period of international sanctions, with many laid-off workers joining the ranks of the informal sector and adding to the congestion of street markets.

During this period, the other approved USAID private sector project, the Promotion of Business and Exports (PROBE, later renamed Sustainable Use of Resources for Growth and Equity - SURGE), continued to be held in suspension as inappropriate under the conditions of the embargo. The only other activity was occasional short-term technical assistance to small companies provided under a grant to the International Executive Service Corps.

In the few months since democratic rule has been restored in October 1994, economic recovery has proved to be slower than expected, with both Haitian and foreign investors adopting a wait-and-see attitude before committing to reopen former businesses or to make new investments. The realization has taken hold that business people at all levels have been severely decapitalized by the lengthy embargo and other aspects of the accompanying economic retrenchment and that recovery will be neither swift nor automatic without appropriate international assistance. So far, interventions by the international financial institutions (IFIs) are still at the planning stage.

With respect to USAID actions, several significant and high-profile initiatives have begun since December 1994 which will have a positive impact on the private sector: 1) a $25 million U.S. contribution to help clear Haiti's $82 million arrears to the IFIs, thus opening up access to $230 million in IFI programs and resources; 2) $45 million in balance of

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payments support for the import of petroleum and other critical products; 3) through a $2 million grant to the International Finance Corporation (IFC), USAID is supporting the analytical process leading to the privatization of nine of the principal Haitian state enterprises; and 4) drawing on existing funds in the SURGE project, USAID is providing $1 million in support of the ambitious program of the Presidential Commission on Economic Growth and Modernization, aimed at removing the legislative and policy barriers to trade and investment. These initiatives are necessary preliminary steps and initial efforts to support macroeconomic stabilization and address the policy, regulatory and legal constraints to broad-based private sector expansion and to privatize inefficient and costly parastatals. However, additional and more specific actions are needed in the near term to support actively the reactivation of the private sector, to operate in tandem with the implementation of policy reform measures by the GOH, most of which require legislative action by the Parliament.

Accordingly, it is now imperative that USAID, in coordination with other relevant donor countries and international organizations, move beyond humanitarian relief and critical initial macroeconomic stabilization efforts. To reverse the downward spiral of the past decade, especially the last three years, sustainable broad-based economic growth is required. Two approaches to growth must be followed simultaneously. First, private sector (non-welfare) jobs must be generated to begin decreasing the 70 percent unemployment in Haiti. Secondly, policy and regulatory reforms must be initiated immediately to restore investor confidence, encourage broader participation in the economy and create large numbers of permanent jobs.

B. Diagnostic of Major Problems

As an aid to program planning, USAID/Haiti has benefitted from a number of recent analyses of the constraints to the recovery of the private sector and its ability to generate permanent jobs in Haiti. These include: the Nathan Associates study of the legal and regulatory impediments to investment and economic growth, the Ministry of Agriculture/FAO Agribusiness Assessment, a comprehensive list of priority actions emerged from the extensive World Bank/IDB analysis conducted in late 1994, in connection with the Emergency Economic Recovery Program (EERP) (See Annex B), as well as the just concluded IDB Private Sector Mission report. Many of these priorities have also been identified by the Presidential Commission in its Agenda of January 1995.

Response by the Haitian private sector to begin the rebuilding process following the restoration of constitutional government has. so far, been disappointingly slow. This lack of responsiveness stems from a number of fundamental constraints which must be addressed if sustainable private enterprise growth is to be achieved. These constraints can be divided into five main categories:

1. <u>Negative Policy, Legal, and Regulatory Environment</u>: There is a general consensus that current policy, legal and regulatory environment

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is not conducive to broad private sector expansion. Policies, legal codes and regulatory mechanisms are outmoded, unclear, designed to limit competition and market access, and their application is neither open nor transparent. These increase transactions costs for businesses, provide ample opportunity for corruption, and render commercial banks extremely risk-averse (i.e. requiring exorbitantly high collateral requirements for loans). Many existing practices are steeped in Haitian history and culture, and some will die hard, but collectively these factors stifle economic recovery, discourage foreign investors and foster an ultra-conservative wait-and-see attitude on the part of Haitian and foreign entrepreneurs and commercial banks, which restrict lending to well-established regular customers from the wealthy business families. Investors must be convinced that this time it will be different and that reforms will hold and not be ignored or reversed. There is an historic basis for such skepticism; Haitians have seen earlier reform efforts wither or overturn.

As a logical starting point, we have focused on the revision and update of the legal and regulatory framework under which the private sector operates. Items to be covered include commercial, civil and investment codes, the tax structure, tariffs and customs duties, insurance regulation, licensing requirements, pension plans, workers' rights, mortgages, land tenure, etc. Also needed is a simplified and transparent regulatory environment, in which transaction costs would be reduced through streamlined administration and corrupt and/or inefficient practices systematically weeded out. Moreover, the civil code governing business transactions needs to be modernized (some of the codes date back to the early 19th Century) and their enforcement/sanctions made commensurate with other countries. Improvements in the policy, legal and regulatory environment should not only reduce transactions costs but also result in lowering risk to lending institutions who demand higher collateral requirements because of the general uncertainty that pervades the legal/regulatory environment.

2. <u>Inadequate Physical Infrastructure</u>: The disintegration of the national infrastructure is a highly visible deterrent to economic growth and the recovery of the economy. Deteriorating roads and bridges, an antiquated, inefficient and corrupt port authority, abysmally inadequate and chronically unreliable electrical power generation and a non-functional telecommunications system (especially for internal telephone communication) combine to discourage even the boldest investors. Addressing this wide range of infrastructure needs will require massive capital resources, enlightened management and close coordination among donors, implementing private construction and engineering firms and the GOH. Without significant visible progress in each of these areas, it is unrealistic to expect that many investors, especially off-shore enterprises, will be attracted to Haiti. Present conditions reduce Haiti's international competitiveness, incur needless costs, discourage the return of tourism and the recovery of markets lost as a result of the embargo.

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3. <u>Security and Absence of the Rule of Law</u>: Experienced business people, as well as potential new investors all emphasize that a major factor in their reluctance to commit resources to begin or reestablish businesses, invest in new inventory, hire or rehire a work force, etc. is the non-functional justice system, the lack of adequate physical security and protection of property and the absence of any confidence in contract enforcement. Some insist that they will not be convinced until two successive elected Haitian governments adopt a consistent policy agenda, a condition that cannot be realized until mid-1996 at the earliest. Unlike some of the other constraints, these problems cannot be solved by money alone, but will require major institutional and attitudinal changes, an upgrading of the judicial infrastructure, training of magistrates, the emergence of a competent and disciplined police force and serious attempts to end corrupt practices in government. A pervasive problem is that there is no concept of civil contempt and consequently no penalty for non-compliance with judicial rulings. In cases of egregious civil violations, the perpetrator may be sent to jail, but there is almost never any recovery of damages by the victim. Correcting these many deficiencies will require concerted effort and commitment over a period of time by government, private enterprise and the labor movement.

4. <u>Lack of Access to Finance</u>: While the existing commercial banks are generally healthy and liquid, they service only a very limited clientele with a very narrow range of services. Problems of access to finance result primarily from restrictive financial sector policies and regulations, such as interest rate ceilings, reserve requirements, and excess collateral requirements. Correcting these obstacles will take time, and some require legislative action. Currently, bank clients, who are not among the preferred group of elite commercial bank customers from the leading industrial families, and who seek to reactivate small and medium businesses, find that they cannot meet collateral requirements even for working capital loans. The problem is particularly acute for agricultural businesses, such as importers of inputs used by farmers (e.g. seeds and fertilizer) and exporters of agricultural products (e.g. mangoes, poultry), who need working capital to buy produce from farmers and pay for transportation and storage services. Guarantee mechanisms are unavailable for these small and medium borrowers, and bank loans are not possible without them. An agribusiness assessment completed in April 1995 recommended the immediate establishment of a temporary loan guarantee mechanism to assist small-to-mid-sized agribusiness producers to reopen. Direct benefits would occur immediately to thousands of small farmers.

5. <u>Lack of Knowledge of Business Opportunities and New Technologies</u>: The 1990s has brought much greater emphasis on global trading relationships based on international comparative advantage. Since Haiti has been out of the market for three years, it has fallen behind its international competitors, and in order for it to regain its old markets and establish new ones, its production and service sectors must be introduced to state-of-the-art technology, and labor skills at all levels must be updated and upgraded to meet the quality and price requirements

of the international market. Consequently, there is a formidable need for appropriate short-term technical assistance and training.

C. Favorable Factors and Potential Opportunities

Despite significant structural problems which will require concerted effort by both the GOH and Haitian private sector, as well as substantial assistance from international donors, Haiti offers a number of solid advantages which provide clear and convincing opportunities for investment and economic growth. These include:

1. A freely-elected democratic government with reform-minded cabinet ministers (complemented by a newly formed and potentially dynamic Presidential Commission). The GOH is committed to eliminating tariff and non-tariff import restrictions, liberalizing trade, streamlining government and the legal system, promoting foreign investment, and privatizing inefficient parastatal industries.

2. Government recognition of the need for rapid policy measures designed to attract investment and business expansion. For example measures being considered include removal of the 22 percent ceiling on interest rates (which has impeded lending to uncollateralized smaller borrowers) and the removal of the withholding tax on foreign companies;

3. A free market environment with considerable entrepreneurial talent and a history of recent successful experience in productive enterprises, especially the assembly industry and agribusiness.

4. A hard-working, reliable, stable and trainable labor force available at very competitive wages and historically recording a low level of absenteeism (this despite high illiteracy and the lack of access to both technical and managerial training, which must be addressed by greater emphasis on basic education and practical skills training);

5. A close geographical proximity to the United States, minimizing shipment and travel time;

6. The presence in North America of a one-million-strong Haitian diaspora, which includes both many potential investors and a skilled technical and managerial human resource pool for Haiti.

7. An absence of any foreign exchange controls, which permits investors to repatriate capital and earnings at any time and without limits;

8. The existence of a functioning and highly liquid (albeit conservative) private banking system, with capital immediately available for minimal-risk investments;

9. Tax incentives for new investment and free-zone treatment for assembly industry enterprises;

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10. An historically stable currency and (except for distortions resulting from the 1992-94 OAS and 1994 UN trade embargoes) a relatively low inflation rate (inflation is now diminishing, and the rate is expected to resume its historic annual level of 10-15 percent sometime during 1995).

11. Eligibility for tax and tariff advantages under the Caribbean Basin Initiative, Enterprise for the Americas, the Generalized System of Preferences, Section 936 of the Internal Revenue Code provisions for preferential credit, and Section 807 U.S. customs benefits;

12. Cutting-edge opportunities for firms which seek to revitalize and introduce growth-oriented industries and services which were shut down or significantly impaired by the embargo including,
    a. fruits (esp. mangoes, pineapples and mandarins),
    b. flowers (esp. orchids and tropicals),
    c. coffee ("Haitian Blue" gourmet coffee is presently being developed and sent to export markets),
    d. tourism (Haiti has an existing hotel industry and miles of excellent beaches, historic sites near Cap Haitien, and an eager and trainable hospitality service staff sector),
    e. textiles (Haiti rarely uses its quota under international textile agreements),
    f. electronic components,
    g. packaging materials,
    h. information services including legal, accounting and insurance.

D. Present USAID/HAITI Private Sector Activities

Following is a compendium of activities related to and benefitting the private sector in which the Mission is presently engaged. Except for the microenterprise lending project with HDF, all of these actions have been initiated since the return of the Aristide government in October 1994 and represent opportunistic responses to political as well as economic priorities. This ad hoc approach reflects both the absence of a long-term plan and the need to respond to urgent political priorities to reinforce the Aristide government. Indeed, if a long-term private sector strategy had been prepared a year or more ago, it would now require substantial revisions to take account of unplanned developments, both in Haiti and the United States.

Elements that constitute the Mission's current private sector "portfolio" include:

- Microenterprise Credit - USAID has supported a credit program to small and microenterprises through the Haitian Development Foundation since the mid-1980s. Two highly successful USAID projects have permitted HDF to develop into the premier credit institution in the country for small businesses, which do not qualify for loans from commercial banks. Since 1992, USAID's Provincial Enterprise Development project has opened five provincial branches for micro-lending activities, with two more planned later in 1995. HDF is not the only small-scale credit agency in Haiti, and other non-bank institutions (NBIs) are also operating and have good growth potential. These include the Société Haitienne d'Epargne et de Credit (**SHEC**- privatized by its creator MEDA, the Mennonite group) and the Fonds Haitien d'Aide à la Femme (**FHAF**). Of these NBIs, only SHEC offers the added element of a savings association. Operating at a somewhat higher level in the financial market is the Société Financière Haitienne de Developpement (**SOFIHDES**). Although SOFIHDES was founded under USAID auspices in 1983, it has not received support from USAID since 1991, and has been operating independently and successfully since then as a private development bank specializing in loans to mid-sized manufacturing enterprises and agribusinesses. Owing to a long-standing highly conservative and risk-aversive policy, Haiti's commercial banks do not offer unsecured credit, and thus loans to microenterprises are virtually non-existent in the formal banking sector. This limitation extends to many mid-sized businesses, which are unable to provide full collateral for loans.

Following is a table which illustrates the present lending levels of these private, non-bank credit institutions:

CREDIT AGENCY	**LOAN SIZE RANGE (in $US)**	**SIZE OF PORTFOLIO (No.)**	**($ value)**
SOFIHDES	25,000-250,000	71	3.0 mil
HDF	500-5,000	1,100	1.4 mil
SHEC	175-17,500	500	2.0 mil
FHAF	100-500	N/A	

• <u>Support to the Presidential Commission</u> - Broad technical assistance to promote an enabling environment for the private sector is being made available to the Presidential Commission for Economic Growth and Modernization. This assistance finances a contract with a local consulting firm (Capital Consult) to undertake the management of a series of analytical tasks, drawing on technical, financial and legal specialists in Haiti and abroad. The principal objectives of these analyses are to introduce measures to strengthen budget and monetary policy, modernize the investment code and regulations, mobilize capital and savings, improve banking practices, and upgrade the regulatory framework under which business and commerce operate. The Commission has a one-year mandate to complete this process, or at least to carry it to a point where it can confidently and with wide public support be taken over by the next government in 1996. Work began in January 1995 with the creation of sectoral sub-committees, and the first formal study was completed in March by Nathan Associates, an assessment of the legal and regulatory environment to business. An Executive Director for the Commission was contracted by USAID in March to oversee and direct the analytical process being implemented by Capital Consult, which won a

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competitively selected contract to implement the Commission's work agenda. The process will be monitored closely by the USAID/Haiti Office of Economic Growth, which has acquired the services of a local-hire American with a professional banking and finance background.

