

USAID/HAITI

REVISED STRATEGY PAPER FOR FY 1989/1990

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Preface

This is a revision of the Mission's two-year Strategy Paper for FY 1989-90. It has been prepared pursuant to LAC Bureau instructions (see State 206436) of June 29, 1989 to submit a complete revised Strategy Paper, incorporating a) issues and clarifications resolved immediately prior to the formal Strategy review in January 1989, and b) decisions reached during the formal Strategy review itself. It has also been updated throughout in order to include events or elements such as the attempted coup d'etat in April 1989, the announcement of an electoral calendar, Congressional approval of an emergency government-to-government wheat program in August 1989, and an exchange of cables with LAC in October/November 1989 on possible additional U.S. assistance to the GOH in FY 1990.

This revision is not a CDSS and does not cover the full range of issues required in a five-year CDSS or CDSS update. A full CDSS is still planned for FY 1991.

EXECUTIVE SUMMARY

I. Environment

The environment for development in Haiti is not easy. Governments in Haiti have historically oppressed the masses, have been oblivious to their needs, or incompetent in meeting them. Under the 29-year Duvalier family dictatorship, Haitians were subjected to new extremes of exploitation and terror. Since the ouster of the Duvaliers in 1986, Haiti has had four governments including two coups d'état in 1988 alone, and an attempted coup d'état in April 1989. Haiti's status as "poorest country in the Western Hemisphere" remains intact.

Since General Avril assumed the Presidency on September 17, 1988, important steps have been taken in the areas of human rights, democratic transition, and narcotics cooperation.

The macroeconomic outlook has declined sharply during 1989 (see summary of updated macroeconomic assessment included as Annex A). Excessive public sector credit and counter-productive attempts by the GOH to directly control the foreign exchange market have led to a rekindling of inflation at a 12% rate in 1989 and a scarcity of dollar deposits in the banking system. Foreign assistance disbursements have declined markedly since 1987 and coffee exports have fallen sharply. Even the export assembly sector, which had held its own during most of the 1980s and still looked promising last January, declined in 1989. In September, the GOH signed a 15-month Stand-by Agreement with the IMF. The reform measures incorporated in the IMF agreement are essential to stabilize the economy and satisfy the pre-conditions to future growth.

U.S. assistance to Haiti has varied considerably over the years depending on our ability to work with the GOH. It was suspended during most of "Papa Doc" Duvalier's reign, then reestablished in 1973 during the "Baby Doc" period, though emphasis was shifted in 1980 to working primarily through PVO/NGO channels. Following the ouster of "Baby Doc" in February 1986 and the new regime's public commitment to democratic elections and economic reforms, U.S. aid reached a peak of about \$100 million in FY 1987 (double the 1985 level).

The pendulum swung again after the aborted elections of November 1987, as U.S. aid to the GOH was suspended and the aid level dropped to \$39 million.

The current program in one sense represents a reversion to the type of NGO/PVO program that existed prior to the build-up in 1986. In addition to the NGO program, the Mission continues to undertake intensive policy dialogue with the GOH on economic policy measures, has taken several actions to promote democratization, and recently signed an emergency Title II government-to-government wheat program.

A substantial improvement of the standard of living for most Haitians will depend upon stronger Government commitment to development, greater political stability, a more attractive investment climate and higher foreign assistance levels.

II. Strategy

U.S. strategy is geared, in the broad sense, to building a prosperous, stable, and democratic Haiti.

Within this broad context, the USAID program is concentrated on four "core" areas: 1) Child Survival/Population, 2) Agriculture/Natural Resources, 3) Private Sector, and 4) Education. Within the "core" program, we are attempting to lower the infant mortality rate, raise the contraceptive prevalence rate, raise the productivity and income of Haiti's peasant farmers (about 70% of the population), increase employment through private sector growth, and raise the low quality and standards of primary education. The core program is concentrated in areas where the U.S. has demonstrated expertise, where there is unquestionable need, where other donors are not lead players, and where we know from past success that we can show positive results. Whether or not direct assistance to the GOH is fully resumed, we would want to continue emphasis on the core program, a point which was supported in the Mission Management Assessment (December 1988).

The program also includes food aid in the form of P.L. 480 Title II which closely supports our efforts in the child survival and education areas. Haiti's food gap is severe. The Mission food aid strategy over the next two years will concentrate on structuring the food program to best support the core development program. A monetization program with our major cooperating agencies to finance local food distribution costs over the next four years has been developed, and approved by the DCC for the first year (FY 90).

In addition to the regular feeding program, USAID recommended a year ago that, given the critical caloric shortfalls in Haiti, legislative constraints should be eased so that wheat could be provided under a Title II emergency government-to-government program. We are gratified that Congress decided in favor of this recommendation and agreed to a \$10 million wheat program in August 1989. We have additional recommendations for a FY 90 program (see below).

Since last year, the Mission has intensified its policy dialogue with the GOH, particularly regarding the Title II wheat agreement and the IMF Stand-by Agreement, and plans to continue to do so. A major concern will be to ensure full implementation of the conditions and reforms under the IMF agreement, since these are critical to economic stabilization. The Mission has also had positive discussions with the GOH on population policy and privatization of health services, in addition to ongoing dialogue on both private sector and PVO/NGO issues.

The Mission has taken a number of important steps in the democracy area during the past year. We had a needs assessment done in the late Spring of 1989 which identified several possible areas for assistance. Since that time, USAID has made grants supporting the organization of democratic fora throughout Haiti, a pilot project for administration of justice, and the organization of a democracy fund. Funds have also been earmarked for civic education programs. USAID is prepared to assist elections now that an electoral calendar has been adopted. Significant resources from A.I.D. and other donors will be needed for this process as GOH funds are very limited and funding elections without external assistance would threaten an already tenuous fiscal situation.

The development of democracy will necessarily be a long-term process in a country such as Haiti, which lacks any real democratic tradition and values, and has beliefs and cultural habits which are not always consonant with democratic practices. Diverse PVOs and NGOs are stimulating participatory development, local autonomy and collective self-help. While very long-term, these kinds of activities may ultimately be the most successful in laying the foundations for democracy.

Last January, the Mission recommended a phased resumption of public sector assistance, based on Haitian Government actions and consultations with the Congress. The first "step" was approval of a P.L. 480 Title II government-to-government wheat program signed in August 1989. For FY 90 we are proposing balance of payments assistance of up to \$35-40 million, including P.L. 480 and ESF and/or DA sector assistance, conditional on GH progress on economic reform as well as progress in the key political areas (i.e. democratization, human rights and narcotics control). Disbursements would be linked to concrete GH measures and benchmarks on the road to a democratic transition, thus preserving the step-by-step nature of U.S. policy. USAID priorities for such a program in FY 90 would be the same as outlined in our original Strategy Paper -- i.e. (1) food aid in the form of a follow-on government-to-government wheat program, (2) ESF, or combined ESF/DA sector support, or a CIP program, to support both economic stabilization and elections, and finally (3) DA project funding in support of core program areas.

Continued economic deterioration leading to expanded popular unrest could derail the chances for a successful democratic transition. If a policy decision is made to proceed with a public sector program in FY 90, the case for a rapid implementation of the program is unarguable. "Too little assistance, too late" could well prove the epitaph for an aborted democratic transition.