- Support to the GOH Privatization Program - In December 1994, USAID/Haiti made available $2 million in technical assistance through a grant to the International Finance Corporation of the World Bank Group (IFC) to undertake an analytical process leading to the privatization of selected state enterprises. Work by specialized IFC consultants began immediately in December, and by early March 1995, all of the targeted enterprises except for the airport had received initial visits by IFC technical teams and several including Ed'H (the electric company), Teleco (the telecommunications company) the National Port Authority (APN) and the cement plant, and the two state-owned banks have been the subjects of detailed diagnostic analysis. Further candidates for privatization and/or a private management contract will be the airport, the flour mill (Minoterie), and the vegetable oil processing plant (Oleagineux). Those enterprises providing essential services (the port authority, the phone company and the electric utility) are all seriously impaired by poor management, inadequate billing and collection and rampant corruption. As these factors strongly deter private investors, the interim option of heavy technical assistance or management contracts for several months to a year or more is now being considered for these enterprises to maintain essential services. As the work proceeds, there are funding implications beyond the $2 million already provided to IFC by USAID, some of which could be solicited from other donors. The IFC will submit its technical reports to the IFC by mid-April on eight of the parastatals with recommendations for the GOH. This will complete the diagnostic stage, and the more difficult stage of competing and negotiating sales or management contracts will begin. The GOH is mindful of the need to rally broader support both within the government and among the public for this initiative, as opponents continue to resist privatization for different political and economic reasons involving selfish interests or a lack of understanding of the potential benefits.

- Assistance to the Informal Sector - In addition to the foregoing active programs, in late 1994, USAID/Haiti designed an initiative to assist the informal sector through, credit, practical business training, institutional support and infrastructure improvement. However, in view of the Mission's stated desire to consolidate private sector activities into a single integrated project or program, this activity is not being authorized as a separate new project. Instead, its main elements are incorporated into the PRET program (in program outputs #2 and 3; see next section).

- Balance of Payment Support - While the $45 million in BOP support to the GOH serves to finance a wide range of public sector activities, including the funding of critical imports, it also benefits the private sector by helping to provide the political stability critical to improving the investment climate. Significant policy conditionality accompanies the BOP support, including privatization of parastatals,

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fiscal reform, tax collection enhancement, elimination of tariffs, elimination of gasoline subsidies, removal of the 22 percent cap on interest rates, and other measures.

- Agribusiness Assessment - USAID/Haiti has contributed $150,000 to a comprehensive assessment of the agribusiness sector by the Ministry of Agriculture and FAO. This assessment, whose field work was undertaken in March 1995, will greatly facilitate the work of the Agribusiness sub-committee of the Presidential Commission and will lead to policy recommendations regarding the production, processing and marketing of both traditional and non-traditional agricultural exports (NTAEs). Participation of other donors is anticipated.

- Skills Bank - In order to attract back to Haiti large numbers of professionally trained and experienced Haitians of the diaspora who live and work in the U.S. and Canada, USAID/Haiti has initiated a "Skills Bank" which will identify, screen and recruit professional-level Haitians, mainly from North America to return to Haiti to work in business, government and the NGO community. A computerized registry being developed and maintained by a contract group, VITA and HAFED, recently selected competitively. These skilled candidates are being matched to vacancies and job requirements at all levels in the Haitian economy and the GOH. This initiative will be a short-term activity, for which $250,000 is budgeted for an eight-month contract, after which an evaluation will determine whether it should be continued.

- Technical Assistance to the Tripartite Commission - This newly formed commission comprising representatives from the government, private sector and labor has requested technical assistance to help implement its mandate. Since much of its agenda parallels that of the Presidential Commission, with the added dimension of Labor, close coordination with that body is essential. The precise nature and form of USAID assistance to the Tripartite Commission is now being discussed with the Commission and will take shape over the next few weeks (May 1995). It is likely to take the form of analytical and diagnostic studies on labor-management issues, beginning with a regional comparative advantage assessment of costs among Caribbean countries to assist in setting the new minimum wage and other policy questions. Unlike the Presidential Commission which is tied to President Aristide's term of office, the Tripartite Commission is a permanent body operating under the aegis of the Ministry of Social Affairs. Thus the assistance instrument can be a Project Agreement with that Ministry, for which the Mission has allocated $250,000 from funds obligated in 1991 under the PROBE/SURGE project (521-0186).

E. Strategy Statement for PRET

The constraints analysis presented above paints a bleak picture of a financially distressed Haitian economy plagued by a host of policy distortions, political uncertainties and physical barriers stemming from a deteriorating infrastructure. These distortions and constraints raise transaction costs at all levels and are partially responsible for the risk-averse philosophy of the commercial banks, which is manifested in

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high collateral requirements and a reluctance to extend loan to new borrowers. With this environment in mind, PRET seeks to:

- provide a rapid and responsive mechanism to restart the thoroughly decapitalized agribusiness sector through the creation of a loan guarantee fund, designed to ease collateral requirements and expand loans to both processors/exporters and importers of agri-supplies; and

- apply synergistically all Mission private sector activities in conjunction with relevant bilateral programs so as to leverage effectively, over the next two years, a series of policy changes and an ambitious reform agenda by the GOH, dealing with the policy, legal and regulatory environment affecting business, trade and investment in Haiti.

The underlying goal of these activities is to facilitate a rapid recovery of the economy, as measured by increased rates of employment and enhanced incomes, especially at the lower levels. However, worldwide experience indicates that programs aimed at microenterprises are more successful in raising the incomes of participants than at generating large numbers of new jobs. For this reason, we cannot depend on microenterprises alone to raise employment levels substantially; hence part of the focus of this program is on revitalizing agribusinesses and widening the scope of commercial bank lending to include those small manufacturing businesses which are decapitalized and unable to recover without such a stimulus.

III. THE MULTILATERAL PRIVATE ENTERPRISE PROGRAM (MPEP)

Late in 1994 an Emergency Economic Recovery Program (EERP), undertaken by the World Bank and IDB, stressed the near-term necessity of interventions in the financial sector to correct for the de-capitalization caused by the embargo. This clearly involves major inputs from the international financial institutions (IFIs) which have significant funds available for this purpose. USAID, which has a lesser amount of financing available in the current fiscal year for a large-scale intervention in the financial sector, but has a comparative advantage at the level of microenterprise and the provision of non-financial services, undertook to prepare a document to identify the needs of the financial sector and what types of responses are appropriate. One objective in drafting such a paper was to maintain the momentum generated by the EERP analyses and the August 1994 and January 1995 Consultative Group meetings in Paris. All parties agree that a coordinated <u>multilateral approach</u> is essential given the complexities and urgency of the Haiti's economic problems. Also, effective donor coordination will help the thinly-staffed Haitian government choose wisely among complementary, and perhaps competing, proposals.

USAID introduced at the meeting of the Consultative Group meeting for Haiti, held in Paris at the end of January 1995, the concept of a Multilateral Private Enterprise Fund. This concept has evolved substantially in the weeks since then, moving away from the notion of an

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enterprise fund based on the East European model and into a more pragmatic approach, better suited to Haiti's circumstances. In its current form, it is conceived as a Multilateral Private Enterprise Program (MPEP), whose purpose is to provide a framework in which major donors in the private enterprise area, including the IFIs, can provide separately identifiable and independently-operated initiatives in close collaboration and coordination with each other. Each donor agency would provide assistance in its areas of comparative advantage.

USAID/Haiti has discussed the MPEP framework and provided the concept paper to the World Bank, the IDB, the European Union, the European Investment Bank (EIB), as well as to bilateral donors Canada and Germany. In addition, the paper was sent to the GOH Cabinet with a summary in French, and the Prime Minister has agreed to ask the World Bank, which will host the May 11-12 Consultative Group meeting in Port-au-Prince, to place it on the agenda. The Prime Minister has suggested that the MPEP concept be presented at the CG meeting by the Presidential Commission, in order to demonstrate that it is not merely a USG initiative being pressed on the IFIs.

MPEP's strategy is to build institutional capacity of the financial sector at the government, commercial and non-bank levels,in order to increase the volume of financial intermediation between commercial banks, non-bank intermediaries, and micro, small and large businesses in the formal and informal sectors. To be effective, activities under MPEP should satisfy at least three operating criteria: that the interventions be "on the ground" in the near-term, that they be in fields of specialized expertise and comparative advantage of each donor, and that they be organized synergistically in areas which permit (indeed require) close donor coordination. MPEP activities should also act as a platform to support other important private sector programs described in the EERP, such as investment promotion and assistance to the agribusiness and artisanal sectors.

MPEP does not attempt to respond to all of the needs of the private sector, but is focused on the financial sub-sector. Just as the private sector is often cited as the engine of growth of the economy, we are carrying that analogy one step further and asserting that the financial sub-sector is the engine of the private sector. or at least the fuel for its engine, and thus a *sine qua non* for growth.

MPEP's overall objective is to promote economic growth, investment and employment in Haiti through improving access to credit and other financial services for businesses of all sizes. Tentatively, MPEP contains four components.

> First, to seek to establish a favorable policy environment for business by enhancing the legal, regulatory and policy framework on which many individual and corporate decisions to invest, reopen, or expand are based. Interventions would encompass assistance with the diagnostic and analytical process leading to a variety of

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legislative and policy actions affecting business, trade, financing and investment.

(The above policy component is new to MPEP. It widens the MPEP framework considerably beyond the financial sub-sector which characterizes the present draft. USAID is substantially addressing the policy area through the Nathan study and other USAID-funded work, to be done under the Presidential Commission, and it is not yet know whether other donors are likely to become active in this area. Nevertheless, given the importance of the policy and regulatory framework to business and investment, we have decided that it should be part of the MPEP concept and will add it to the latest version of the document to be circulated to the IFIs and other donors.)

Second, to provide institutional strengthening of the financial sub-sector and to improve financial intermediation between formal and non-bank institutions. This includes technical support to microenterprise credit institutions (NBIs) and creating in commercial banks a capacity for management of small-loan portfolios by introducing new lending technologies and methodologies.

Third, to establish a loan guarantee facility to provide incentives for commercial banks to expand their risk frontier to include lending to agribusinesses and non-bank intermediaries for on-lending to microenterprises.

Fourth, to recapitalize non-bank intermediaries (NBIs), to enable them to increase their coverage to microenterprises until they reach the point of sustainability with regard to capital acquisition.

One of the original components of MPEP, a central project preparation unit to develop bankable projects, has been dropped as a feature of the program, since it was not at the same level of importance as the other components, and all local banks questioned have said that it would not make a significant difference in their lending decisions, even if the analytical work were of high quality. It is considered more important to enhance the analytical capabilities of the banks and NBIs, which is addressed in component #2. The removal of this component will not affect the other elements of MPEP.

This paper presents PRET as a program intended to represent the USAID contribution to the MPEP framework. However, PRET covers more than just financial services and is designed to stand on its own, in the sense that it is not dependent on any specific inputs which other donors may make under the MPEP framework. PRET promotes action to improve the policy and regulatory environment for business (through assistance to the Presidential and Tripartite Commissions and the funding of the IFC privatization effort). PRET's activities in the financial sub-sector (financial and non-financial services to NBIs) will complement the other (and in some cases larger) interventions of the cooperating IFIs. Thus, MPEP is an umbrella for USAID's financial sector activities (PRET Program Outcomes #2 & 3).

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IV. PRET PROGRAM DESCRIPTION

PRET's program's purpose is to increase sustainable employment generation and income levels in and by the private sector. A series of illustrative Performance Indicators to measure results under the program are provided below and will be further refined in the annual work plans of the implementing entities.

PRET's three **Program Outcomes** are:

(1) to promote a transparent and sound enabling policy, legal and regulatory environment for private enterprise to recover and prosper in Haiti;

(2) to increase access to financial services by borrowers (small, medium and microenterprises and agribusinesses), as well as services to small savers;

(3) to increase the productive capability (and therefore income levels) of small businesses and microenterprises, by providing access to non-financial resources in the near-term;

Program Outcome #1- to promote a transparent and sound enabling policy, legal and regulatory environment for private enterprise to recover and prosper in Haiti.

Activities under this program outcome support the development of a favorable investment climate by providing a level playing field for private sector development and restoring confidence in the economy by both domestic and foreign investors. The main impetus for specific actions needed to effect changes will come under the aegis of the Presidential Commission for Economic Growth and Modernization, which is receiving USAID-financed technical assistance from both the Haiti program (under the SURGE project) and from a Global Bureau contract with Nathan Associates to analyze and develop draft legislation to enhance the legal and regulatory framework to strengthen contract enforcement and modernize the investment code, in order to make Haiti competitive again in the post-embargo world.

Other activities in this program outcome include continuing assistance to the GOH with its efforts to privatize state enterprises, opening a policy dialogue among government, labor and management through assistance to the Tripartite Commission.
Progress in these areas will require astute preparation, arduous negotiation and political courage to change many of the laws, regulations, procedures and attitudes that support long-standing practices inhibiting access and fair competition, and providing an easy environment for non-monopolistic practices and corruption. The sequencing of policy and regulatory changes will also pose a challenge to the Haitian Government, which will require specialized technical assistance to revise and modernize laws, regulations and procedures.

Implementation of various reforms by different government ministries could result in sometimes conflicting effects in achieving macroeconomic stabilization targets and attempts to strengthen regulatory and enforcement mechanisms (e.g. resources needed to strengthen these mechanisms will conflict with the objective of reducing government expenditures).

following is an illustrative list of near-term and follow-on activities, USAID funding mechanism, and illustrative indicators of performance and results.

Near-Term Activities

1. Establish Policy Forum and Agenda (Presidential Commission, Tripartite Commission)
   Trade Related: Phased reductions in tariffs and duties
   Elimination of Non-tariff Barriers (import/export licensing requirements etc.)
   Streamline Ports and Customs Administration
   Other Legal/Regulatory: Revise/Modernize Commercial, Civil and Investment Codes (Will also be coordinated with AOJ project)
   Incorporate intellectual property and patent rights into legal and regulatory reform agenda (LAC Regional Project)

   Agribusiness/Agricultural: Agricultural pricing (PL 480 Title III)

   Ensure that reforms and policy changes are in line with requisites for eventual accession to Free Trade Area of the Americas announced at the December 1994 Summit of the Americas (LAC Regional Trade Expansion Project)

2. Complete diagnostic phase of privatization analysis by IFC and begin action phase (competitive bids for management contracts, sale, joint ventures, etc. (IFC- PAR Project)

3. Assess formation of a Bureau of Standards Unit in the Ministry of Commerce, as requested by the Minister of Commerce.

4. Comparative study of the business climate (including wage rates, port and transport charges) in Haiti vis-a-vis other competing countries (Presidential Commission and Tripartite Commission).

Performance Indicators:

- Prioritized agenda established and publicly presented;
- Agribusiness policy recommendations presented;
- Analyses prepared and disseminated publicly of parastatal financial status and costs/benefits to Haiti;

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- At least one parastatal privatized;
- Comparative Study publicly disseminated.

Follow-on Activities

1. Policy Agenda

Trade Related: - Phased reduction in tariffs/duties initiated;
- Assistance provide to eliminate non-tariff barriers (PAR Project)
- Streamline Customs and Port Administration through contracting functions and simplifying procedures (PAR Project)

Legal and Regulatory: - Assistance provided in drafting modernized Civil, Commercial and Investment Codes(PAR and AOJ Projects);
- Assistance in revising labor code and adopt international standards for resolving labor/management disputes;
- Assistance to incorporate intellectual property and patent rights protection into appropriate revised codes and regulations.

Performance Indicators:

- Tariff barriers reduced or eliminated;
- Selected non-tariff Barriers eliminated;
- Revised Civil, Commercial, Investment and Labor Codes prepared, submitted, and passed by the National Assembly;
- Customs delays reduced from X to Y days;
- Port charges reduced by 50-75%;
- Increased domestic/foreign investment as percent of GDP;
- Remaining parastatals privatized or under private management.

Program Outcome #2- to increase access to financial services by borrowers (small, medium and microenterprises and agribusinesses), as well as services to small savers. Several studies and reports, particularly the IDB Private Sector Mission Report, EERP, and World Bank Assessment, emphasize the problem of credit availability by clients who are not preferred customers of the commercial banks. This lack of access stems from full collateral requirements imposed by the banks and their legal inability to accept chattel liens on equipment or mortgages on undeveloped land. Collateral is thus normally limited to cash, securities and house mortgages. These limitations contribute to the risk averse behavior on the part of the commercial banks and result in collateral requirements which most borrowers cannot meet. The banks (and especially the NBIs) are further constrained by the current 22 percent interest rate ceiling and high reserve requirements imposed by the Central Bank to control the money supply of banking institutions and discourage speculative behavior. Program Outcome #2 will reinforce the enabling environment activities in Outcome #1 by addressing in specific terms the financial policy constraints which severely limit financial intermediation and bank lending.

Because improvements in the general policy, legal and regulatory environment as well as policy and the strengthening of institutional mechanisms will take time, the program proposes to address the immediate collateral and credit availability problem by implementing an interim credit guarantee mechanism for the agribusiness sector. (The World Bank is currently developing its own guarantee mechanism for the industrial sector through the Fond de Developpement Industriel (FDI)). Similarly, the recently approved OPIC guarantee program will concentrate on the manufacturing and assembly sectors, and eligibility will be limited to U.S.-owned firms and certain Haitian firms which are major suppliers of U.S. companies. Thus neither the OPIC nor FDI guarantee programs will be helpful to the agribusiness producers or processors.

The intent of the guarantee fund under PRET is to fill this gap. This program element will provide guarantees for short-term working capital loans, so that small and medium-sized Haitian agribusinesses can finance imports of agricultural inputs and/or export of agricultural commodities with strong forward and backward linkages to the small farmers.

Among the major beneficiaries of the loan guarantee program will be many thousands of small farmers who grow mangoes and sell them to transporters who work for the mangoes processors. Thus mangoes, which are now rotting on the ground, will in a matter of just a few weeks after loans are made to the processors, be the source of cash in the pockets of a significant percentage of the 400,000 small farmers who grow mangoes in Haiti. The result is not a mere trickle-down effect, but a tangible, direct and rapid benefit to a large number of the poorest peasant farmers in the country.

This interim program (lasting no more than two years) will be implemented by SOFIHDES, utilizing a Cooperative Agreement, under which SOFIHDES manages the loan guarantee fund. Although there is no legal or policy obstacle to making these funds available to SOFIHDES as a private, for-profit corporation for the lifetime of the guarantee program, funds would not be granted outright to SOFIHDES, and proceeds of the fund would ultimately revert to the Mission for other development purposes. The proposed vehicle for recovery of residual guarantee funds is the SOFIHDES Trust Account, which is now a funding source of lending capital for HDF. The fund could be used to supply lending capital to NBIs which have participated in PRET. However, this would not be on grant basis, as one of the program's objectives is to graduate NBIs from grant funding of lending capital. HDF and other NBIs would repay the amount provided back into the Trust Account at a favorable interest rate (e.g. 5-7%), which would perpetuate the fund.

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The guarantee fund, capitalized at a level of $2,000,000, will provide guarantees for short-term (three-to-six months) working capital loans to agribusinesses on a competitive basis. However, a portion of the fund, up to 20%, could be used to guarantee longer-term capital investments for approved agribusiness purposes. If the first cycle of working capital loans is successful, subsequent cycles can be leveraged, perhaps at 2:1, to double the loan level which can be covered. Also, further leverage is realized because only a portion of each loan will be guaranteed, normally in the range of 50%, but in no case more than 75%. Preference would be given to clients who qualify for a lower percentage guarantee.

Initial meetings with selective commercial banks in mid-April have indicated both keen interest and a willingness to participate on terms that appear satisfactory to USAID as guarantor and to SOFIHDES as potential manager of the Guarantee Fund. A detailed description of the guarantee mechanism, known as GFAR, is provided in Annex A.

PRET will also incorporate elements of the previously designed Informal Sector project to strengthen non-bank intermediaries (NBIs), so they can reach as soon as possible operational sustainability and self-sufficiency regarding the acquisition of new capital -- ending the reliance on grant capital financing from donors. Under this Program Outcome, the Mission will explore several options under which ADEMI[2] could work with the Haitian Development Foundation to strengthen its loan-based financial services and expand its sources of capital.

In sum, this program outcome will seek to increase access by small and microenterprises to credit and other financial services (including savings instruments). In doing so, it will help strengthen the capability of local banks and NBIs to provide these financial services. A major new element will be the Guarantee Fund for Agribusiness Revitalization (GFAR). The Mission is exploring the possibility of accessing special central Agency funds to support the guarantee mechanism.

Following is an illustrative list of the near-term and follow-on activities, USAID funding mechanism, and illustrative indicators of performance and results for this program outcome:

Near-Term Activities

1. Establish Policy Forum and Agenda (Presidential Commission, Tripartite Commission- SURGE, and PAR Projects)
   Financial Sector: Elimination of 22% interest rate ceiling

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[2] ADEMI is a highly successful microenterprise lending organization operating in the Dominican Republic. It has excellent outreach and training capabilities, and the Mission has been in touch with its Executive Director about cooperating with HDF under this program.

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Liberalize collateral law to allow chattel liens
Revise/Modernize Financial Sector Laws

2. Guarantee Fund Established Agricultural Working Capital Loans (SOFIHDES/Commercial Banks - funding source: PRET)

3. Expanded microenterprise lending program and non-bank financial institutions serving small borrowers/lenders (HDF, SHEC, others- funding source: PED, PRET)

Performance Indicators:
- Elimination of 22% interest rate ceiling;
- Financial Sector and Capital Markets Assessment;
- Recommendations incorporated into Presidential/Tripartite Commissions' Policy Agenda;
- Number and value of loans guaranteed;
- Number of small farmers benefitting from guarantee fund;
- Number of jobs created;
- Number of jobs saved;
- Increase of domestic and foreign investment as a percent of GDP.

Follow-on Activities

1. Financial Sector Policy Agenda: Assist in the drafting of revise/modernized Financial Sector Laws with emphasis on aspects regarding capitalization, supervision, of non-bank financial institutions serving small, medium and microenterprises and small savers (Presidential/Tripartite Commissions- PAR Project)

2. Institutional Strengthening and Sustainability of microenterprise and NBIs serving small borrowers and lenders (HDF, SHEC, FHAF).

Performance Indicators:

- Revised, modernized Financial Sector Laws drafted, submitted and passed by the National Assembly;
- Number of NBIs serving small borrowers and lenders;
- Number of clients served by NBI institutions;
- Number of NBIs accessing other sources of capital;
- Number of NBIs covering costs of operations;
- Number of small, medium and micro enterprises created;
- Number of jobs created;
- Number of jobs saved.

Program Outcome #3- to help individual businesses gain/regain access to markets and to non-financial resources needed to re-establish or expand production that will create employment in the near-term (6-12 months). Also included in this component will be the strengthening of NBIs and cooperating banks by providing short-

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term technical assistance and training in new lending technologies and methodologies for managing small loan portfolios.

1. Training of NBIs and commercial bank staffs (on a cost-sharing basis) in risk analysis, cash flow, asset valuation, cost-benefit, IRR analysis, etc.;

   Training of commercial bankers will be oriented exclusively towards managing portfolios of smaller, higher risk loans and will be targeted only to those organizations which have an existing commitment to initiating and maintaining operations in this market niche. The willingness of commercial banks to cost-share for such training, as well as the establishment of special "windows" for such lending may be considered indicators of organizational commitment to this market niche.

2. Providing TA and training to selected small and microentrepreneurs in identifying market niches, upgrading technology, securing contracts, raw material sourcing and financing. Methodology for implementing this assistance will be drawn from the analytical work done in connection with preparation for the informal sector project in 1994, directed by an off-shore NGO or firm, to be competitively selected. The priority sub-sectors targeted to received this assistance will include artisanal/handicraft and couturier/dressmaking.

3. Helping firms re-establish productive capacity, developing import substitutes for items that can efficiently be produced locally, reducing red-tape for both importers and exporters.

4. Establishment of a Skills Bank to attract professional-level Haitians now living in North America. This activity began in March 1995 with $250,000 in funding under PD&S, implemented by VITA and HAFED.

5. Renovation and upgrading of one or two key urban marketplaces that service informal sector operators, using local contractors and working with the municipal governments. The objective is to improve working, health and security conditions and increase incomes for those operators and relieve congestion in the downtown area of the capital. Methodology is described in the Mission's 1994 draft Informal Sector Project Paper, which will be helpful in implementing this activity. Given the unknown capability of municipal governments in this kind of undertaking, it is proposed to approach it on a pilot basis, and if deemed successful and cost-effective, then to replicate it in other market locations and encourage other donors to finance them. The pilot marketplace upgrade, which will be limited to rudimentary improvements, such as a cover to shield from sun and rain, storage bins, lavatories, electrical hookups, etc., is budgeted at $250,000.

6. Helping Haitian industries prepare for missions by OPIC and the U.S Department of Commerce sectoral business missions.

7. Establish a farm-level communications system to facilitate sale of inputs. This will involve setting up a network of 25-50 farmer "agents", to be paid partly by from the project and partly by the agro-input supply firms, under the direction of a trainer-manager, who would be hired by the institutional contractor for TA. A more complete description of this activity is provided in Annex C.

Performance Indicators

- Increase in exports of NTAE products (especially mangoes) and items like sisal, handicrafts, dresses and low-cost sportswear) that have a high labor content and that raise incomes for women relative to men.

- Improvement in the quality and availability of printed and video materials which can be given to potential investors.

- Quantity of new loans issued to women-owned, medium, small, and micro-enterprises. Quantity of loans issues to small farmers.

- Number of jobs created in mango/sisal production and marketing.

- Increased sales of U.S. agricultural inputs to Haiti.

- Lower input prices for farmers, artisans, and microentrepreneurs who buy collectively.

V. IMPLEMENTATION ARRANGEMENTS

A. Coverage of Components

Since PRET represents a consolidation of existing activities and the addition of new initiatives, implementation arrangements will involve several different organizations. While it is tempting to think of a single entity assuming overall implementation responsibility, this is not a feasible option for the range of elements under PRET. The following schematic is proposed for implementation agents by program outcomes:

Program Component	Activity	Implementing Agent	Funding Source
PO#1 Policy framework	Tripartite Commission Pres. Commission Privatization	Pro-Ag w GOH Capital Consult IFC	SURGE SURGE PAR
PO#2 financial services	Microenterprise lending	HDF ADEMI, SHEC, FHAF	PED PRET
	loan guarantees	SOFIHDES	PRET
PO#3 institutional capacity & non-financial services	TA & Training to microenterprises; Training in lending technologies to NBIs & commercial banks	U.S. firm or NGO (to be competed)	PRET
	Skills Bank	VITA/HAFED	PD&S

B. SUSTAINABILITY

Since PRET is designed, as its name implies, to cover a <u>transitional</u> period, the planned life of program is only two years. The transition refers both to the recovery stage of the Haitian private sector and to USAID's shift in emphasis from essentially humanitarian-based assistance (which was not intended to be sustainable) to a development-oriented program aimed at sustainable broad-based economic growth. Although the program's activities are of a short-term nature (introducing policy and regulatory changes, loan guarantees to reactivate agribusinesses, providing training in low-end lending technologies to banks and NBIs, the impact and benefits of these interventions are intended to be long-term. For example, the guarantee fund is a relatively short-term mechanism to permit decapitalized agribusinesses to reopen, thus creating permanent jobs and increasing cash income to thousands of farmers, which will become self-sustaining under normal market conditions. These activities are designed to serve as a catalyst to stimulate the lagging economy into a period of sustained recovery. Technical assistance and training provided to banks and non-bank financial institutions, as well as to microentrepreneurs, will strengthen both groups, so that they can sustain the activities begun under PRET.

C. ILLUSTRATIVE TIMELINE

USAID/Haiti transmits draft private sector strategy to AID/W as basis for designing private sector program	3/24/95
Draft Program Memo and Action Memo	

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prepared and circulated to Committee	3/31/95
CN submitted to LAC	4/10/95
Program document (PP equivalent) submitted to LAC	4/14/95
EG submits IEE to LAC for approval	4/17/95
Special LAC Bureau review of PRET	4/20/95
Authorization & Action Memo signed by USAID/H Dir. after LAC approval	4/25/95
RFP advertisement appears in CBD	4/25/95
EG/CO issue RFP	5/1/95
CO prepares Coop. Agreement w. SOFIHDES	5/10/95
Guarantee Program open for loans	5/25/95
Proposals received by bidders	6/20/95
Contractor selected	7/5/95
Contract negotiated & signed	8/1/95
Contractor Team arrives in Haiti	9/1/95

D. EVALUATION AND AUDITS

As a two-year program, there will be time for only one external evaluation, tentatively planned for 4-6 months before the end of the program in September 1997. This evaluation will be the basis for determining what kind of assistance, if any, would be appropriate for USAID to provide to continue to strengthen NBIs and other private sector institutions. The program budget provides $80,000 for this evaluation and $120,000 for two annual audits of the NBIs which will be receiving financial assistance.

The evaluation will include, but not be limited to, examination of the benefits of the guarantee program to small farmers. This will include the number of small farmers benefitted and the level of that benefit. Given the concern of the GOH that small farmers be benefitted, it is of utmost importance that this level of impact be measured.

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E. RISK ASSESSMENT

Risks inherent in the effectiveness of the PRET Program lie primarily in the areas of political security and economic stability. The Parliamentary elections in July this year, as well as the Presidential election this December are bellweathers for investor confidence to advance beyond the prevailing wait-and-see attitude. Certain policy and regulatory changes must take place (e.g. lifting the interest rate cap, liberalizing the bank reserve requirements and collateral law, lowering port charges, etc.). Government performance in areas such as balance of payments, revenue collections, privatization, and inflation control must all show continued improvement to engender the public confidence needed for a meaningful economic recovery.

Improvements in these indicators must also have a liberalizing effect on the policies of the commercial banks, whose risk averse and ultra-conservative practices represent a serious barrier to the start-up and re-entry of many businesses. An underlying assumption in this program, as well as for the substantial aid to be provided by the IFIs, is that a combination of enlightened macroeconomic policies, enabling legislation, incentives such as loan guarantees provided by OPIC, the World Bank under MIGA and USAID under PRET, infrastructure improvements and political stability will persuade the formal financial sector to broaden its horizons and expand its client base. Several banks, especially the newer ones, have indicated a willingness to expand in this direction, and the others will be obliged to follow suite, or lose market share to the more progressive competition.