Finally, there are several important problem areas, not in our core program, where USAID is active. AIDS is a growing threat. PAHO has helped the GH Health Ministry develop a plan that generated strong donor support at a major donors conference on AIDS in February 1989. An active multi-donor effort is now underway (of which the U.S. is a part), and USAID is also channeling some

assistance through selected PVOs. USAID has also begun to develop a longer-term strategy for addressing this very serious problem, and plans to start a separate AIDS project in FY 91. Narcotics is another growing problem in Haiti. USAID is supporting a drug abuse prevalence survey in FY 90 which will help guide our planned follow-on assistance to the local PVO that is mounting a drug prevention and education campaign. Biological Diversity is an area in which USAID has supported several initiatives. Notable examples are studies at the Les Arcadins National Marine Reserve and the creation of a biosphere reserve as part of our Targeted Watershed project. Potable Water activities are being undertaken in the context of Child Survival projects during this strategy period.

Important issues that are relevant to the program as a whole are sustainability, the proper mix of growth and equity in the portfolio, and the incorporation of women as much as possible into the development process. Sustainability, while clearly a long-term goal of our projects, is unrealistic in Haiti in the near term for many PVO projects. However, administrative sustainability (elimination of PVOs' need for TA) and cost-effectiveness are achievable. In working with PVOs we emphasize ways that non-USAID inputs, including user fees, contributions from other sources, and contributions from the GOH (in-kind and local currency) can be mobilized. The growth vs. equity question is one of finding the proper balance for our program. There is a kind of symbiotic relationship between the two goals as both are critical in Haiti. Our program is a mix of both. WID Management in the Mission has already been strengthened by preparation of a WID Action Plan and establishment of a WID Committee with specific responsibilities.

III. Resources

Other donors as well as the United States curtailed their assistance after the aborted November 1987 elections. Net foreign assistance disbursements fell from \$168 million in FY 1987 to an estimated \$142 million in FY 1988 and \$124 million in FY 1989 (see Annex A). As to A.I.D., development assistance levels were just adequate (\$28.2 million) to maintain the Mission's core program in FY 89. In FY 90 the current level of \$28.0 million is the bare minimum required to meet core program needs. A level of \$31.8 million will enable us

to fully realize core program objectives. To carry out the expanded government-to-government program described in Section II E, substantial additional resources will be required.

Since FY 1987, Mission management has aggressively trimmed both U.S. and Haitian staff, and reduced expenditures in all but one OE cost category. The Mission Management Assessment concluded in December 1988 gave the Mission very high marks for these cost and staff reductions and cost containment efforts. We believe our approved FY 90 OE level will be adequate for our needs.

As important as how we have realigned our program, however, are the program contingencies we face, and their staff and budget implications. We have already had to accommodate to increased work requirements related to democratic development and elections planning by hiring a USPSC to coordinate these efforts. Work requirements related to P.L. 480 negotiations and local currency programming since the August 1989 government-to-government agreement have added a substantial burden which will be multiplied if similar programs are started in FY 90. The Mission will review its needs during the year, but it should be understood that the potential exists now for staff increases in several areas.

I. Overview of the Environment for Development in Haiti

A. Political Context

Since the fall of the long and repressive Duvalier family dictatorship on February 7, 1986, attempts to create a democratic form of government in Haiti have met with resistance from military and para-military elements who have maintained a strong influence over many aspects of Haitian life.

Haiti has had four governments since February 1986, each with varying lifespans and commitment to the democratic process. The first, a governing council dominated by the Army (the National Council of Government or CNG), committed itself at least on the surface to constitutional development and democratic elections. It also generated strong financial support from the World Bank/IMF and external donors by undertaking a program of badly needed economic reforms. Considerable progress was made under the economic reform program but when election day arrived on November 29, 1987, the voting was disrupted and the election was halted when voters were murdered at the polls by roving bands of thugs with the support of elements of the Army.

Two months later, in January 1988, the CNG held another election which was manipulated by the Army with very low voter turnout. Leslie Manigat became President and made some attempts toward democratic reform but was unable to achieve meaningful progress. Four months into his presidency, Manigat attempted to shuffle key Army personnel and was promptly removed from office by the Army and exiled.

The generals who ousted President Manigat in June 1988 re-installed General Namphy (the former Head of the CNG in 1987) as President. He dissolved the legislature, set aside the Constitution, and ruled by decree. The economic reform program was not reversed but the economy deteriorated since investors and foreign donors avoided major involvement, seeing little hope for stability and progress under the military regime.

In early September 1988, when Macoute excesses went too far even for a large part of the Army (i.e., killing followers of a radical priest in their local

church), a group of non-commissioned officers ousted General Namphy, and General Avril assumed the Presidency on September 17. In the first few months after September 17, numerous Macoute leaders were driven underground or out of the country, Duvalierist Army officers were fired, political parties were encouraged again, and the new government committed itself to holding elections. An independent electoral council (the CEP) was set up in April 1989, and the electoral calendar it designed was finally adopted in September 1989. While moving slowly, the Avril government has maintained itself in office for over a year, has made progress in important areas (especially in countering drug trafficking), and remains committed to the transition to a democratic form of government.

B. Social and Economic Context

The social and economic problems of Haiti have not changed dramatically over the years. They are serious and widespread and have been largely neglected by a long string of repressive governments. As a result, the relevant statistics on Haiti make clear that it remains the poorest country in the hemisphere. Life expectancy at birth is about 55. Less than 40% of the population is literate. Average annual per capita income is about \$360, with rural income much lower. About 70% of the people live on the land, mostly on the hillsides, on small marginal, eroding holdings. Population pressure on limited land is enormous. Basic infrastructure is lacking or in disrepair and services are overwhelmingly concentrated in the capital city.

Haiti's macroeconomic situation has deteriorated since our strategy paper was originally submitted to AID/W in January 1989 (see Annex A). Export earnings, particularly from coffee and the assembly sector declined sharply and resulted in a significant worsening in the balance of payments and foreign exchange availability. Public sector credit expansion was largely responsible for the rekindling of inflation which increased to 12% in 1989. In response to this situation, the GOH in September 1989 signed a Stand-by agreement with the IMF which calls for revenue and expenditure measures to reduce inflationary pressures, arrest the deterioration of the balance of payments, and promote private sector confidence and investment.

At the same time, there have been gains in certain areas, largely as a result of USAID's core program. The infant mortality rate, although unacceptably high, has dropped dramatically in the past decade. In agriculture, hillside farmers are beginning to make significant progress toward achieving sustainable production based on sound soil and water conservation systems. In education, the Catholic Church and Protestant groups are now cooperating to improve primary education through a new secular foundation.

A substantial improvement of the standard of living for most Haitians will depend upon greater political stability, a more attractive investment climate, and higher foreign assistance levels.

C. Evolution of USAID's Program in Haiti

A large and growing USAID program in the late 1950s and early 1960s came to a grinding halt in 1963 when the U.S. cut off all but food aid and support to the malaria program because of the abysmal human rights record of the "Papa Doc" regime. This suspension lasted for a full decade -- the heyday of the Alliance for Progress in the rest of the hemisphere. Since its resumption in 1973, USAID activities can be divided into four periods of varying length:

1. Institutional Development (1973-80)

U.S. aid to Haiti was resumed in 1973 after the accession to power of Jean-Claude Duvalier ("Baby-Doc") at a time when the human rights picture had clearly improved and the atmosphere seemed favorable for reform. Given the limited absorptive and implementation capacity of many GOH agencies at the time, projects were designed to emphasize institution-building and improve the administration and operation of several key development agencies. This approach did not produce the desired results. Among the reasons cited were the incapacity and indifference of GOH agencies concerned, and over-optimism by A.I.D. as to what could be accomplished. "Lack of commitment to the development process" on the part of the GOH was later cited by A.I.D. as a root cause of Haiti's poor performance.