F. Financial Implementation Plan

Project element	Implementation	Financing	Amount ($000)
Presidential Commission	Coop. Agreement Contract	Cash Advance Cost reimb.	$ 400
Tri-Partite Commission	Coop. Agreement Contract	Cash Advance Cost reimb.	$ 150
Loan Guarantee Fund	Coop. Agreement Contract	Cash Advance Cost reimb.	$2,000
Privatization	Grant	Cash advance Letter of credit	$1,000
Market renovation	AID Direct Contract	Cash Advance Cost reimb.	$ 250
HDF	Coop. Agreement Contract	Cash Advance Cost reimb.	$1,400
SHEC	Coop. Agreement Contract	Cash Advance Cost reimb	$ 600
TA and Training	Coop. Agreement Contract	Cash Advance Cost reimb.	$1,500
AID Management	Contract	Cost reimb.	$ 500
Audits	Contract	Cost reimbursement	$ 120
Evaluation	Contract	Cost reimbursement	$ 80
Total			$8,000

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VI. PROGRAM BUDGET

Obligation in FY 1995 & 1996 (in $ 000)
(1st column shows prior year obligations from other projects attributable to program objectives)

	Other Projects	FY 95		FY 96		TOTAL PRET
		FX	LC	FX	LC	
Presidential Commission (SURGE)	800			300	100	400
Tripartite Commission (SURGE)	250			100	50	150
Privatization (IFC Grant- PAR)	2000			500	500	1000
Loan Guarantee Fund		1500	500			2000
Marketplace renovation				150	100	250
HDF (PED)	700[3]			700	700	1400
SHEC				400	200	600
Contract for Technical assistance and training		500	250	500	250	1500
Audits					120	120
Evaluation					80	80
USAID Management		250		250		500
TOTAL	3750	2,250	750	2900	2100	8000

In a departure from the linear thinking surrounding the traditional strict parameters of independent and discrete USAID projects, PRET will incorporate existing private enterprise activities now funded under separate projects, as these projects reach their respective completion dates (PACD). Meanwhile, these activities will be

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[3] Represents HDF lending capital, obligated in 1991, but frozen in 1993, because high inflation at that time created a negative real interest rate. Beginning in May 1995, these funds will be made available to HDF for new lending, because a combination of the end of the embargo and lesser deficit spending by the GOH has lowered the inflation rate to a point where the maximum legal interest (22%) yields a positive rate in real terms. In addition, the GOH has proposed to abolish the interest rate ceiling, which the Parliament is expected to pass when it reconvenes following the election later this year.

Project	Number	Activity Funded	PACD
PED	(521-0223)	HDF lending	June 1996
SURGE	(521-0186)	Pres.& Tri-P Comm.	August 1996
PAR	(521-0222)	Privatization/IFC	Sept. 1996
PD&S	(521-0000)	Skills Bank	October 1995

For the purposes of obligating the $3.0 million programmed for FY 1995 (funds currently allocated for the PED project and the planned informal sector project), the Mission proposes to place $2 million in the loan guarantee fund and $1 million for the institutional contractor to manage program outcome #3. An RFP will be released in May 1995 seeking proposals for this technical assistance and training component. The expertise sought will be an NGO or firm with experience in small and microenterprise business training, which could also offer training in low-end lending technologies to NBIs and commercial banks. The initial funding of $1 million will enable this contract to begin late in FY 1995, with an additional $1 million to be added in FY 1996. The "external" elements of PRET funded from PAR, SURGE and PED will carry out their functions for the rest of FY 1995 utilizing funds already obligated under those projects, until these funds are exhausted. At this point, the short-term functions of IFC for privatization and assistance to Presidential and Tripartite Commissions may be complete. If there is a need to continue some or all of this support, further funding will be extended under PRET from FY 1996 funds.

VII. ENVIRONMENTAL DETERMINATION

An Initial Environmental Examination is attached as Annex D to this paper. As most activities relate to loans by NBIs, loan guarantees, and technical assistance and training, a Categorical Exclusion is recommended. However, for the element relating to marketplace improvements, a separate environmental determination will be submitted when individual site locations are identified and details are known regarding the specific improvements to be made. As a general matter, all efforts at marketplace improvements will have as a major objective the improvement of health and environmental conditions of the microentrepreneurs and informal sector operators affected.

GUARANTEE FUND FOR AGRIBUSINESS REVITALIZATION

1. Background

The three-year U.S./OAS trade embargo of Haiti, culminating in a five-month UN-mandated global embargo, had a devastating effect on the Haitian economy, in particular the agribusiness sector. With its historic trade links to the U.S., Haitian importers had long relied upon U.S. agribusiness firms for supply of the full range of agricultural inputs from farm implements to seeds and fertilizer. At the same time, Haitian exporters were equally dependent upon historic marketing links with U.S. importers of Haitian fruits and miscellaneous other farm outputs.

By stopping trade in agricultural commodities, the embargo left exporters with nowhere to send their produce and farmers with no one to sell to. It left agricultural input suppliers with no way to stock their warehouses, and the farmers with no place to purchase seeds or fertilizer. Over time alternative trade relationships developed with the Dominican Republic, but with the high cost of fuel, and the relatively higher costs of DR suppliers, the practical effect was to put non-essential agricultural inputs out of the reach of Haitian farmers.

The result was a dramatic drop in agricultural production overall, and a similar drop in exports and associated revenues. Even more important, under the present circumstances, there was a severe decapitalization of the agricultural sector; farmers, retailers, distributors, buyers/truckers, importers and exporters alike. Everyone in the farm system suffered loss of capital, and many of those at the top of the system also incurred substantial debts to the banking sector that have rendered them ineligible to borrow for future operations.

2. Discussion

A substantial infusion of new capital is needed to bring Haiti's agricultural sector back into full production. The challenge is to find a way to accomplish that (1) without unnecessarily disrupting a system that worked fairly effectively during pre-embargo decades and, (2) by introducing a better balance of economic power between the farmer producers at the bottom of the farm system and the importers and exporters at the top.

Also needed is a solution that can be put into effect and have economic impact over the very short term, i.e. before the upcoming Parliamentary and Presidential elections.

3. Proposed Solution

Detailed below is a schematic of the Haitian agricultural production and marketing chain from the perspectives of **agricultural input supply and production** and **agricultural sales and export.** The two boxes describe the proposed project intervention. A narrative description follows the charts.

Agricultural Input Relationships

U.S.EXPORTER	**U.S. BANK**
H. IMPORTER	**H. BANK**
DISTRIBUTOR	**GUARANTEE FUND**
RETAILER	**SOFIHDES (MANAGER)**
FARMER ASSOCIATION	**FARM/RETAIL REPS (CREDIT COMMITTEE)**
FARMERS	

Agricultural Output Relationships

U.S. IMPORTER	**U.S. BANK**
H. EXPORTER	**H. BANK**
BUYER/TRUCKER	**GUARANTEE FUND**
FARMERS	**SOFIHDES (MANAGER)**
	FARM/RETAIL REPS (CREDIT COMMITTEE)

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a. The System up to the Present

In the traditional **agricultural input system**, Haitian importers were able to purchase agricultural inputs with the help of financing partly from personal savings, partly from cash advances from distributors and retailers, and partly from loans by the commercial banks. This natural financing system worked fairly well as Haiti's agricultural sector modernized, requiring ever more inputs to achieve increasingly high yields, until the recent political disturbances that led to the U.S. trade embargo. The embargo led to substantial losses at all levels of the input distribution chain, sending bank loans into arrears, and ultimately reducing agricultural throughput to a fraction of its traditional level.

In the traditional **agricultural output system**, Haitian exporters were able to finance the buyers/truckers immediately below them with advances, and the buyers/truckers could, in turn, finance the purchase of agricultural produce from farmers. The whole system depended on cash availability from the time of harvest through gathering, transporting, processing, loading and shipping to receipt at the U.S. port of entry, at which time payment to Haitian exporters could be made. This process, requiring two to four month's time, was typically financed from the exporter's personal savings plus whatever he could borrow from his bank. Many of these exporters, like the importers, suffered substantial losses with the imposition of the U.S. trade embargo, essentially rendering them incapable of mobilizing finances to gather and ship future crops.

b. Proposed Intervention

The proposed intervention in this natural system is a loan guarantee mechanism that will provide the additional security needed to get Haitian commercial banks to lend importers and exporters the funds necessary to recapitalize the system. There is no intent to change the system; only to refuel it and, to the extent possible, increase the relative participation of small farmers and retailers in credit access.

The plan for implementing this intervention involves the following steps:

(1) Establishment and Management of the Guarantee Fund

The proposed manager/implementing agent for the Guarantee Fund for Agribusiness Revitalization (GFAR) is the Societé Financière Haïtienne de Developpement, the private Haitian development bank known as SOFIHDES. USAID was an original sponsor of SOFIHDES in 1983, when it provided an $8.0 million start-up loan on concessionary terms to complement another $1.0 million in private investor capital. SOFIHDES has been well-managed over the eleven

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years it has operated, it has operated in accordance with its developmental objectives, and it has made a greater effort than its sister commercial banks to do business in the agribusiness sector. Working through a local entity with existing close ties to USAID is indicated because this can be accomplished quickly, and time is of the essence in this matter because of the desperate economic situation among Haitian farmers and the need for maximum stability as Haiti struggles to carry out democratic elections for Parliament and a new President.

The GFAR will be implemented utilizing a Cooperative Agreement, under which SOFIHDES would operationally manage the loan guarantee fund. This would not involve a grant to SOFIHDES and provision would be made at the end of the two-year program to recoup the funds.

(a) The System Overall

It is anticipated that SOFIHDES will manage the GFAR in roughly the following fashion:

- o It will advertise the availability of agribusiness loan guarantees in the public media.
- o It will hold a public meeting to explain its program to all interested importers, exporters and lenders.
- o It will receive applications for the credit guarantees, evaluate the applications with the help of the GFAR guarantee selection committee, and make awards of its guarantee certificates contingent upon placing the indicated loan within two weeks.
- o It will monitor loan servicing, and where claims for defaults occur, it will make its own assessment of such claims and advance funds to cover such losses as appropriate.
- o It will charge sufficient fees (points) for guarantee certificates issued to cover the anticipated costs of its participation in this program.

(b) The Application Process

As regards the all important process of screening loan guarantee applications, it is anticipated that SOFIHDES will conduct that business roughly as follows:

- o A scoring system will be developed, in collaboration with USAID, emphasizing criteria to be agreed upon between the parties, possibly including such items as leverage (more is better), a plan (the more detail

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about how the money flows, and to whom, the better), credit flow-through (the more that is done to extend credit down through the system the better), and evidence that the applicant can successfully negotiate a loan from his bank, if he has the guarantee certificate in-hand.

- This scoring system will be clearly explained in the initial meeting with would-be applicants, ensuring that all potential participants in the program will have an equal chance to make their case to the review committee.

- A loan guarantee application review committee will be established, composed of two representatives of SOFIHDES, and two representatives of the farmers, retailers and truckers/buyers who occupy positions down the food production and distribution chains. USAID may sit on the committee as an observer. The representatives of farmers, etc. will be chosen by consensus between SOFIHDES and the USAID, with the criteria for selection being their perceived ability to objectively represent the interests of their constituency.

- Loan guarantee applicants coming to the GFAR for a second guarantee shall be required to report, in their application plan, on the results attained under their immediately prior loan guarantee. Applicants who show success in prior plan execution, and good results, and who have a continuing need for loan guarantees, shall be given priority for the next succeeding application.

- All of the costs of operating the Loan Guarantee Fund outside the demands upon SOFIHDES staff time will be paid by vouchering against the assets of the Fund itself. SOFIHDES shall make its best efforts to contain such costs, and shall closely consult with the Fund sponsor, the USAID, with respect to such decisions.

- If, in the course of reviewing loan guarantee applications, it is deemed by consensus between both parties (SOFIHDES and USAID) that special charges to the Fund are warranted to co-finance, with an applicant, extraordinary costs of extending credit to farmers or providing unusual TA services with respect to input use, these may be authorized.

- SOFIHDES shall report to the Fund Sponsor, USAID, quarterly as to the status of all loan guarantees in

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its portfolio, and shall likewise report on the data gathered from repeat loan guarantee applications regarding accomplishments under the immediately preceding loan guarantee.

(2) Use of the Guarantee Fund by Importers and Exporters

From the perspective of the target importers and exporters, the GFAR works as follows:

- He sees the advertisement placed by SOFIHDES inviting interested parties to a seminar to explain the new program.

- He attends the seminar and learns that in order to receive a guarantee (1) he must disclose substantial information about his business practices in order to meet the requirement for a plan, (2) he is encouraged to pass-through credit to players below him in the agricultural system to get high marks on his application, (3) he is encouraged to request only a partial loan guarantee, thus leaving him at risk in the event of business failure, and (4) he is in competition with all of his fellow importers and exporters for a limited number of guarantees, so is not assured of receiving a guarantee certificate and must therefore put forth his best effort.

- He talks to his existing creditor institutions about the program and persuades them to agree that if a new loan is offered by one of the banks, the others will not interfere with his investment of the proceeds of that new loan for the purposes intended, instead of using it to repay old loans. He obtains a commitment from one of them that matches his intended loan guarantee application (e.g. indicating that a 50% guarantee from the GFAR, and the signature of the borrower, will qualify him for a three-month export credit loan).

- He makes application for the loan guarantee certificate, is successful, and is given a certificate contingent upon his receiving a binding loan commitment from his bank within two weeks.

- He completes the loan negotiation process, his bank provides the GFAR with evidence of a binding loan commitment along with copies of the loan documentation, and the guarantee and credit become effective.

4. Practical Application of the Model

The above model is subject to refinements based on negotiations with the leadership of the primary institution involved, as well as the commercial banks which will be extending new loans under this guarantee mechanism. It will require some forbearance on the part of these banks, since they will be asked to extend new credit to agribusinesses which have outstanding loans which they have been slow to repay. The purpose of the guarantee fund is to break this logjam and put the debtor firms back in business. It will be in the interest of the banks to participate, since revitalization of these businesses will facilitate the repayment of both old and new loans. Initial reaction by the several banks interviewed by USAID/Haiti and consultants has been highly favorable to the concept of a guarantee fund to assist in the recovery of agribusiness sector, and while much remains to be worked out regarding operating details, there appear to be no major obstacles to establishing such a fund in a timely manner.

PRIVATE SECTOR INITIATIVES IN THE EERP UPDATE

Following is a summary of the priority initiatives agreed to by the World Bank, IDB and the GOH in connection with the update of the Emergency Economic Recovery Program (EERP). Since many coincide with the priorities and areas of interest being pursued by USAID, they are appended to the PRET design paper as evidence of the closely parallel thinking between USAID and the IFIs.

1. <u>Improving the Enabling Environment for Private Enterprise</u>

   - phased reductions in tariffs and duties;
   - begin to eliminate non-tariff barriers;
   - revise commercial, investment and labor codes;
   - streamline port and customs administration;
   - adopt international standards for resolving labor/management disputes.
   - change bank regulations (eg. interest rate ceiling and reserve requirements) to liberalize and thus free up the flow of capital, particularly to those who have not been the traditional clients of the existing commercial banks.