2. Promoting equity through PVOs (1980-85)

As a result of poor performance under the institutional development strategy, high-level teams from both A.I.D. and the GAO visited Haiti and recommended a different approach -- shifting responsibility away from the GOH to PVOs. In 1982, the U.S. Congress mandated that A.I.D. implement its projects in Haiti "to the maximum extent possible" through PVOs. Projects were then developed with CARE, CRS (already distributing Title II food) and other U.S. PVOs, as well as indigenous PVOs, to try to ensure that aid reached its intended beneficiaries. In addition, projects were developed to help stimulate private sector growth in industry and agro-industry, by providing financing for credit, as well as training and management advice. A GAO team in 1985 reviewed the PVO strategy and concluded that, although it had some drawbacks, the approach was generally successful. It recommended that A.I.D. continue to examine projects "on a case-by-case" basis to select the most appropriate channel (i.e. PVO or GOH) for implementation.

3. Democratization and Development (1986-87)

Following the ouster of the Duvalier regime in February 1986, A.I.D.'s program in Haiti increased dramatically in late FY 1986 and especially in FY 1987 (to close to \$100 million, double the FY 1985 level). A clear GOH commitment in 1987 to economic reform and democratic transition had led to a major increase in aid levels by both multilateral and bilateral donors. The major area of increase in U.S. assistance was ESF cash transfers in support of the economic stabilization and reform program. In addition, both dollar and local currency support were provided to support the electoral process. DA funds were split approximately 75/25 between NGO and GOH implementation channels and, in the optimistic atmosphere of most of 1987, the Mission was directed to design new projects and devise additional ways of working directly with the Government.

4. The Current Program (1989/90)

The pendulum swung sharply away from working with the GOH on November 29, 1987 when the democratic elections were aborted by government-condoned violence against the voters. U.S. assistance to the GOH was immediately suspended while assistance directly benefitting the people (i.e. through PVOs and other non-governmental organizations) was continued. The ESF and P.L. 480 Title III programs were terminated along with seven bilateral projects and the non-government program was continued at a modest level of \$39 million as compared with the earlier planned level for FY 1988 of \$110 million. This cutoff of aid to the GOH was confirmed by legislation signed into law on December 23, 1987. Both Congress and the Administration have since agreed to the strategy of a step-by-step resumption of U.S. aid to Haiti depending on progress made in protecting human rights, controlling drug trafficking, economic policy reform and democratization. Following specific Congressional authorization, the first "step" was taken with the signature of an emergency government-to-government P.L. 480 Title II (wheat) agreement in August 1989.

How should one categorize the current program?

In one sense it represents a reversion to the type of program that existed prior to the build-up in 1986. This NGO program has proven itself since 1980 and whatever the political realities -- whether there is a full resumption of aid to the GOH or not -- support for the NGO program should remain firm at adequate funding levels.

Yet the current USAID/Haiti program is not simply an NGO program. The P.L. 480 Title II emergency government-to-government wheat program signed in August 1989 was, as noted above, a first step in the resumption of public sector aid. With the signing of the P.L. 480 agreement in August and the IMF Stand-by in September, the Mission has intensified its economic policy dialogue with the GOH (See Section II C below). Democratization remains an important objective of U.S. assistance policy toward Haiti -- and the Mission took important steps in this area over the past year (See Section II D below). Finally, the Mission has given considerable thought to the composition and nature of a public sector aid program for FY 90 should Congress and the Administration agree on such a program. This analysis is reflected in Section II E.

II. Problem Description and Strategy

A. The Core Program

The USAID/Haiti program focusses on four areas that encompass the most pressing social and economic needs of the poorest country in the Western Hemisphere. These areas are in order of priority:

1. Child Survival/Population
2. Agricultural Production/Natural Resources
3. Private Sector
4. Education

This choice of sectors evolved from our assessment of Haiti's major problem areas and our own capacity to respond to the basic human needs of Haiti's poor. The great majority of projects in these four areas, supplemented by P.L. 480 Title II food, constitute the Mission's "core" program. Within the "core" program, we are attempting to lower the infant mortality rate, raise the contraceptive prevalence rate, raise the productivity and income of Haiti's peasant farmers (about 70% of the population), increase employment through private sector growth, and raise the low quality and standards of primary education. The core program is concentrated in areas where the U.S. has demonstrated expertise, where there is unquestionable need, where other donors are not lead players, and where we know from past success that we can show positive results. Even if full assistance to the GOH were resumed, we would want to continue emphasis on the core program. A Management Assessment Team visited Haiti in December 1988 and concluded that:

"Through its program and policy work, the Haiti Mission is establishing potentially powerful bases for development and growth with equity. Its oldest project in agroforestry... is producing on-the-ground evidence that the devastating environmental deterioration of the hills can be reversed and the economic condition of the hill populations -- the majority -- can be improved. Similarly the Mission has created well-managed, innovative and already productive programs in child survival and basic education. The Mission is an important player in the development of the private sector in Haiti."

Many individual projects will expire during the 1989-1990 period as part of continuing tight management of our portfolio, but the umbrella projects in Agroforestry, Private Sector Family Planning, Voluntary Agencies for Child Survival, and Basic Education will continue, as will job creation projects in the private sector. Limited funding in FY 90 may still prevent us from fully realizing the objectives of the core program unless deob/reob and/or fallout funds can supplement the planned level as they did in FY 89.

1. Child Survival/Population -- The Problem

With a 15% mortality rate among children under age five, 150,000 Haitian children die annually. At least half of these could be saved with the timely application of affordable, available technologies. For those families experiencing the loss of a child, the importance of family planning for the health of the mother and child may not seem relevant.

However, with one of the world's highest ratios of people to arable land, it is imperative to bring down the rapidly increasing rate of population growth (the total fertility rate has increased from approximately 5.5 to 6.5 in the past 10 years). At present rates of population growth, Haiti will have twice as many people in the year 2030 as it does today. In spite of a 1983 survey showing that 40% of Haitian women 30 years or older are aware of family planning and want no more children, only 5%-6% of Haitian women are contracepting, even after ten years of USAID support to the national family planning program.

Although Haiti has more well trained public health physicians than many countries with more robust economies, and about 8,000 public sector health workers (requiring 90% of the Health Ministry's budget), effective services have not reached rural Haitians. Nor has USAID assistance channeled through the Ministry had an appreciable impact. A 1987 survey determined that fewer than 25% of children were adequately protected against measles, and fewer than 20% of mothers are using ORT to treat their children for diarrhea.

However, there are reasons for encouragement. The infant mortality rate, though still high, is coming down. A decision, taken well in advance of the

congressionally mandated cutoff of funds to the public sector, to concentrate on encouraging PVO health providers to furnish community-based preventive health services is beginning to pay dividends. PVO child survival and family planning programs are beginning to expand coverage, reduce mortality, and increase contraceptive prevalence.

Child Survival/Population - The Strategy

Given the top priority accorded to the reduction of infant mortality and fertility rates, USAID plans to devote 35% of its DA portfolio to these ends in FY 1990.

To increase child survival rates, USAID will: (a) promote improved cooperation between the Health Ministry (MSPP) and the PVO health providers, (b) help increase vital child survival services: increase vaccination coverage, improve feeding practices, increase utilization of ORT for prevention of dehydration due to diarrhea, and promote birth spacing -- all through an expansion of the PVO network currently implementing community based programs, (c) strengthen both the management and outreach capabilities of PVO health providers, and (d) continue support to the national EPI and diarrhea/disease control programs. The broad objective will be to reduce early childhood mortality by 20% from a level of 101/1000 over the next five years.

With encouragement from USAID, the present government has reversed completely the stand taken by all previous governments which ignored or actively obstructed the work of PVOs in the health sector. The Health Ministry has signed contracts with several PVOs specifically granting them authority to manage MSPP resources in certain geographic areas. In this vastly improved policy environment, USAID expects that its assistance to PVOs will be even more productive in the future.

In the past four years, USAID has provided resources to more than 40 PVOs which serve catchment areas of more than 1.5 million people. In spite of the serious political problems and a wide variability of management strength, these PVOs are providing community outreach services including vaccination to

more than half of this target population. Through the Voluntary Agencies for Child Survival project (VACS) and other activities, A.I.D. will continue to support these and new PVOs to expand the number of people served by the child survival programs at the community level to 1.5-2.0 million by the end of the VACS project in 1993.

Throughout the FY 1989-1990 period, the Mission will continue to accord high priority to the improved implementation of the Expanded Program of Immunization (EPI) which currently provides approximately 15% of Haitian children with their full complement of six antigens before they would normally acquire the diseases naturally. If the enthusiasm which attended the first three nation-wide "immunization days" can be sustained, we expect that the percentage of children fully immunized will double by the end of the planning period. In addition to providing financial support to rural and urban PVOs, we will also provide technical assistance in vaccination technology, financial management and institutional development through a core TA contract under the VACS project, and through various buy-ins to centrally-funded projects such as REACH, Mothercare, and the Child Survival Fellows Program.

The Mission completed an elaboration of its Child Survival Strategy for FY 89-91 and, after internal review and approval, submitted it in May 1989 to AID/W for review. We are awaiting confirmation from AID/W that a review was held as well as comments and/or recommendations.

To address the population problem in Haiti, USAID strategy during the next two years will focus on (1) the provision of family planning services, both clinical and non-clinical, through the private voluntary sector, (2) commercial programs with the private-for-profit sector, (3) donor coordination, and (4) policy dialogue with the GOH.

PVOs have not been key players in family planning in the past, due to lack of funding, caution among some because of their religious sponsors, and the Government's monopolistic stance during most of the years since 1971. USAID's work with PVOs in the sector since 1986 has shown that PVOs, when encouraged and provided technical assistance and other resources, can quickly and effectively promote family planning in their target populations. Through the

PVO component of the present project, more than 82,000 beneficiaries are expected to be served. In view of the success of the PVOs in delivering community-based FP services, USAID is broadening its support to include voluntary surgical contraception (VSC). The tragic rates of maternal mortality in Haiti, coupled with the very low contraceptive prevalence, make VSC a service in growing demand.

In addition, our strategy will include expanding contraceptive sales in the private sector. The contraceptive social marketing (CSM) activity is expected to become self-sustaining by its fifth year and produce about 40,000 couple years of protection on an annual basis.

Given the limited involvement of other donors, USAID's efforts are vital in the population sector. The U.N. Family Planning Association (UNFPA) has a vigorous program but their funds are limited to the provision of contraceptives, and population policy development. Funds are insufficient to support community programs to develop demand. UNFPA does not support the development of service delivery, an area of critical need, and few other donors are active in this domain. With competing needs in the areas of primary health care and AIDS, other donor attention has been diverted from family planning. USAID is pleased that its intervention with the World Bank and Ministry of Health led to the addition of a significant family planning component to a World Bank-funded health project slated to begin in January 1990.

Despite continuing restrictions on USAID funding to the GOH, USAID has successfully continued a productive policy dialogue with senior Ministry of Health officials. With help from the Futures Group, USAID made information available to the MOH which led to the organization of the first National Population Conference held in April 1989 which was opened by the President. The conference resulted in a Presidential order to the MOH to develop a National population policy by December 1989.

2. Agriculture/Natural Resources -- The Problem

Although in decline, agriculture continues to make the largest contribution to Gross Domestic Product of any sector of the economy and has stabilized during this decade at about 30%-32%. The agriculture sector engages about 70% of Haiti's population, mostly as farm families on small, highly fragmented gardens under diverse land tenure arrangements. The farm population is thought to be fairly stable, having reached a maximum in terms of land carrying capacity under existing technologies.

From a macro perspective, Haiti has a poor natural resource base for agriculture. Only 11% of the land area has high potential for agriculture. Another 32% is on slopes requiring careful soil and water conservation measures. About 54% should be in pasture, tree crops or natural state but is increasingly being farmed. Population pressure and lack of economic alternatives in other sectors of the economy have resulted in overuse and depletion of the resource base, including extensive cultivation of slopes over 45 degrees. Deforestation has altered river hydrology, accentuating the differences between peak and minimal flows and resulting in water resources less suitable for irrigated agriculture. Severe soil erosion is decreasing productivity per unit area and leading to abandonment of some areas. The misuse and mining of the natural resource base, unless arrested, will lead to environmental catastrophe. Yields on both plain and hillside soils are low and have not been increasing. The low yields reflect problems that include poor and deteriorating irrigation systems, erosion and soil fertility depletion, continued subdivision of already small farm plots, complicated and uncertain land tenure, low levels of mechanization, lack of credit, and a low level of fertilizer use.

Agriculture/Natural Resources -- The Strategy

The Mission's agriculture strategy addresses both growth and equity concerns. Our projects are aimed at increasing peasant income through increased productivity, and at preserving the natural resource base through the use of sound soil and water conservation systems. Beginning in FY 1990, we will begin a new Agroforestry project which will build on the past successes of our Agroforestry Outreach project.

Our strategy promotes two main activities: promotion of sustainable production systems on the hillsides based on integration of sound soil and water conservation systems using perennial crops; and expansion of market opportunities and support to small farmers for products with identified market demand.

Improved production systems are based on the increased integration of perennial crops of various kinds -- including trees, shrubs and grasses -- into existing peasant farming systems. On-site benefits deriving from the soil and water conservation effects of the perennial crops extend to yield improvements of intercropped annual food and cash crops. The perennials are themselves harvested periodically, providing fuelwood, charcoal, lumber, fodder, green manure, fruit, coffee, etc., to increase on-farm productivity and income. The sustainable production systems also include other sound conservation practices such as contour planting, mulching, and other erosion control measures. This facet of the strategy has been led by the Agroforestry Outreach Project (AOP). Its primary success has been in establishing fast-growing, tropical, hardwood trees as a cash crop. By the PACD of March 31, 1990, approximately 25% of Haitian farm families (over 230,000 people) nationwide will have participated in this project, and large numbers already are harvesting wood products for farm use and sale. The AOP has already surpassed the current market estimates of demand for traditional construction poles, and would meet 30% of the 1990 charcoal consumption if all harvested trees were converted to that use. The FY 1990 follow-on project, Agroforestry II, will continue tree seedling production and outplanting of about eight million trees per year, expand services to promote more advanced agroforestry systems, and maximize marketing potential for harvested products to increase farm income. Project successes have created an unmet demand for tree seedlings and are stimulating other major donors to finance similar agroforestry activities.

Concerning the second facet of the strategy, the private agribusiness sector must take the lead in partnership with offshore interests and financing to establish market channels for higher value export crops. The recent growth of mango exports is a good model which we will try to replicate: production technology and financial requirements can be met by small farmers; production

is suitable for large areas of the country; the traditional marketing system is adequate to centralize production treatment and packing for export; and export market channels have been established with a small group of qualified, experienced exporters. The logical next step is to build upon the existing successful export system to broaden the commodity base. Immediate opportunities exist for small farmers to supply exporters with ethnic crops (e.g. malanga, cassava, giraumon, etc.).