2. <u>Action Program for Private Sector Recovery</u>

   - determine the financing requirements of the export sector and encourage lending institutions to be responsive;
   - public/private sector planning to stimulate new investment, including tourism, agribusiness exports, niche overseas markets.
   - improve information flows about market opportunities and Haitian business capabilities. This includes redoubled efforts in investment and export promotion, as well as hooking into new database services such as the Trade Points system of UNCTAD.

3. <u>Upgrade of the National Infrastructure System</u>

   - develop plans/financing for infrastructure rehabilitation (roads, energy, telecommunications, water and sewage);
   - develop appropriate environmental guidelines for implementation of the infrastructure program;
   - assist local governments, vendor groups and associations in upgrading marketplace conditions.

4. <u>Support to Microenterprises and the Informal Sector</u>

   - provide funds or guarantee mechanisms to recapitalize microenterprise lending institutions;

VB

♦ develop technical assistance and training programs for the microenterprise sector;
♦ strengthen small-scale financial institutions to promote self-sustainability;

5. <u>Ensure Adequate Financing for Mid-Level Businesses</u>

♦ undertake a credit needs and risk analysis of major productive sectors;
♦ identify potential sources of investment insurance and credit guarantees for the Haitian private sector;

6. <u>Address Human Resource Development Needs</u>

♦ increase on-the-job training;
♦ develop a joint public-private sector training plan;

7. <u>Privatize State-owned Enterprises</u>

♦ conduct assessments of all state enterprises;
♦ develop potential lists of investors;
♦ identify short-term operational changes [e.g. technical assistance and management contracts] to facilitate the transition to private ownership.
♦ provide information to the government and the public about what privatization can accomplish in order to overcome suspicions and concerns.

8. <u>Maximize Procurement and Contracting Opportunities for Haitian Firms</u>

♦ develop a targeted procurement process to maximize use of local firms in the implementation of the EERP program.

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FARM-LEVEL COMMUNICATIONS SYSTEM TO FACILITATE SALE OF INPUTS

In the absence of a national extension service, the effectiveness of small-farm management can be improved greatly with a modest investment in communication at the level of the small farmer, with efforts to provide up-to-date information on prices, production inputs, marketing, etc. Therefore under the TA component of PRET (PO#3), an amount of $50-75,000 will be budgeted in the contract of the institutional contractor implementing the overall TA/training component (PO#3) for each of the two years to organize a demand-driven network of farmer groups, whose participation would be motivated by the desire for better information and enhanced eligibility for loans for agricultural inputs from HDF or other NBIs. The impact of a successful program will be increased productivity and income levels among participating farmers.

The Mission has informally received a favorable reaction from one agro-supply firm and plans to negotiate with the four or five major agro-input suppliers to cost-share up to a 50%. Their incentive to participate would be greater sale of fertilizer and inputs. Farmer participants will be identified by advertising in the newspapers in the Artibonite Valley, the main area of focus. A force of 25-50 people would be hired under the direction of a full-time trainer-manager based in St. Marc, with worker salaries in the $5 to $7 per day range; enough so that the people hired can afford to employ someone to replace them on the farm. This group, after training, would work with local farmers and the supply houses and to disseminate farm input information. The manager would remain in close touch with HDF, the Ministry of Agriculture (MARNDR) and the USAID/Haiti Office of EG. Linkages with the countryside are currently lacking, creating an information gap in both directions, which this modest service would help fill.

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ANNEX D

LAC-IEE-95-19

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Haiti
Project Title	:	Program for the Recovery of the Economy in Transition (PRET)
Project Number	:	521-0256
Funding	:	$ 8 million
Life of Project	:	FY 95-FY 96
IEE Prepared by	:	Pierre Cam Milfort, MEO
Recommended Threshold Decision	:	Categorical Exclusion/ Conditional Negative Determination
Bureau Threshold Decision	:	Concur with Recommendation

Comments

A Categorical Exclusion is issued under 22 CFR 216.2(c)(2)(i) for component one, promoting a transparent and sound enabling policy, legal and regulatory environment for private enterprise recovery; and under 216.2(c)(2)(x) for component two, increasing access to financial services. In addition, the activities in component three that will not directly affect the environment are categorically excluded under 216.2(c)(2)(i) and 216.2(c)(2)(xv).

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or need for an Environmental Assessment (EA).

Funds shall not be used to support timber extraction or significant deforestation, nor for procurement of equipment that could lead to deforestation, without an EA approved by the LAC CEO.

Funds shall not be used for the procurement nor use of pesticides without submitting an amended IEE to LAC CEO.

Date 5/1/95

Jeffrey J. Brokaw
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

Copy to	:	Larry Crandall, Mission Director USAID/Haiti
Copy to	:	Abdul Wahab, Chief/Economic Growth Office USAID/Haiti
Copy to	:	Pierre Cam Milfort, MEO USAID/Haiti
Copy to	:	Richard Loudis, LAC/SPM/CAR
Copy to	:	David Eckerson, LAC/CAR
Copy to	:	IEE File

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United States Agency for International Development
Mission to HAITI

USAID

FAX COVER

Date: April 13, 1995
Page 1 of 4

From: Pierre Cam Milfort	To: Karen Menczer
Office: Economic Growth Office USAID/Haiti	Office: LAC/RSD/E
Phone: (509) 22-5500 (509) 29-3000 (509) 23-9602	Phone: 202-647 5677
Fax: (509) 23-96-03	Fax: 202-647 8151

Sender's signature:PCMilfort/EG________Official: X___ Personal:__

Clearances/Signatures:RDaniel/D/EG________________

MESSAGE

Please, find attached: the IEE for the "Program for the Recovery of the Economy in Transition" (PRET). I would like your comments and eventually some corrections.

Best regards,

Pierre Cam

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HPR-17.95 MON 01

INITIAL ENVIRONMENTAL EXAMINATION –

A. PROJECT LOCATION: Haiti

B. PROJECT TITLE: Program for the Recovery of the Economy in Transition (PRET)

C. TOTAL AID FUNDING: $8.0 million

D. LIFE OF PROJECT: FY 1995 -FY 1996

E. IEE PREPARED BY:

Pierre Cam Millet
Mission Environmental Officer

F. THRESHOLD DECISION RECOMMENDED

a) Categorical Exclusion for Support to intermediate credit institutions when the objective is to assist in the capitalization of the institutions or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institutions; per Reg. 216 Section 216.2 (c) (2) (x) and

b) Negative Determination for the third component of the Program for the Recovery of the Economy in Transition (PRET), which will involve upgrading of market places.

G. CONCURRENCE:

Abdul Wahab / Chief of the
Economic Growth Office
USAID / Haiti.

H. MISSION DIRECTOR'S DECISION:

Approved:______________

Date: 14 Apr 95

I. LAC ENVIRONMENTAL OFFICER'S DECISION:

Approved:______________

Date:______________

Program for the Recovery of the Economy in Transition
Project # **********

PROJECT DESCRIPTION:

This $ 8 million program is designed to create permanent jobs to reinforce political stability and signal the restoration of economic growth. The program is a short term transitional effort to stimulate the recovery of the private sector from the negative effects of the embargo and the irresponsible macroeconomic policies of the de facto governments from 1991 to 1994. It also supports the overall long-term goal of the USG and GOH to revitalize investor's confidence in the economy of a participatory democratic society.

PROJECT COMPONENTS

Following are the different components of the program:

1) to promote a transparent and sound enabling policy, legal and regulatory environment for private enterprise to recover and prosper in Haiti;

2) to increase access to financial services by borrowers (small, medium and microenterprises and agribusinesses), as well as services to small savers;

3) to increase the productive capability of small businesses and microenterprises, by providing access to non-financial resources in the near-term;

Environmental Impact

For the environmental analysis of the project we will take into consideration only the third component dealing with the physical infrastructures improvement, since all other components are qualified for a categorical exclusion.

The following outlines some key observations about the environmental concerns that may result from the implementation of that component:

- The construction of facilities may affect the existing drainage system.
- The market physical infrastructures upgrading will certainly attract more vendors; which will result in a higher consumption of goods or intermediate goods by the market users. The daily amount of discharge resulting from the use of the newly improved site may be inconsistent with the assimilative capacity of the environment.
- If not correctly planned, there may be some sanitation problems.

Recommended Environmental Decision

USAID/Haiti recommends that LAC Chief Environmental Officer approve a Categorical Exclusion for all financial support provided under the Program for the Recovery of the Economy in Transition (PRET), as per Reg. 216, Section 216.2 (C) (2) (x), which activities do not have an effect on the natural or physical environment.

In addition, the Mission recommends the approval of a Negative Determination for the third component of the project dealing with upgrading of marketplaces facilities.

Mitigation measures

The following mitigation measures focus especially on the upgrading of the marketplaces:

1. In upgrading the marketplaces, reconstruction will occur, as much as possible, at the footprint of the present structures.

2. Where a building has to be expanded, there will be no construction in sensitive habitats.

3. Where there is any question regarding the potential impact of reconstruction activities on the environment, Mission Environmental Officer shall be contracted, and from a site visit, shall design additional site-specific mitigation, or require an amendment to this IEE, requesting a positive determination for that specific case, and an EA shall be conducted.

eg.

:   Karen Menczer@LAC.DR@AIDW
:
:
m: Pierre Cam Milfort@EG@HAITI
bject: PRET IEE.
te: Friday, April 28, 1995 12:26:08 EDT
tach:
rtify: Y
rwarded by:

---

received your e-mail about the PRET iee. I am very happy that there is not uch to be added and we are just waiting for the final approval and the orresponding cable. So, you can go ahead with it.

e are planning to start the implementation right after the final approval; nd this very afternoon there will be a presentation of PRET at the Mission.

est regards,

Pierre Cam.

9

APPR: JJ (JJ)
DRAFT: KM (KM)
CLEAR: ( )
CLEAR: ( )
CLEAR: ( )
CLEAR: ( )
CLEAR: ( )

UNCLASSIFIED

AID/LAC/RSD/E:KMENCZER:KM:IEE95-19.CAB
05/01/95 647-8048
AID/LAC/RSD/E:JBROKAW

ROUTINE PORT AU PRINCE

AIDAC PORT AU PRINCE FOR PC MILFORT

E.O. 12356: N/A

TAGS:

SUBJECT: ENVIRONMENTAL THRESHOLD DECISION FOR PROGRAM FOR THE RECOVERY OF THE ECONOMY IN TRANSITION--PRET--(521-0256)

REF: FAX, MILFORT TO MENCZER, APRIL 13, 1995; EMAIL MILFORT TO MENCZER, APRIL 28, 1995

1. LAC CHIEF ENVIRONMENTAL OFFICER, JEFFREY BROKAW, HAS REVIEWED, AND HEREBY APPROVES MISSION REQUEST FOR A CATEGORICAL EXCLUSION AND CONDITIONAL NEGATIVE DETERMINATION FOR SUBJECT PROJECT WITH THE FOLLOWING COMMENTS:

--A CATEGORICAL EXCLUSION IS ISSUED UNDER 22 CFR 216.2(C)(2)(I) FOR COMPONENT ONE, PROMOTING A TRANSPARENT AND SOUND ENABLING ENVIRONMENT FOR PRIVATE ENTERPRISE RECOVERY; AND UNDER 216.2(C)(2)(X) FOR COMPONENT TWO, INCREASING ACCESS TO FINANCIAL SERVICES.

--THE ACTIVITIES IN COMPONENT THREE THAT WILL NOT DIRECTLY AFFECT THE ENVIRONMENT ARE CATEGORICALLY EXCLUDED UNDER 216.2(C)(2)(I) AND 216.2(C)(2)(XV).

UNCLASSIFIED

--A CONDITIONAL NEGATIVE DETERMINATION IS ISSUED FOR RENOVATION AND UPGRADING OF KEY URBAN MARKETPLACES (COMPONENT THREE). THIS ACTIVITY IS BUDGETED AT $250,000, AND WILL INVOLVE IMPROVEMENTS SUCH AS: CONSTRUCTION OF COVERS TO SHIELD FROM SUN AND RAIN; CONSTRUCTION OF STORAGE BINS; CONSTRUCTION OF LAVATORIES; AND INSTALLATION OF ELECTRICAL HOOKUPS. TO HELP ENSURE THAT ENVIRONMENTAL IMPACTS FROM MARKET UPGRADE ACTIVITIES ARE MINIMAL, THE MITIGATION MEASURES OUTLINED IN THE IEE FOR COMPONENT THREE SHALL BE IMPLEMENTED. IN ADDITION, THE ENVIRONMENTAL GUIDELINES DEVELOPED FOR THE ENHANCING FOOD SECURITY PROJECT (521-0241) SHALL BE USED TO ANALYZE EACH MARKET UPGRADE ACTIVITY. IF AN ACTIVITY MAY HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT (AS DETERMINED USING ENVIRONMENTAL GUIDELINES), AN AMENDED IEE SHALL BE SUBMITTED TO LAC CHIEF ENVIRONMENTAL OFFICER (CEO) TO DETERMINE APPROPRIATE MITIGATION OR NEED FOR AN ENVIRONMENTAL ASSESSMENT (EA).

--FUNDS SHALL NOT BE USED TO SUPPORT TIMBER EXTRACTION OR SIGNIFICANT DEFORESTATION, NOR FOR PROCUREMENT OF EQUIPMENT THAT COULD LEAD TO DEFORESTATION, WITHOUT AN EA APPROVED BY THE LAC CEO.

--FUNDS SHALL NOT BE USED FOR THE PROCUREMENT NOR USE OF PESTICIDES WITHOUT SUBMITTING AN AMENDED IEE TO LAC CEO.

2. IEE NUMBER IS LAC-IEE-95-19. A COPY OF ENVIRONMENTAL THRESHOLD DECISION IS BEING SENT TO THE MISSION FOR INCLUSION IN PROJECT FILES. YY

USAID

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LAC-IEE-95-19

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Haiti
Project Title	:	Program for the Recovery of the Economy in Transition (PRET)
Project Number	:	521-0256
Funding	:	$ 8 million
Life of Project	:	FY 95-FY 96
IEE Prepared by	:	Pierre Cam Milfort, MEO
Recommended Threshold Decision	:	Categorical Exclusion/ Conditional Negative Determination
Bureau Threshold Decision	:	Concur with Recommendation

Comments

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320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

USAID

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LAC-IEE-95-19

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320 Twenty-First Street, N.W., Washington, D.C. 20523

USAID

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LAC-IEE-95-19

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THE MULTILATERAL PRIVATE ENTERPRISE PROGRAM

Mobilizing Financial Resources for the Haitian Private Sector

MULTILATERAL PRIVATE ENTERPRISE PROGRAM

Haiti Needs Development Programming Which Will Rapidly Invigorate the Financial Sector

Haiti's private sector is moribund following three years of embargo, disinvestment and decapitalization. The return of constitutional government in October 1994, while a necessary ingredient to recovery, did little in itself to persuade the private sector to resume operations and reinvest.

Sustainable employment creation in Haiti will only result from broad-based, private sector-led economic growth, through the removal of financial, institutional and policy impediments to micro, small and middle level business operators and new entrants to the market place. While technical assistance activities currently underway are making important strides in improving the prospects for private enterprise development in Haiti, there is a need for a broad and coordinated approach to provide technical and institutional assistance and sources of capital which will produce rapid and lasting results.