A contingency element of the agricultural strategy (as far as dollar financing is concerned) lies in promoting intensification of production in the plains areas of Haiti. Traditionally, other donors in the agricultural sector have concentrated aid in the plains areas primarily to promote food crop production. There are a large number of irrigation systems, most of which were constructed many years ago and which are in need of rehabilitation. Proper functioning of the systems will produce higher yields and permit upgrading to higher value crops. Using limited available local currency funds, USAID has supported GOH irrigation rehabilitation projects and provided counterpart financing for other donor projects. Continued support is dependent on additional availability of local currency as dollar funds are inadequate to support irrigation rehabilitation/plains production as a third leg of the Mission agricultural strategy.

The Interim Swine Repopulation project has come to a successful end during the strategy period. As the name suggests, this project was intended to fill the gap until the Inter-American Development Bank (IDB) swine project came on line. Because of delays in the IDB project, the USAID project which was efficiently implemented by IICA essentially completed needed repopulation efforts. However, the primary problems at present are nutrition, continued health surveillance, and marketing rather than repopulation. When finally approved in 1989, the \$13.2 million IDB project was reoriented away from repopulation efforts to address present concerns. USAID will work to assure that P.L. 480 local currency funds are made available by the GOH to support the IDB project. In addition, the United States Department of Agriculture has been authorized to provide assistance directly to the GOH (an exception to the general USG restriction on bilateral assistance) to assure continued swine health monitoring through operations at the Central Veterinary Laboratory in

Port-au-Prince. Thus, the functions assumed by the USAID project have effectively been turned over to other institutions and donors with new or ongoing projects.

Our policy agenda for FY 90 targets policies directly affecting projects in our portfolio - e.g. coffee exports, availability and distribution of animal feeds, local control of irrigation systems, and preparation of an agricultural investment code. Regarding coffee, for example, the export tax was eliminated in 1987. This change has moved the farmgate price from about 55% to almost 80% of the international price -- i.e. the most favorable return for the farmer for the past 30 years.

Several policy issues affect the Haitian swine industry. Haiti is a large importer of low cost U.S. pork by-products, (feet, jowls, and other parts). These products are purchased for a very low price in the United States and can be marketed in Haiti at a price below local production costs. A second problem related to the sale of wheat mill by-products from the state-owned flour mill below market value to a favored group of middlemen. Feed manufacturers were denied direct access to the supply. The policy objective in this case -- i.e. for the mill to full-price the by-products in order to reduce its operating deficit -- was met as part of the P.L. 480 Title II government-to-government wheat program negotiations in August 1989.

In addition, we and other donors have a number of long-term policy concerns, such as reduction of sugar subsidies, land reform, and administrative reform. However, these issues are not likely to be addressed by the interim Government and are hence beyond the scope of the 1989/1990 strategy period.

Finally, regarding any further activity in Haiti's coastal zone, the Mission has completed a two-part study of Les Arcadins, which adds significantly to the body of knowledge on coastal resources. The Mission continues to plan additional investigations of coastal resources but budget limitations and greater concentration on "core program" activity preclude us from following up these studies with Mission-funded projects.

3. Private Sector -- The Problem

Since the demise of the Duvalier Government in early 1986 political disturbances have reduced the confidence of both foreign and domestic investors leading to a diversion of both capital and contracts to other countries in the region. While many investors continued to do business in Haiti, these have been limited mainly to those who have a long satisfactory history of doing business in the country. Despite these problems, until recently, Haiti's private sector has performed remarkably well and productivity has remained high. Textile exports to the U.S. were at a record high for 1987; CBI exports to the U.S. from Haiti ranked second in the Latin America/Caribbean region (excluding Mexico). However, as the updated macro-assessment (Annex A) makes clear, the economy and private sector performance have recently taken a turn for the worse.

Recent Haitian history shows that the private sector has the capacity to perform well even in terms of political difficulty. Haiti could achieve considerable growth if social and political stability could be achieved and the financial discipline mandated by the recently-signed IMF Stand-by were adhered to. The average annual growth rate for CBI exports from Haiti to the U.S. was 8.2% from 1982 through 1988 but this compares to annual rates of 263.7% and 69.0% for Jamaica and the Dominican Republic respectively. In a sense, Haiti's potential growth was diverted to other countries during the years of turmoil in Haiti. With greater political stability and an improved investor climate, exports from Haiti could grow dramatically in the 1990s.

A major obstacle to private sector development is the regulatory environment which prevails in the country. Prior to Duvalier's departure, businesses providing essential goods were run by monopolies. Under the CNG, major policy reforms were carried out, for example reducing the number of items receiving monopoly protection from 117 to 7 and revising the tariff structure. These changes improved international competitiveness. Yet, there remain many areas which must be addressed to encourage investments. Noteworthy examples are: counter-productive foreign exchange controls and excessive public sector debt creation; poor administration of imports and exports; contraband (which circumvents duties and undercuts legitimate private sector competition);

titling of land (to facilitate mortgage lending and investment); expanding credit availability through investment instruments that would be attractive alternatives for insurance funds presently held offshore; the need for developing an agribusiness investment code to define investment procedures and protect agribusiness/rural investment; and a workable labor code (to create effective unions which represent the rights of a majority of workers in a factory and which do not create spurious work disruptions).

Another impediment to private sector development in Haiti is the lack of skilled managers and supervisors who, when available, are as expensive as comparable personnel in the United States.

Finally, inadequate infrastructure remains a major obstacle to further development of the private sector. Maintenance of infrastructure has seriously deteriorated during the past two years and there has been virtually no new expansion. Land, construction, and rents are high. Communications are poor both internally and internationally with no telephone or mail service outside provincial centers and Port-au-Prince. Electricity is reasonably reliable, but is available only in certain areas and is extremely expensive. Potable water is scarce and prohibitively expensive to the urban and rural masses. Water for industrial uses is also scarce. Roads are poor, both in Port-au-Prince and in the countryside. Lack of customs services and heavy reliance on Port-au-Prince reduce the efficiency of secondary port operations. Under the Duvalier regime, Port-au-Prince was designated as the sole international port for the country. While there is a major international airport in Port-au-Prince and a minor one in Cap Haitien, the rest of the country remains underserved by air transport. This has slowly been changing, but the centralized system remains a major deterrent to private sector growth, particularly in the provinces which suffer from poor or non-existent facilities.

Private Sector -- The Strategy

In developing a program to bring about sustained economic growth, our private sector program aims at two primary areas: strengthening the private sector and promoting exports. Activities in both of these areas are related to creation of employment, with a perspective of working with reform-minded elements of the private sector.

The Mission does not directly fund specific private sector ventures. Our private sector strategy has been to work through intermediary institutions which address specific constraints to private sector growth. These institutions then work directly with investors and private sector representatives to channel resources to progressive elements of the private sector dedicated to long term development in Haiti.

A primary constraint to private sector development is investor confidence; to combat this, the Mission supports PROMINEX -- Haiti's investment promotion center -- to serve as a primary liaison between Haiti and potential investors. PROMINEX's purpose is to provide assistance to potential investors and entrepreneurs, including the collection and analysis of accurate information on Haitian producers, the international market and the regulatory environment in Haiti and the U.S. PROMINEX is also intended to provide linkages to the relevant government offices in order to help investors overcome specific regulatory and infrastructure problems. Through the PROMINEX project, the Mission also provides technical assistance to the Consultative Mixed Committee for Industrial Development (CMCID), a joint private/public sector policy formulation body. It is in the context of the CMCID that the Mission has been directly involved in policy dialogue and hopes to continue working toward developing the free market environment required to make Haiti more competitive internationally. The CMCID has been largely inactive in the second half of 1989, but the Mission has been working with both the public and private sectors in the hope that the CMCID will again provide leadership in developing sound macroeconomic policies for the country. With respect to the lack of mid-management skills, the Mission supports the Management and Productivity Center (MPC) to provide management, entrepreneurial and supervisory training programs.

The lack of credit availability has prompted the Mission to support three new credit institutions: the Haitian Development Foundation (HDF), the Development Finance Corporation (SOFIHDES), and the Haitian Mortgage Bank (BCI). The target clientele of the HDF is small businesses and micro-entrepreneurs. SOFIHDES targets its resources to larger industrial and agroindustrial ventures. The BCI, as a mortgage bank and savings institution, provides lending for household construction and improvements, with pilot efforts aimed at low-income households. The first two of these credit institutions aim directly at alleviating the nonavailability of credit for private enterprises. The BCI provides savings growth and credit for individuals as well as for developers and has a major impact on job creation in the construction sector.

In addition, the Mission provides support to Zin d'Art, a Haitian foundation for crafts exports. This foundation provides technical assistance to Haitian artisanal workers in design and marketing so that Haitian crafts workers can develop marketable products at acceptable prices, with sufficient quality and quantity to meet client needs. The foundation provides these marketing services mostly for products to be sold in the North American and Caribbean markets.

Finally, the Mission aims at private sector development in rural areas through its private sector outreach and agribusiness activities. Activities in these areas are aimed at developing linkages between Mission-supported intermediary institutions and private entrepreneurs in the provinces. A pilot project is presently underway in Cap-Haitien to develop interventions for the HDF, MPC and Zin d'Art. These will be expanded to include the services of SOFIHDES, PROMINEX and BCI. While in the short term political instability has forced our program into a mode of maintaining existing jobs and businesses, assuming stability in the medium and long term and funding availability, the Mission plans to expand activities in agribusiness to increase nontraditional exports.

In December 1988, the Mission completed a private sector assessment which recommends an expanded private sector focus for the FY 90-95 period. The assessment recommends new activities for the private sector portfolio in

policy analysis, export promotion with emphasis on backward linkages to the indigenous private sector, credit and financial market development, and, support for microenterprises and the informal sector. A summary of the strategy, which was approved in AID/W in May 1989, is attached as Annex B.

4. Education -- The Problem

Haiti's only abundant resource is its people. Tragically, there has never been sufficient investment in this vital resource. The extremely low literacy rate, and numerous inadequacies in the basic education system are telling indicators of this lack of investment.

The comprehensive education sector assessment conducted by the Mission in late 1984 provides a stark portrait of defects of the education system. The country's illiteracy rate, although unacceptably high, has been falling in recent years. It is now estimated at 60%-70%. But these figures include the Port-au-Prince area where most literate people are concentrated.

The poor quality of education results from inadequate learning materials, unqualified teachers and, traditionally, a failure of the Government to commit the necessary resources to correct the situation. The insufficient number of primary school teachers and their low level of qualification limit the effectiveness of efforts to improve the quality of education. Analysis of teacher qualifications shows that about 27% of the country's teachers can be considered qualified, i.e. graduates of teacher training colleges or the equivalent. An additional 19% have completed the first cycle of secondary education and could become qualified with equivalency courses. All other teachers need more extensive in-service training. In general, teachers are poorly prepared to teach in rural areas where often they must deal with more than one grade per classroom, overage students and infrequent attendance. Data on dropout and repetition rates are equally alarming. Of the 60% of children 6-12 years of age who begin primary school, about 30% can be expected to complete six years of primary school, and only 10% of them will do so

without repeating a grade. Severe capacity limitations, inefficiency and poor quality characterize all levels of education, but are particularly acute at the primary level. The system's inefficiency translates into an average 14 student-years to complete primary school in rural areas.

Unlike most LDCs, the public sector in Haiti plays a minor and constantly shrinking role in education. Nearly two-thirds of primary education is in private hands. Current trends indicate that this dominance of the private sector in education will continue. Private education in Haiti, however, does not suggest superiority. Quality varies widely, encompassing both the best and the worst in primary education.

Education -- The Strategy

The Mission's strategy in the education sector is based on the Education Sector Assessment (1984). The Assessment concluded that resources spent for basic education would have very high rates of return, reduce poverty, and have extensive linkages with other sectors which would produce benefits such as reduced family size, better health and nutrition, creation of jobs and improvements in agricultural practices. This kind of impact, along with increases that basic education produces in the literacy rate, made this a highly attractive investment for national economic and social development.

Our strategy focuses on basic education and addresses several major constraints:

- high drop-out and repetition rates,
- insufficient and inadequate school facilities,
- undernourished students,
- the lack of learning materials,
- under-trained teachers and managers,
- institutional weaknesses in the private sector,
- non-communication between the private sector and the Ministry of Education.

The strategy focuses on private schools in rural areas, secondary cities, and marginal urban areas. It emphasizes both the pre-school and primary levels since our prior experience indicates that pre-school interventions are critical to improving the efficiency of primary education.

In working with the private sector, the A.I.D. program offers a series of incentives designed to improve access and educational efficiency. These include:

- start-up costs for expanding pre-school programs,
- matching funds for school construction and renovation,
- participation in a school feeding program, using Title II resources,
- provision of teaching methods and school management.

The principal means for carrying out our education strategy is the Mission's project in basic education (Incentives to Improve Basic Education). Designed to stimulate and support improvement in educational quality and efficiency in private primary schools serving mainly disadvantaged areas, it blends an instructional improvement approach with institution building to make the improvements sustainable. The latter aspect is dependent on the cooperation of the Catholic Church and Protestant groups who represent the great majority of private sector schools. In fact, the institutionalization goal is being realized at a much faster pace than anticipated. A significant part of the Protestant sector has united into a federation, and the Catholic Church schools have done the same. Both institutions plan to offer services and supervision to their sub-sectors and to build grassroots support that will ensure their ability to disseminate educational reform techniques. In September 1988, both church-based institutions took a further step and joined efforts to establish a secular foundation to promote the interests of private primary education without regard to religious affiliation. The foundation received its first direct grant from USAID in July 1989.

Since USAID is a relatively late arrival on the education scene, coordination with the GOH, other donors and the PVOs operating basic education programs has been all the more essential and is an integral part of the Mission's strategy. The World Bank and, to a far lesser extent, UNESCO are the two

major donors supporting basic education, largely in the public sector. The IDB has a major public primary school construction project with the GOH which is very slowly getting off the ground.

The existence of Catholic and Protestant education institutions has cushioned the Mission's project from negative political fallout from the aid cutoff and has facilitated cooperation with the World Bank. Possible political complications stemming from a free-standing private sector education project were averted by the uninterrupted dialogue on policy issues of common concern between representatives of the Protestant and Catholic organizations and the Education Ministry. A vital part of project strategy is to conserve and build upon the sentiment recently expressed by the Ministry that private/public sector relations have never been better.

The long-term objective of our education strategy is to assure "a critical mass of literates" in Haiti. This means at least 50% of the population literate by the year 2,000. This will require about a 70% national increase, and a greater increase in rural areas. Our basic education project was designed to support this objective.

Compared to its central position in primary education, the Mission has played a relatively tangential role in adult literacy. The fall of the Duvalier dictatorship precipitated a modification of the Mission's long-term strategy of improving primary education as the surest way to achieve a literate population. As part of the general goal to assist in a democratic transition, the Mission supported several adult literacy activities through the 1987 Emergency Title II Program of which the Catholic Church's program, Mission Alpha, was the most significant. With additional local currency funds becoming available under the recently-signed P.L. 480 (government-to-government) emergency wheat program, the Mission will provide assistance to a restructured Mission Alpha beginning in FY 90.

A final element of USAID strategy is participant training throughout our sectors of concentration and at all skill levels (i.e. managerial, technical and vocational). Since the majority of Haitians cannot afford such training, USAID is providing training opportunities in the U.S., targeted on the

disadvantaged segment of the population. This is being done under the Presidential Training Initiative for the Island Caribbean (PTIIC) and CLASP II projects.