The EERP has pointed to the necessity of interventions in the financial sector to improve the level of financial intermediation in the Haitian economy. The concept of an Multilateral Private Enterprise Program (MPEP) has been introduced as a potential vehicle to provide the comprehensive assistance required to accomplish this task. There are advantages to employing a multilateral approach to such a concept, such as ensuring a consistent approach to donor interventions. Moreover, the bilateral and multilateral institutions operating in Haiti have developed significant expertise in different areas of the financial sector, all of which are relevant to reinvigorating business, both large and small, in Haiti.

This paper examines the various factors constraining the recovery and growth of the Haitian financial sector, notes initiatives already being implemented (with additions pending information regarding other donor assistance) and proposes the establishment of a Multilateral Private Enterprise Program, which would address these constraints in a unified and consolidated fashion.

The strategy of the MPEP will be to build institutional capacity of the financial sector at the government, commercial and non-bank levels to improve the volume of financial intermediation between commercial banks, non-bank intermediaries, and micro, small and large businesses in the formal and informal sectors. As such, MPEP will address only one segment of the totality of interventions proposed by the EERP. However, MPEP activities fill two criteria: that the interventions can be "on the ground" in the near-term, and that these interventions occur in a sector which requires very close donor coordination. Most importantly, MPEP activities can act as a platform to support other important private sector programs described in the EERP, such as assistance to the artisanal sector and investment promotion.

MPEP, as an intervention in the financial sector, will be coordinated with, and take account of, other activities which will impact that sector. Privatization activities and the improvement of infrastructure, have important implications for MPEP interventions. In the most basic sense, these

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activities all compete for funds in the financial sector and therefore must be designed carefully to avoid conflicting activities.

In addition, improvement in infrastructure (energy, telecom, and roads), of which privatization will play an indirect role, is an important precondition for the acceleration of private sector activity in Haiti. The basic infrastructure is a critical element in the cost of production for firms in Haiti. Similarly, macroeconomic stability is necessary to attract and retain investment to and in Haiti. All of these actions must occur within an improved enabling environment for the private sector. The need to reform elements of the enabling environment, such as judicial, regulatory and commercial policy reform, is well documented in the EERP and donors have initiated efforts in their different areas of expertise.

Given the above, it is the perspective of this paper that coordinated, multilateral interventions into the private sector can produce a rapid, synergistic impact on the level of private sector activity in Haiti. These efforts, combined with existing and planned donor programming in the above areas, can create the necessary conditions for a vibrant private sector and result in self-sustaining, broad-based economic growth.

Several Issues Provide A Framework for Financial Sector Interventions

- Banks have become highly risk averse in Haiti, due to long term instability, unpredictability, and a poor legal and commercial policy environment.
  Actions:
  - Financial institutions need mechanisms which enable them to manage risk more effectively, and provide incentives for them to extend credit in a risky environment.
  - Some key legal and regulatory reforms (e.g., removal of the 22 percent interest rate cap) are prerequisites for any effective risk management.

- Limited capacity to manage risk results in a second key problem: credit access. The middle and lower end of the spectrum in particular is not extensively served by current commercial banks or non-bank intermediaries (NBIs).
  Actions:
  - Small, medium and large-sized firms require specially designed assistance to help them access commercial bank credit.
  - NBIs have a critical role to play in providing credit to small and micro businesses who cannot access formal bank credit.
  - Firms seeking credit in the range of $5,000 to $20,000 find it difficult to qualify for loans: their credit needs exceed the loan criteria of NBIs and often fall below the loan criteria of formal banking institutions.

- Capital is not a short-term problem for formal, full-service, banking institutions, however, bankers tend to allocate capital only to a select group of clientele. Capital will shortly be a problem for many NBIs serving medium, small and micro businesses.
  Actions:
  - Should focus on addressing legal, regulatory and institutional constraints in formal financial sector.

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- Should recapitalize NBIs so that they may continue playing their role in private sector development at the middle and lower end.
- Explore incentive mechanisms to increase lending outside of banks' traditional clientele.

- In most segments of the financial sector, Haiti has enough financial institutions. However, there are niche market needs, and existing banks need modernization and training.
  Action:
  - Improve the institutional capacities of existing entities to provide financial services to the private sector.

- Bilateral and multilateral institutions currently working in Haiti have developed expertise in different areas of the financial sector.
  Action:
  - A multilateral approach, which builds on the strengths of each development institution, would be the most effective way to rapidly increase assistance to the private sector.

- Small and mid-sized entrepreneurs are unable to effectively present business proposals to financial institutions.
  Action:
  - Develop a loan demand creation facility/brokerage agency to advise new-to-market small and mid-sized entrepreneurs or firms of credit availability and assist them with loan project development and documentation, business plans, and ancillary loan qualification services to catalyze new, incremental small and mid-size firm lending by commercial banks. This could be coordinated with guarantee facilities, as those facilities are designed specifically to accommodate this type of borrower.

A Multilateral Private Enterprise Program Could Help Meet the Financial Needs of the Private Sector

Four interdependent, coordinated interventions form the basis of the MPEP concept. Institutional Development will serve to increase the capacity of financial sector institutions to meet the needs of the private sector. Guarantee Authority will provide a mechanism for providing financial sector institutions with incentives to expand their "risk frontier". A Project Development Mechanism will assist businesses which are unable to effectively present "bankable" business proposals to financial institutions. Recapitalization will permit NBIs to continue and expand essential financial services until they are able to adequately access formal capital markets.

1) Institutional Development

- Directly or indirectly provide commercial banks with financial and managerial technology for managing risk in more cost-effective manner to increase flows of credit to small businesses.

  For example: providing loans to small businesses in a cost-effective manner requires unique loan approval and administration practices.

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- Provide NBIs financial and managerial technology to: a) increase the number of businesses they reach, b) increase their effectiveness in reaching very small businesses, c) create sustainable institutions able to access the formal credit markets.
  For example: there are standardized techniques for creating and managing broad-based small and micro-enterprise credit programs, tested and proven in other countries, and not currently in use in Haiti.

- Create permanent relationships between formal and non-bank financial institutions to enhance financial intermediation in the private sector.
  For example: sustainable NBIs must be able to access funds from the formal markets, yet NBIs in Haiti are generally unable to accomplish this.

This component would most likely be led by USAID and, depending on its participation, the EU. USAID has significant experience in institutional strengthening of financial sector institutions in Haiti, and is already devoting resources to this purpose. The EU has significant resources available for institutional strengthening. In addition, there are several donor organizations which have played important roles in developing NBIs in Haiti and have experience in the institutional development of financial institutions. It would certainly be for the best for development organizations to continue to utilize existing relationships with NBIs to foster their development and eventual sustainability.

<u>Non-Bank Intermediaries</u>

Haiti's NBIs, as a generalization, are in significant need of institutional strengthening. The five indicators which will be used to evaluate micro and small-business lending programs are: 1) the reach or scale of the lending program, 2) the spread over cost of funds (including the opportunity cost of donor money), 3) delinquency rates, 4) operating costs as a percentage of the portfolio, and 5) leverage of donor funds (dollars of lending/assets left after five years of program). Given current performance, it appears clear that there is room for NBIs in Haiti to dramatically expand their portfolios and performance. Institutional strengthening will focus on providing these organizations with the managerial and analytical technology needed for such improvement.

Additionally, these same improvements will permit these NBIs, once they have become efficient, growing institutions, to begin to access formal credit markets, or at least donor capital at market terms; in other words, to be self-sustaining.

According to current, state-of-the-art thinking, the key to improving the sustainability of NBIs lending to micro and small businesses is to avoid the trap of attempting to graduate borrowers to commercial banking institutions. This is a natural process which will occur without interventions. Instead, development organizations should focus on graduating the <u>lending institution</u> from grant or preferentially termed funding from donor institutions, to commercial capital markets providing resources at market terms. Graduating the institution clearly requires interventions which address the elemental structure and principles from which NBIs direct their operations.

Most importantly, institutional strengthening of NBIs must operate in a consistent global environment in the Haitian financial sector. For example, if some NBIs are utilizing grant donor funding to provide capital to microenterprises at less-than-market terms, this will produce distortions which endanger attempts to reform other NBIs. NBIs must operate according to competitive,

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market directed principles. An NBI capitalized through grant funding must cost its loans utilizing the opportunity cost of the capital, otherwise, borrowers will of course favor the institution offering the most preferential terms. These distortions will render attempts to reform only selected institutions prone to failure. In addition to this being an accepted principle in international development, USAID policies prohibit capitalizing institutions if others in the sector are lending at subsidized rates. As a point of reference, *operating costs* for lending at the best performing NBIs worldwide have ranged from 12 to 25 percent.

Finally, the institutional strengthening of NBIs will also focus on developing long-term relationships with associations and other formal groups which can be used for efficient on-lending to reach the smallest borrowers. Thus, the NBIs can act more effectively as financial intermediaries for institutions unable to otherwise access formal capital markets. By making larger loans to associations, NBIs can also reduce their overall management costs for their entire portfolio - a key issue for sustainability. For example, HDF has started working through agricultural associations extend credit to small farmers. HDF only bears the risk of lending to the association, and the association diversifies its risk through lending to many small farmers.

Initial assessments will evaluate existing credit unions and determine their usefulness for expanded credit delivery. Credit unions are generally useful institutions because they already have the capacity to mobilize savings and thus have already established one basic element of sustainability.

Commercial Banks

Haiti's commercial banks lack the technology for managing small loan portfolios. Commercial banks which have examined the costs of participating in the small loan market have found them to be prohibitive. For this reason, the institutional strengthening component will also focus on making efficient loan management technology available to commercial banks in a cost effective manner for a fixed period, perhaps in a fee-for-service manner.

Institutional strengthening measures will also examine the use of leasing mechanisms for commercial banks. Banks in Haiti often cite systemic barriers to enforcing collateral agreements, such as chattel mortgages, as a reason for conservative lending policies. Leasing has been found to be a useful mechanism for avoiding these types of issues in other countries. With leasing mechanisms, banks retain title to the capital equipment financed and as a result default does not result in a need to change ownership through legal mechanisms; the bank can simply retake its property or equipment in the event of a failure to make lease payments.

2) Guarantee Authority

- Enhance guarantee mechanisms in the financial system to provide incentives for extension of credit at all levels of the private sector.

  For example: a guarantee could sufficiently absorb the risk of new projects to encourage banks to lend to new entrants and non-traditional customers. The guarantee mechanism would be particularly useful in meeting the credit gap of $20,000 to $50,000 which commercial banks and SOFIHDES are generally reluctant to meet.

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- Use guarantees to provide incentives for the initial establishment of intermediary relationships between formal banking institutions and NBIs.
  - A temporary guarantee can be used as the initial construct for developing long-term arrangements between banks and NBIs.

This component would be most ably led by the World Bank. The World Bank, with the cooperation of the GOH, is already devoting significant resources to the redesign of the Fond de Developpement Industriel (FDI), a state-run rediscounting window and guarantee facility. FDI, with some modification, could accommodate all of the guarantee activities described in this document. However, financial institutions will certainly need training in the use of guarantee facilities. This training could be provided by a number of institutions, optimally with the cooperation of FDI in its design and presentation.

Modification of the FDI facility is controlled by policy set by the (Governor of the Central bank and the Board of Governors). Thus, expansion of the FDI facility to cover loans between commercial banks and NBIs and loans to the agribusiness sector could be accomplished quickly, and without outward political disputes. Initial discussions with technical experts working on reform of the FDI indicate that the institution could accommodate this expansion of activities without adverse consequences.

The existence of a broad guarantee facility is central to expanding the risk "frontier" of commercial financial institutions. Many sources in Haiti have confirmed the ultra-conservative nature of Haitian banking institutions. It is clear that in addition to the existing regulatory constraints which reduce incentives for lending, the overly risk-averse attitudes of banks make loans difficult to obtain for all but the most secure borrowers. This has obvious consequences, not only for new entrants, but for mid to low-risk enterprises which have not yet established long-term relationships with financial institutions.

3) Project Development Mechanism

- Provide technical assistance to businesses in presenting viable projects to credit institutions. A self-sustaining mechanism which provides incentives based on the performance of projects developed would add an important institutional mechanism to the Haitian business community.
  - For example: businesses are frequently unable to present projects in a manner which permits banks to perform sufficient analysis to approve the loan. The credibility of the project development manager can also enhance the acceptability of a potential project.

This component could be led by USAID. In addition, the EU has expressed a significant commitment to business project development and may participate in this component. USAID has supported project development mechanisms in the past including project development components for previous interventions in Haiti. It is proposed to start with a small organization which is targeted from the start to be self-sufficient and sustainable. Alternatively or additionally, FDI's and SOFIHDES' capabilities in this area could be increased, and paid for on a fee basis.

Commercial banks often lack expertise in different industry sectors, and as a result unable to adequately evaluate and process loans to these sectors. Yet, developing this capacity in-house is

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expensive and unattainable for many institutions in Haiti. One result of this dynamic is that new ventures are often unable to access capital markets. The project development mechanism, by developing an independent reservoir of technical expertise, could also act as an important resource for commercial banks seeking to evaluate unfamiliar industries or processes.

There are several important aspects of this component. First, it will provide much needed technical assistance to businesses in preparing project analysis for the loan approval process. Second, the self-sustaining aspect of the component is invaluable. Optimally, the project developer would receive incentives based on the number and value of the projects approved, providing an incentive to be selective in choosing projects which are viable. The use of equity interests as compensation for project development is a powerful incentive, but has the potential negative outcome that the project developer becomes so involved with ongoing businesses that it no longer has time for developing new projects, so it should be left as a possibility for future modification. It is not a necessary aspect, since project development should be a sustainable activity in the mid-term through reliance on fees collected from successfully financed projects.

The project development mechanism is designed to act as a catalyst to bring support services to entrepreneurs. It is based on the following conditions in the Haitian economy: there is a high level of potential business opportunities, banks do not look hard enough for bankable projects, and investment ideas which emerge from entrepreneurs are frequently not successfully developed into bankable projects.

The project development mechanism will seek to provide: timely and cost effective feasibility analysis where clients bear the full costs, either through fees or equity interests, if the project proves to be bankable. Services will be provided through the spectrum from the preparation of loan proposal through loan negotiation to follow-up analysis and assistance with business performance.

The project development mechanism could take advantage of the guaranty offered by another section of the MPEP program to provide incentives for banks to fund these projects. Since the project development mechanism has a built-in incentive for selecting projects with a high degree of viability, these projects will inherently have lower than normal risk of failure. By using the project development mechanism as a non-exclusive filter for identifying projects to be put under guaranty, the mechanism will actually reduce the risk of projects supported by the guaranty, and improve the performance of the guaranty mechanism.

HDF, FDI and SOFIHDES all have relatively nascent project development mechanisms. Given the size of the market for project development, it would appear that all three institutions could conceivably maintain such mechanisms, each directed towards a particular niche. Project development could clearly be a self-sustaining activity in FDI and SOFIHDES. However, the cost of such an activity may have to be absorbed, in part, by overhead at HDF. It could be modeled after the (Basic services office) of ADEMI, where the organization has established a centralized office for the provision of such services. (Exactly how do they support it, and how have they structured it?)