B. Food Aid and its Relationship to the Core Program

Haiti's food gap is severe, and more than 100,000 additional tons of imported cereals would be needed annually to fill the gap. The suspension of our Title III program in FY 1988 has made the situation even more critical. Total caloric intake (imported plus local production) is approximately 1,750 calories per capita compared to a recommended daily requirement of 2,270 calories, a 22.9% shortfall. In the Haitian population, this translates to one child in ten severely malnourished, and over 50% of the under-five population moderately malnourished.

The USAID/Haiti regular Title II program has been in continual expansion over the past 15 years to meet these critical humanitarian needs. Since FY 1974, our Title II program has more than quadrupled in coverage, expanding from 168,000 to 736,000 beneficiaries. Commodity imports have tripled, from 10,000 metric tons in FY 1974 to roughly 30,000 metric tons for FY 1989.

This expansion has not been without problems. A recent assessment of the Title II program has raised issues that must be addressed over the next two years, such as the need for more coordinated management of the overall Title II program, the need to better monitor commodity flows, and the need for more strategic focus to the program so that resources can benefit those most in need.

The Mission food aid strategy over the next year will be to maintain present beneficiary levels, and concentrate on structuring our food program to best support our core development program, especially in the child survival and education sectors. For example, a concerted attempt will be made to improve the targeting of school feeding and maternal and infant health programs to maximize our sectoral investments. We will initiate other efforts to improve the efficiency and effectiveness of Title II program resources as other avenues are identified.

In FY 89 we added two PSCs to our P.L. 480 program management staff and are currently looking forward to filling the recently-approved position for a U.S. direct-hire to oversee the management of the P.L. 480 program. Over the strategy period we will continue to develop improved methods and systems to adequately monitor and track P.L. 480 commodities in a continuing effort to improve the efficiency and effectiveness of our food distribution program.

Given the scarcity of DA resources, we have developed a monetization program with two of our major cooperating agencies (CARE and ADRA) which covers four years of financing local food distribution costs. The first-year portion (for FY 90) -- i.e. monetization of \$3 million of vegetable oil -- was reviewed and approved by the GOH and DCC. If this program is continued through its four-year life, it should provide the foundation for long-term sustainability of our Title II program.

With the straight-lining of regular Title II activities over the next two years, the need for increased food supplies for the Haitian population will continue to be a problem. To address critical caloric shortfalls in the country, we believe the P.L. 480 Title II government-to-government wheat program approved in August 1989 should be supplemented by an expanded program in FY 90.

C. Policy Dialogue

With the signing of the P.L. 480 government-to-government program in August 1989 and the IMF Stand-by Agreement in September, the Mission has intensified its policy dialogue with the GOH and plans to continue to do so.

In recent months the Mission's policy dialogue with the GOH has increased, particularly regarding the self-help conditions incorporated in the P.L. 480 government-to-government agreement, but also regarding the conditions attached to the IMF agreement. The self-help conditions address areas of special importance to USAID such as facilitating implementation of PVO food donation activities, progress in democratization, and improved management of the flour mill that receives all the wheat under our Title II government-to-government programs. Discussions with both Ministry of Finance officials and the

President have given USAID the opportunity to express its continuing strong interest in the Government maintaining the economic policy reforms undertaken in 1986/87 as well as improving financial accountability in the Haitian bureaucracy. A major policy dialogue concern is to ensure that the GOH follows through on implementation of the IMF Agreement.

The Mission has also had some very positive discussions with the Health Ministry concerning support of PVO health programs, the privatization of health services and development of a population policy. As a result of USAID's intervention, the World Bank and GOH have agreed to the addition of a significant family planning component to a World Bank-funded health project scheduled to start in January 1990. In addition, USAID, through the Futures Group, helped generate the first National Population Conference in April 1989 which resulted in a Presidential Order to the National Population Commission to develop a population policy by December 1989. The Ministry of Health has negotiated contracts with several local PVOs to manage health services in various geographic areas where the PVOs will have direct authority over Ministry personnel and the use of Ministry infrastructure. This represents a significant improvement in cooperation in the health/population area from a year ago.

USAID/Haiti has strong contacts in the private sector and will continue to maintain a dialogue on key issues such as labor-management relations, reduced tariffs, trade liberalization, foreign currency regulations, etc. Current trends in the Haitian Government's management of the macroeconomic environment have had an adverse impact upon the economy in general and have caused financial disintermediation in the system. An ongoing dialogue is imperative to stem this trend. The Mission is currently in the planning and design phase of a new Policy Analysis and Dialogue project which will expand upon and formalize current policy dialogue efforts.

The Mission also has frequent discussions with the Minister of Planning and other technical Ministries relating to our PVO program. In September 1989, the Government issued a new decree on NGOs which, if fully implemented, will severely restrict their operations in Haiti. The Mission has had a number of discussions with GOH representatives on this decree but the problem is not

resolved as of this writing. USAID will attempt to serve as an honest broker between PVOs and the Government to reconcile any differences and speed program implementation.

D. Democratic Development

The importance of building democratic institutions and strengthening the democratic process in Haiti is clear. The Mission is committed to supporting democratic development, and has taken a number of positive steps to do so during 1989.

In an attempt to determine more precisely what means and sources would be appropriate for our efforts in the democracy area, the Mission had a "Democratic Needs Assessment" carried out in the Spring of 1989. Several types of activities were recommended in the Assessment (i.e. civic education, human rights protection, etc.) many of which the Mission is already supporting under its grant to the America's Development Foundation (ADF).

Under the grant to ADF, funds were made available to IHRED (the Haitian Research and Development Institute), a local NGO, to conduct a series of fora on democratic issues. The grant was amended in September 1989 to provide additional funds for the support of additional symposia, a pilot administration of justice activity, and the establishment of a special "Democracy Fund". The latter can be used, for example, to finance groups which are interested in human rights activities. We have also programmed local currency for a grant to another NGO (the Human Resources Development Center) primarily for a broad-based civic education program, but also for elections-related activity of the (new) CEP (Provisional Electoral Council).

The Mission made major efforts to support the electoral process during 1987. Over \$8 million was allocated for the elections, of which about 80% was ESF local currency budget support for the Electoral Council. The electoral process was beset by numerous problems, particularly the fight in June-July 1987 between the GOH and the Electoral Council for control of the election. This left only a few months to build an entire electoral system from scratch,

but a more or less functioning process was in place on election day. Our budget support as well as direct support to the Electoral Council played a key role in allowing this to happen. Technical assistance provided by CAPEL was much less successful due to its inability to operate effectively in Haiti.

USAID is prepared to assist future elections as part of an electoral process which Haitians regard as legitimate and which is likely to lead to free and fair elections. A calendar for local, legislative, and Presidential elections was announced by the CEP in September 1989. The CEP itself has been receiving modest budgetary support from the GOH, and from USAID in the form of \$500,000 in local currency funds. To date, only \$50,000 of this local currency has been disbursed, the balance being withheld pending satisfaction of various conditions. The Government's budget for the elections (\$2.4 million) has been approved and details will soon be published. The GOH and the CEP are certain to request significant resources from A.I.D. and other donors. There seems no way that Haiti could fund the elections without external assistance and still remain in compliance with the IMF expenditure limits. The Mission believes strongly that the U.S., in conjunction with other donors, should respond favorably and promptly to this need. The easiest way would be to provide an ESF cash transfer with local currency generations supporting the electoral process, as was done in 1987.