4) <u>Recapitalization of Non-Bank Intermediaries</u>

- Recapitalization will occur only after institutional strengthening has begun, and only if NBIs can achieve positive real rates of return.

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Until the NBIs have developed sufficient institutional strength, they will need to continue to be capitalized by donor organizations. This is a short-term mechanism which will be conditioned on steps to achieve sustainability.

Recapitalization of NBIs could be led by the World Bank. The World Bank, perhaps combined with the IDB/MIF, the EU, and other donors, could bring serious resources to bear on the recapitalization of the financial sector. Given the nature of World Bank and IDB funding, this recapitalization would most likely occur through GOH mechanisms, although EU recapitalization could also occur through mechanisms such as SOFIHDES. Initial recapitalization of NBIs, preparing them for a larger role in supporting the private sector in Haiti, could cost $10 to $20 million over the next 3 to 5 years.

Recapitalization of NBIs is closely linked with institutional strengthening of these institutions. Although they could easily be handled by different donors, these two activities are the most closely linked of the four components of MPEP. First, it is clear that they are interdependent. That is, one without the other will fail to produce an acceptable impact. Second, There are significant timing issues with these two activities. Recapitalization of an NBI should clearly be conditioned on developing a strategic plan which will bring the institution to sustainability within five to seven years.

Recapitalization should also be designed to orient institutions towards applying the total operational and opportunity cost of funds to their lending operations. Thus, institutional recapitalization could be delayed until income from interest flows and fees (given the continued existence of an interest rate cap) is sufficient to cover these costs.

The Donor Community Has Significant Resources Available to Support Private Sector Development

USAID currently has $9.15 million budgeted for this fiscal year for private sector activities. (See attachment 1 for programmatic breakdown. USAID's private sector thrust will continue to focus on sustainable job creation and equitable income enhancement. The objective of its activities is broad-based economic growth which promotes the entrance of new domestic and foreign participants into the economy. In particular, a USAID focus on NBIs is consistent with USAID's Microenterprise Initiative, which makes funds available for the strategic redesign of microenterprise credit programs.

The World Bank has available up to $11.4 million for support to FDI operations. The World Bank is currently working on the reform of FDI, which provides a guarantee/rediscount window for industrial lending. FDI could conceivably be the basis for a broader guarantee authority to improve financial intermediation in Haiti. It is more desirable to broaden the function of FDI, rather than create another institution with similar purposes from the ground up. The FDI could also be given the capacity to extend working capital loans to industry, a key factor in priming the private sector. Through its guarantee facility, FDI could play a key role in expanding the risk frontier of commercial banks. FDI also has a project development component.

The IDB through its MIF facility provides grant funding for technical assistance, training to businesses and financial institutions, sectoral studies, and policy reform assistance. This grant-based assistance can be utilized in a variety of strategic interventions. MIF assistance at this point is to be determined.

The EU has responded favorably to providing support to MPEP and has reviewed the draft of this concept paper. It has stated that it has 14 million ECU ($16.8 million) available for business project development, 25 million ECU ($30 million) available for interventions in the agricultural sector and some part of the 106 million ECU ($127 million) available for institutional development. It will be providing more comments on the MPEP concept upon further review.

MPEP is also under consideration by other bilateral donors who have not yet made a commitment to participate in the multilateral effort.

As with most development efforts, the MPEP concept contains components which should best be implemented over several years, providing graduated and systemic assistance to the financial sector. As a result, donors should gauge their interest not only by the resources available in the current year, but also resources which will be available in the following years to sustain this effort and ensure its success.

Management Issues Must Be Considered in Any Multilateral Undertaking

Given the dissimilar nature of the organizations (World Bank, IDB, EU, USAID, and others) which may be involved in this undertaking, particularly with regard to bureaucratic cultures and procedures, it is important to consider options for designing management structures which will both meet the needs of these organizations and provide efficient modalities for accomplishing the goals of the Program. Any collaboration must be managed in a way which will enrich the dialogue between donor organizations and the GOH, and among the donor organizations themselves.

This concept paper proposes the Program be composed of carefully defined pieces, each of which, though united by a common goal, would operate independently. Each activity would be designed and managed by the organization which provided the implementation funding. Donors would all contribute to the formation of a Secretariat which would provide coordination and facilitation services to the institutions involved.

At this time, this appears to be the most acceptable option for a management structure, given the bureaucratic nature of the organizations involved.

NOTIONAL MATRIX OF DONOR ASSISTANCE

The table below indicates potential areas of activity by donor. The use of question marks reflects the provisional nature of the areas of intervention.

	Institutional Development	Guarantee Authority	Business Project Development	Recapitalization
GOH	?	?	?	?
Haitian Private Sector	?		?	
World Bank	x	x	?	
IDB/MIF	x		?	?
EU	x	?	x	?
Germany	?	?	?	?
United States	x	?	x	?
Canada	x			?

The Haitian Private Sector Has an Important Role to Play

MPEP will seek to integrate the active participation of the Haitian private sector, through industry associations and business groups such as ADIH, APB, CLED, the Haitian Chamber of Commerce, HAMCHAM, and the Hotel and Tourism Association.(Listed in alphabetical order). Input from these groups will occur on an on-going basis, either through meeting with representatives of these groups individually or through collective meetings with these representatives.

Bureaucratic Timing Issues Place Certain Pressures on Program Design

The most important issue with regard to timing is the presentation of MPEP to the Government of Haiti. The key players in the Government must all be involved in a significant manner including the Minister of Finance, the Prime Minister and the President. It may be expedient to wait until the results of the elections in June, since Parliament must ratify all borrowing decisions by the Government. The run-off elections are set for June 25.

Secondly, donors have annual budget obligation deadlines; for example, USAID must obligate current fiscal year funds by September 30, 1995.

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Current Financial Institutions May Provide Insufficient and Uneven Services

BENEFICIARY	LEVEL	PROGRAM	# OF LOANS
US firms	$200,000 and above	OPIC guarantee	0
US-Haitian joint ventures and Haitian-owned firms	$100,000 and above (US portion only)	OPIC guarantee	0
large firms	$200,000 and above	Haitian commercial banks	
medium firms	$25,000-250,000	SOFIHDES	75
small firms/ microenterprises			
	$500-7,000	SHEC	500
	$500-5,000	HDF	1100
	$100-500	FHAF	N/A

SOFIHDES is a USAID progeny which has achieved sustainability. It is not supported by USAID funds at this time and makes commercial loans mostly over $50,000.

HDF is the preeminent small-to-micro lending institution in Haiti. Also a USAID progeny, HDF still receives funding from USAID.

SHEC (formerly MEDA, the CIDA-assisted Mennonite Group) is a relatively new independent lending agency which has operated successfully in Haiti for ten years with Canadian assistance.

FHAF is a small association supporting micro-lending to women-owned business and rural women's groups. It has received capital and technical assistance from the IDB.

Status of Discussions

At the January 30-31 CG meeting in Paris, USAID proposed a multilateral enterprise fund, which generally received expressions of interest from several donors, with no specific pledges.

On February 17, representatives of the World Bank, the IDB and USAID met in Port-au-Prince to discuss the idea further. The preliminary concept of a MPEP idea was again raised, and USAID agreed to prepare a paper on the Program concept, which is presented in this document.

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On February 21 and 22, technical experts from USAID and the World Bank met and agreed to potential areas for cooperation and collaboration on the Program. Also on February 22, representatives of the EU and USAID had similar discussions on the Program and the level of funding the EIB could offer to certain aspects of Program operation.

On February 24, representatives of USAID and the IDB met to discuss MPEP concept. The IDB responded with its interest in actively pursuing the idea of a coordinated, multi-lateral approach, as described in the Enterprise Development Program as a means of revitalizing the private sector. Options are under active consideration and further development at the IDB.

On March 3, Representatives of USAID and the Federal Republic of Germany met to discuss the MPEP concept. The representative of the Government of Germany expressed interest in the MPEP program, and active discussions with technical experts will take place on March 9.

On March 6, representatives of the EU and USAID met for further discussions of the MPEP concept. The EU is considering the MPEP concept as a means of providing assistance to the private sector. Further discussions will take place in the near future.

On March 8, it was announced to the press that donors, including USAID, were considering a multilateral, coordinated program designed to increase the flow of resources to the Haitian private sector.

On March 9, technical experts from USAID and the Government of Germany met to discuss the MPEP program and the use of the MPEP program as a vehicle for German development assistance.

On March 10, USAID/Haiti staff met with Prime Minister Smarck Michel and his cabinet chief to discuss the concept and obtain their initial reactions. Overall, the PM stated his support for the concept to increase the flow of credit in Haiti through leveraging donor resources. He promised to share the document with the Minister of Finance. Meanwhile, he encouraged USAID to present the idea to the Presidential Commission at the earliest possible time. Accordingly, a briefing on MPEP has been arranged for March 16 with the Commission and other private sector organizations, including ADIH, CLED, the Chamber of Commerce, HAMCHAM and the Bankers' Association.

On March 14, USAID/Haiti staff met with the IDB Resident Representative Philippe Dewez 8and Paul Moreno to inform them on the status of MPEP. They referred to the forthcoming visit to Haiti on April 22 of Mark Flaming of IDB, who will meet with USAID to present additional information on the participation of IDB in the MPEP framework.

On March 16, USAID/Haiti staff presented the MPEP conceptual framework to approximately 45 key representatives of the Haitian private sector under the sponsorship of the Presidential Commission for Economic Growth and Modernization. This was followed by questions and discussions on the proposal. Overall, the concept was positively received and the central focus

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on credit as the primary constraint to medium, small and microentrepreneurs was endorsed at this meeting.

On March 21, USAID/Haiti staff met with the Canadian Ambassador in Port-au-Prince and his staff member handling CIDA operations and briefed them on MPEP. The Ambassador endorsed the multilateral approach and indicated Canadian interest in cooperating in a joint effort to foster economic recovery and strengthen Haitian financial institutions. He said he would forward the MPEP paper to Ottawa for further consideration.

On March 23, USAID/Haiti staff spoke by phone with the Haiti country loan officer at the European Investment Bank (EIB), who had received the MPEP paper and indicated support for the concept. EIB plans to send a mission to Haiti the last week of April to discuss possible cooperation with local banks and donor agencies. EIB would be interested in participating in a donor roundtable, if held that week.

On March 24, USAID/Haiti staff met with the IDB Financial Officer responsible for Haiti, who described IDB's intention to offer assistance in the areas of collateral law reform, pension fund reform, banking supervision, creation of a private credit bureau, and technical assistance to SHEC.

On March 24, the Prime Minister informed USAID/Haiti staff that he will request the World Bank, to include MPEP on the agenda for the May 11-12 donors' group meeting in PAP.

On March 27, Philippe Rouzier Chief of the Prime Minister's cabinet requested 20 copies of the MPEP document for sharing it with the GOH cabinet, scheduled to meet later that day.

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ATTACHMENT 1

USAID RESOURCES AVAILABLE FOR PRIVATE SECTOR DEVELOPMENT IN FY 1995

PRIVATIZATION ANALYSES	$2 MILLION	Development of options for privatization of parastatals
INFORMAL SECTOR	$1.75 MILLION	Support of NBIs targeted to informal sector
HAITIAN SKILLS BANK	$250,000	Supports placement of returning Haitian Diaspora
PROVINCIAL ENTERPRISE DEVELOPMENT	$1.5 MILLION FY 95 BUDGET[4] $1.3 MILLION PIPELINE[5]	Institutional and financial resources for HDF. Proposal development/guarantee component.
AGRIBUSINESS	$150,000	Ongoing assessment of constraints to agribusiness sector
PRESIDENTIAL COMMISSION	$750,000	Legal and policy framework for private sector enabling environment
TRIPARTITE COMMISSION	$250,000	Workers rights and safety
TECHNICAL ASSISTANCE	$1 MILLION[6]	Additional technical assistance to the Presidential Commission for analysis for reform of the enabling environment, and future technical assistance to the private sector
SOFIHDES LOAN REPAYMENT	$200,000	Reflows from USAID capitalization of SOFIHDES. Used for HDF on-lending.
TOTAL	$9.15 MILLION	Tally of all USAID new & ongoing activities to assist the private sector.

[4] Burn rate for operation and lending capital - $50 thousand per month.

[5] Predicted lending capital $1.3 million FY '95.

[6] Funded through USAID/Washington, G/EG funding

ATTACHMENT 2

BACKGROUND DISCUSSION OF HAITIAN ECONOMY

I. DIAGNOSTIC OF MAJOR PROBLEMS

Haiti's private sector has been relatively slow in its response to begin rebuilding following the restoration of constitutional government. This hesitation reflects a number of fundamental constraints which must be addressed if sustainable private enterprise growth is to be achieved. These barriers can be divided into four main categories:

1. Negative Policy Environment: Major remedial actions will be necessary to overcome Haiti's negative image among the national and international business communities. The current perception is that the Haitian economy cannot support productive enterprises, and have shifted their resources to import-based commercial enterprises.

Revision and update of the legal and regulatory framework under which the private sector operates is a logical starting point. Items to be covered include investment codes, the tax structure, tariffs and customs duties, insurance regulation, licensing requirements, pension plans, workers' rights, mortgages and other collateral, land tenure, etc.

A simplified and more transparent regulatory environment, in which transaction costs would be reduced through streamlined administration, and corrupt and/or inefficient practices systematically eliminated must be the ultimate goal. Collectively, the accumulated practices of the last several decades stifle economic recovery, discourage foreign investors and foster an ultra-conservative wait-and-see attitude on the part of Haitian and foreign entrepreneurs and commercial banks. For example, banks generally restrict lending to well-established regular customers from the wealthy business families.

Failure of previous reform efforts provides strong evidence for doubt of the success of current efforts. Investors must be convinced that this time it will be different and that reforms will hold and not be ignored or reversed. Some insist that they will not be convinced until two successive elected Haitian governments adopt a consistent policy agenda, a condition that cannot be realized until mid-1996 at the earliest, and perhaps 2001.

2. Risk Averse Financial Sector: Financial sector institutions, both formal and non-bank, have shown poor performance as credit intermediaries, in terms of the depth of their borrowing clientele. As noted above, commercial banks have been unwilling to lend to all but the most established and familiar clients. Although collection of collateral is a significant issue for bankers, they are also more risk averse than may be necessitated by economic conditions. The conservative environment precludes access to capital for most borrowers. In particular, agribusinesses have had

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inadequate access to capital markets, as have businesses seeking capital in the $20,000 to $50,000 range. The formal banks are, directly or indirectly, in need of technical assistance in designing technologies for managing loans in this range. At this point, they are unable to access this market in a cost-effective manner and with an adequate volume of lending.

Although non bank intermediaries, as a group, have done reasonably well given recent economic conditions, they have not been effective at providing credit to large numbers of borrowers. In addition, the institutions, as a group, have not been able to access sources of capital outside of the donor community, and as a result have not become sustainable financial organizations. These organizations are in serious need of technical assistance to design forward looking management and information systems, as well as of recapitalization to extend services until they are able to access formal credit markets. Short-term guarantees would provide significant incentives to formal credit institutions to provide capital to these organizations.

Dislocation in credit markets can certainly be attributed to the current interest rate ceiling. But given that inflation is expected to return to historic levels (15%) over the next several months, its importance may be lessened.

3. Inadequate Physical Infrastructure: The disintegration of the national infrastructure is a highly visible deterrent to economic growth and the recovery of the economy. Deteriorating roads and bridges, an antiquated, inefficient and corrupt port authority, abysmally inadequate and chronically unreliable electrical power generation and a non-functional telecommunications system (especially for internal telephone communication) combine to discourage even the boldest investors.

Addressing this wide range of infrastructure needs will require massive capital resources, enlightened management and close coordination among donors, implementing private construction and engineering firms and the GOH. Without significant visible progress in each of these areas, it is unrealistic to expect that many investors, especially off-shore enterprises, will be attracted to Haiti. Present conditions reduce Haiti's international competitiveness, incur needless costs and discourage the return of tourism and the recovery of markets lost as a result of the embargo.

4. Absence of the Rule of Law: Experienced business people, as well as potential new investors, all emphasize that a major factor in their reluctance to commit resources to begin or reestablish businesses, invest in new inventory, hire or rehire a work force is the non-functional justice system, the lack of adequate physical security and protection of property and the absence of any confidence in contract enforcement. Unlike some of the other constraints, these problems cannot be solved by money alone, but will require major institutional and attitudinal changes, an upgrading of the judicial infrastructure, training of magistrates, the emergence of a competent and disciplined police force and serious attempts to end corrupt practices in government.

A pervasive problem is that there is no concept of injunctive relief or specific performance of contracts backed up by civil contempt and consequently no penalty for non-compliance with judicial

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rulings. In cases of egregious civil violations, the perpetrator may be sent to jail, but there is almost never any recovery of damages by the victim. Correcting these many deficiencies will require concerted effort and commitment over a period of time by government (including Parliament), private enterprise and the labor movement.

II. FAVORABLE FACTORS AND POTENTIAL OPPORTUNITIES

Despite significant structural problems which will require concerted effort by both the GOH and Haitian private sector, as well as substantial assistance from international donors, Haiti offers a number of solid assets which provide clear and convincing incentives for investment and economic growth. These include:

1. A freely-elected democratic government with reform-minded cabinet ministers (complemented by a newly formed and potentially dynamic Presidential Commission). The GOH is committed to eliminating tariff and non-tariff import restrictions, liberalizing trade, streamlining government and the legal system, promoting foreign investment, and privatizing inefficient parastatal industries.

2. Government recognition of the need for rapid policy measures designed to attract investment and business expansion.

3. An open market environment with considerable entrepreneurial talent and a history of recent successful experience in productive enterprises, especially the assembly industry and agribusiness.

4. A hard-working, reliable, stable and trainable labor force available at very competitive wages and historically recording a low level of absenteeism (this despite high illiteracy and the lack of access to both technical and managerial training, which must be addressed by greater emphasis on basic education and practical skills training);

5. A close geographical proximity to the United States, minimizing shipment and travel time and cost;

6. The presence in North America of a one-million-strong Haitian diaspora, which includes both many potential investors and a skilled technical and managerial human resource pool for Haiti.

7. The existence of a functioning (albeit conservative) private banking system, with capital immediately available for minimal-risk investments;

8. Tax incentives for new investment;

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9. An historically stable currency and (except for distortions resulting from the 1992-94 OAS and 1994 UN trade embargoes) a relatively low inflation rate (inflation is now diminishing, and the rate is expected to resume its historic annual level of 10-15 percent). Pre-1990, the rate of inflation was closer to zero to four percent.

10. Eligibility for tax and tariff advantages under the Caribbean Basin Initiative, the Generalized System of Preferences, and Section 807 U.S. customs benefits.

11. Cutting-edge opportunities for firms which seek to revitalize and introduce growth-oriented industries and services which were shut down or significantly impaired by the embargo including,
    a. fruits (esp. mangoes, pineapples and mandarins),
    b. flowers (esp. orchids and tropicals),
    c. coffee ("Haitian Blue" gourmet coffee is presently being developed and sent to export markets),
    d. tourism (Haiti has an existing hotel industry and miles of excellent beaches, historic sites near Cap Haitien, and an eager and trainable hospitality service staff sector),
    e. textiles (Haiti rarely uses its quota under international textile agreements),
    f. electronic components,
    g. packaging materials,
    h. legal, accounting and insurance services.

A.I.D. PROJECT STATUTORY CHECKLIST

Introduction

The statutory checklist is divided into two parts: 5C(1) - Country Checklist; and 5C(2) - Assistance Checklist.

The Country Checklist, composed of items affecting the eligibility for foreign assistance of a country as a whole, is to be reviewed and completed by AID/W at the beginning of each fiscal year. In most cases responsibility for preparation of responses to the Country Checklist is assigned to the desk officers, who would work with the Assistant General Counsel for their region. The responsible officer should ensure that this part of the Checklist is updated periodically. The Checklist should be attached to the first PP of the fiscal year and then referenced in subsequent PPs.

The Assistance Checklist focuses on statutory items that directly concern assistance resources. The Assistance Checklist should be reviewed and completed in the field, but information should be requested from Washington whenever necessary. A completed Assistance Checklist should be included with each PP; however, the list should also be reviewed at the time a PID is prepared so that legal issues that bear on project design are identified early.

The Country and Assistance Checklists are organized according to categories of items relating to Development Assistance, the Economic Support Fund, or both.

These Checklists include the applicable statutory criteria from the Foreign Assistance Act of 1961 ("FAA"); various foreign assistance, foreign relations, anti-narcotics and international trade authorization enactments; and the FY 1994 Foreign Assistance Appropriations Act ("FY 1994 Appropriations Act").

These Checklists do not list every statutory provision that might be relevant. For example, they do not include country- specific limitations enacted, usually for a single year, in a foreign assistance appropriations act. Instead, the Checklists are intended to provide a convenient reference for provisions of relatively great importance and general applicability.

Prior to an actual obligation of funds, Missions are encouraged to review any Checklist completed at an earlier phase in a project or program cycle to determine whether more recently enacted provisions of law included on the most recent Checklist may now apply. Because of the reorganization and consolidation of checklists reflected here, such review may be particularly important this year. Space has been provided at the right of the Checklist questions for responses and notes.

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. **Narcotics Certification**

(FAA Sec. 490): (This provision applies to assistance provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance relating to international narcotics control, disaster and refugee relief assistance, narcotics related assistance, or the provision of food (including the monetization of food) or medicine, and the provision of non-agricultural commodities under P.L. 480. This provision also does not apply to assistance for child survival and AIDS programs which can, under section 522 of the FY 1994 Appropriations Act, be made available notwithstanding any

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provision of law that restricts assistance to foreign countries.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) has the President in the April 1 International Narcotics Control Strategy Report (INCSR) determined and certified to the Congress (without Congressional enactment, within 45 calendar days, of a resolution disapproving such a certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or that (b) the vital national interests of the	Yes

United States require the provision of such assistance?

(2) with regard to a major illicit drug producing or drug-transit country for which the President has <u>not</u> certified on April 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification.

Recipient is not defined as either a major illicit drug producing or a major drug transit country.

2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

No

3. **Seizure of U.S. Property** (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1994 Appropriations Act Secs. 507, 523): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will — No

assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

5. **Mob Action** (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? — No

6. **OPIC Investment Guaranty** (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC? — No

7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5):
(a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? — No
(b) If so, has any deduction required by the Fishermen's Protective Act been made?

8. **Loan Default** (FAA Sec. 620(q); FY 1994 Appropriations Act

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Sec. 512 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?

Yes, the President signed an FAA Section 614(a) determination permitting this assistance, despite GOH arrears.
Also, PUB. L. 103-306, Section 541, permits assistance to Haiti notwithstanding any other provision of law.

9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with

No

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the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

12. **International Terrorism**

a. **Sanctuary and support** (FY 1994 Appropriations Act Sec. 529; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? — No

b. **Airport Security** (ISDCA of 1985 Sec. 552(b). Has the

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Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

13. **Countries that Export Lethal Military Equipment** (FY 1994 Appropriations Act Sec. 573). Is assistance being made available to a government which provides lethal military equipment to a country the government of which the Secretary of State has determined is a terrorist government for purposes of section 40(d) of the Arms Export Control Act?

No

14. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

15. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment,

No

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materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

16. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) — No

17. **Military Coup** (FY 1994 Appropriations Act Sec. 508): Has the

gf.

duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

Yes

18. **Exploitation of Children** (FAA Sec. 116(b)): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No

19. **Parking Fines** (FY 1994 Appropriations Act Sec. 574): Has the overall assistance allocation of funds for a country taken into account the requirements of this section to reduce assistance by 110 percent of the amount of unpaid parking fines owed to the District of Columbia as of September 30, 1993?

Yes

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

Human Rights Violations (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent

No

pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

N/A

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

Funding for Haiti in FY 94 and 95 exempts the program from these prohibitions.

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance

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resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

Yes

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (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 project responds to one of the mission strategic objectives # 3. Sustainable private sector led economic growth.

2. **U.S. Private Trade and Investment** (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

Services and commodities of U.S. source, origin and nationality will be used.

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(including use of private trade channels and the services of U.S. private enterprise).

3. **Congressional Notification**

a. **General requirement** (FY 1994 Appropriations Act Sec. 515; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)? Yes

b. **Special notification requirement** (FY 1994 Appropriations Act Sec. 520): Are all activities proposed for obligation subject to prior congressional notification? Yes

c. **Notice of account transfer** (FY 1994 Appropriations Act Sec. 509): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures? N/A

c. **Cash transfers and nonproject sector assistance** (FY 1994 Appropriations Act Sec. 537(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

N/A

6. **Water Resources** (FAA Sec. 611(b)): If project is for water or water-related land

resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) N/A

7. **Cash Transfer/Nonproject Sector Assistance Requirements** (FY 1994 Appropriations Act Sec. 537). If assistance is in the form of a cash transfer or nonproject sector assistance: N/A

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)? N/A

b. **Local currencies:** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that N/A

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government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? N/A

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? N/A

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? N/A

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8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects 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.

The program goal is to increase sustainable employment generation and income levels in and by the private sector.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project 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 and commodities of U.S. source, origin and nationality will be used.

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services of U.S. private enterprise).

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

N/A

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

N/A

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1994 Appropriations Act Sec. 513(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

No

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b. **Textiles (Lautenberg Amendment)** (FY 1994 Appropriations Act Sec. 513(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

N/A

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

N/A

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14. **PVO Assistance**

a. **Auditing and registration** (FY 1994 Appropriations Act Sec. 568): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? — Yes

b. **Funding sources** (FY 1994 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? — N/A

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See — Yes

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Handbook 3, Appendix 6G for agreements covered by this provision).

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

N/A

17. **Abortions** (FAA Sec. 104(f); FY 1994 Appropriations Act, Title

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II, under heading "Population, DA," and Sec. 518):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	No
b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	No
c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?	No
d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only.)	Yes
e. In awarding grants for natural family planning, will any applicant be	No

discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only.)

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? — No

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? — No

18. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? — N/A

19. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1994 Appropriations Act Secs. 503, 505): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the — N/A

U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? — N/A

20. **Procurement**

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — Yes

b. **U.S. procurement** (FAA Sec. 604(a): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section? — Yes

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — N/A

d. **Non-U.S. agricultural procurement**

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(FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

Yes

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

No

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities

No

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(computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes

i. **Consulting services** (FY 1994 Appropriations Act Sec. 567): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of

N/A

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public record and available for public inspection (unless otherwise provided by law or Executive order)?

j. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes

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k. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
l. **Chemical Weapons** (FY 1994 Appropriations Act Sec. 569): Will the assistance be used to finance the procurement of chemicals that may be used for chemical weapons production?	No

21. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (<u>e.g.</u>, construction) project, will U.S. engineering and professional services be used?	N/A
b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	N/A
c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million	N/A

(except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

22. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

23. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes

24. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing Yes

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to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

25. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?	N/A
26. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	N/A
27. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?	Yes
28. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term	Yes

lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

29. **Export of Nuclear Resources** (FY 1994 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

Yes

30. **Publicity or Propaganda** (FY 1994 Appropriations Act Sec. 557): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

No

31. **Marine Insurance** (FY 1994 Appropriations Act Sec. 531): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes

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32. **Exchange for Prohibited Act** (FY 1994 Appropriations Act Sec. 533): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

33. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

No

34. **Impact on U.S. Jobs** (FY 1994 Appropriations Act, Sec. 547):

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business?

No

b. Will assistance be provided for the purpose of

No

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establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture?

No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1994 Appropriations Act Sec. 513(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction,

No

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consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

2. **Tied Aid Credits** (FY 1994 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity

A large portion of contract award will go to indigenous organizations which promote capacity building and

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recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

encourage institutional development.

5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes

6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment 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 appropriate U.S. institutions; (b)

Financial and technical support to non-bank intermediaires to promote broader access to financial services by small businesses and micro-enterprises; business training for targeted micro-enterprise groups especially those that are labor-intensive, women-owned, or export-oriented, such as the artisan/handicaps field and small couturier/seamstresses and a loan guarantee fund for small farmers.

encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

N/A

8. **Benefit to Poor Majority** (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes

9. **Contract Awards** (FAA Sec. 601(e)): Will

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the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

10. **Disadvantaged Enterprises** (FY 1994 Appropriations Act Sec. 558): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

PP provides for at least 10 percent preferably more of total contract award for Gray amendment concerns.

11. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey

Yes

ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

12. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):	N/A
a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?	Yes
b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of	Yes

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institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including

No

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temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?	N/A
e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities	Yes

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significantly affecting the environment?

13. **Energy** (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases? N/A

14. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management. N/A

15. **Deobligation/Reobligation** (FY 1994 Appropriations Act Sec. 510): If

deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

16. **Loans**

N/A

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

17. **Development Objectives** (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

Financial and technical support will be provided to promote broader access to financial services by small businesses and micro-enterprises. Business training will be provided to labor-intensive, women-owned companies.

the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

18. **Agriculture, Rural Development and Nutrition,** and **Agricultural Research** (FAA Secs. 103 and 103A):

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

Many small farmers will be the beneficiairies of a loan guarantee fund. Business training for targeted micro-enterprise groups that are labor-intensive, women-owned or small artisan/handicraft will be provided.

b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) 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

A loan guarantee will be provided to small farmers to restart their operations.

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.

c. **Food security:** Describe 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.

A loan guarantee fund will enable small farmers to restart their operations.

19. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe 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

N/A

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medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

20. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (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 and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

21. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A

a. concerned with data collection and

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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 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;

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

c. research into, and evaluation of, economic development processes and techniques;

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

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

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f. 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.

22. **Capital Projects** (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level?

N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (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?

Yes

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

No

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3. **Commodity Grants/Separate Accounts** (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? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

N/A

4. **Generation and Use of Local Currencies** (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? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

N/A

5. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a)

N/A

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environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act. Note, as well, that although a comparable provision does not appear in the FY 94 Appropriations Act, the FY 93 provision applies to, among other things, 2-year ESF funds which could be obligated in FY 94.)