The development of democracy will necessarily be a long term process in a country, such as Haiti, which lacks any real democratic tradition and has values, beliefs and cultural habits which are not always consonant with democratic practices. Much of the Mission's current core program is already contributing to a process of change. The diverse activities and approaches of PVOs/NGOs, many of which are aimed at stimulating participatory development, local autonomy and collective self-help initiatives, are contributing to the growth of an informed, organized and engaged citizenry at the grassroots level. Projects such as agroforestry outreach, coffee development, community water, special development activities, soil conservation activities, child survival and family planning have developmental objectives but at the same time are actively promoting community participation and organization, formation of cooperatives, leadership training, definition of responsibilities and other activities which lead to empowerment and a more direct control of

individual and collective destiny. Other projects are contributing to the level of basic literacy required for a democracy and to the creation of pluralistic institutions that can compete with traditional power structures. While very long-term, these kinds of activities may ultimately be the most successful in laying the foundations for democracy.

E. Toward a Resumption of Assistance to the Government

The suspension of U.S. aid to Haiti announced in December 1987 has been modified as a result of recent events in Haiti -- an attempted coup in April 1989, and Congressional support for a resumption of assistance to the GOH on a step-by-step basis depending on continued progress in the areas of human rights, narcotics control, economic policy and democracy. The first "step" was approval of a P.L. 480 Title II government-to-government wheat program signed in August 1989.

In late September 1989, the GOH took two major steps: adoption of an elections calendar and the stand-by agreement with the IMF. As the country moves toward elections, however, it faces formidable economic challenges and prospects for a very weak recovery in FY 90. Even with the positive revenue effects of the Stand-by, Government resolve may weaken unless tangible progress toward economic recovery can be demonstrated soon. Continued economic deterioration leading to expanded popular unrest could derail the chances for a successful democratic transition.

The Macroeconomic Assessment, updated as of October 1989 (see Annex A for the Executive Summary), demonstrated the importance of economic stabilization in the transition toward democratic government. Substantial donor assistance will be required. We are proposing balance of payments assistance of up to \$35-40 million in FY 1990, including P.L. 480 and ESF and/or DA sector assistance, conditioned on GOH progress in economic reform as well as progress in the key political areas (i.e. democratization, human rights, and narcotics control). Disbursements would be linked to concrete GOH measures and benchmarks on the road to a democratic transition, thus preserving the "step-by-step" nature of U.S. policy.

In recognition of this incremental approach to a resumption of assistance to the GOH, USAID priorities for our proposed balance of payments assistance in FY 90 are basically the same as outlined in our original Strategy Paper. The first priority is food aid. For FY 90 we propose a P.L. 480 Title II government-to-government wheat program. This kind of program would be a natural follow-on to the \$10 million program approved in August 1989, and would continue to help meet the need for a critical commodity (wheat) in a major food-deficit country. The local currency generated by the wheat sales would be used, as in the FY 89 program, to alleviate critical social and economic problems such as unemployment and deteriorating food production. Such a program would thus be doubly valuable by meeting a critical food need and easing tensions during a political transition period. USAID will propose a \$20-25 million wheat program for FY 90, which would cover wheat imports for the balance of calendar year 1990. The wheat shipments would be trached depending primarily on GOH adherence to the electoral calendar.

We strongly oppose a resumption of the Title III program before an elected Government has been installed. The time and effort to organize the program, the conditionality involved, and the lack of flexibility in program implementation all argue against trying to negotiate a Title III agreement with the transitional government.

The second priority, subject to consultations with Congress, and a State/A.I.D. assessment of GOH progress in the political areas, would be ESF, or a combined ESF/DA sector support or CIP program that would support economic stabilization as well as elections. The dollars would be used to purchase petroleum, as under earlier ESF programs, and the local currency generated could be used to support the stabilization program as well as the electoral process. ESF, DA sector support, or a CIP program if used in conjunction with IMF and World Bank programs, could support a revived economic stabilization program and help to defray the considerable expense of elections. Haiti has led a "hand to mouth" existence regarding oil imports since aid was cut off in November 1987. The linkage between oil shortages and social unrest/economic slowdown is clear in Haiti -- so program assistance would give us maximum leverage if used for this commodity. A combined economic stabilization and

elections program totalling \$15 million, including \$6 to 7 million for elections, would be consistent with Action Plan guidance acknowledging the need for economic stabilization to support the democratic transition.

The third priority would be DA project funding in support of core program areas such as PVO immunization activities (including pharmaceuticals), family planning, and agricultural development.

In sum, Mission strategy is based on a phased resumption of assistance to the GOH. Phase I (food aid) was initiated in August 1989. We believe strongly that given the increasing difficulties (see Macroeconomic Assessment) faced by the GOH in meeting its commitment to a smooth democratic transition, it will be vital for this transition government to receive additional balance of payments assistance, assuming the all-important political conditionality can be met.

F. Special Problem Areas

1. AIDS

Although initially wary of launching an aggressive anti-AIDS campaign for political reasons, the Health Ministry produced a "medium term plan" to cope with this major public health problem which was presented to the donor community in February 1989. The February donors conference generated strong interest in assisting Haiti and, specifically, \$11 million in pledges to fight AIDS (including a U.S. pledge). PAHO continues to be the lead donor and principal provider of technical assistance to the Haitian AIDS control effort. Much of these resources are of A.I.D. origin, having been channeled through WHO/GENEVA to PAHO.

An active multi-donor effort to combat AIDS is now underway to support priority public health interventions that have a chance of lowering AIDS transmission rates. The French, Germans, Norwegians and especially the Canadians have expressed interest in the AIDS program. The National Institutes of Health, Johns Hopkins University, and Cornell University are already sponsoring considerable AIDS-related research and training activities.

To complement these activities USAID, is supporting, as part of its Expanded Urban Health project, four PVOs implementing innovative programs with high risk populations such as prostitutes and the urban poor; providing AIDS/TECH experts to organize multiple training seminars for the myriad of health and social workers who counsel HIV positive patients and their families; training the Red Cross in the use of rapid diagnostic techniques to screen for seropositive blood donors; and supporting the development of national and local surveillance systems in the context of several PVO child survival programs.

In the face of an increasing AIDS problem in Haiti, USAID is looking ahead and preparing a long-term strategy for dealing with this very serious problem. The strategy will cover a five-year period and should be completed in late CY 1990. A new, free-standing, AIDS project is currently planned to start in FY 1991.

2. Narcotics Awareness

There is a growing appreciation of the menace posed by drug addiction in Haiti. APAAC, a local PVO, is gathering prevalence data, mounting a public information campaign, and providing counselling and support to addicts and their families with USAID support. Local citizen groups recognize the threat that addiction poses for society as well as the addicted individual and have swamped APAAC with requests for help.

The Mission intends to expand its assistance to APAAC in this key effort and plans to carry out a drug abuse prevalence survey in FY 90 that will assess the extent and severity of drug abuse in major urban centers in Haiti. The result of this assessment will guide our follow-on assistance to APAAC, which will very likely include:

- Development and distribution of pertinent audio visual and witten materials;
- Dissemination of information on drug abuse;
- Expansion of treatment and referral services; and
- Development of an up-to-date library.

3. Biological Diversity and Tropical Forestry

Marine and coastal resources are rapidly being depleted by uncontrolled harvesting. The destruction of mangroves, seagrass beds and coral reefs continues from erosion and modified hydrology associated with deforestation and slash-and-burn agriculture. Although the Government of Haiti and others have proposed marine parks and reserves, there are at present no wetlands that have been set aside for the purpose of preserving biological diversity.

Wetlands in need of protection include salt ponds, mangroves, seagrass beds, mud flats and coral reefs.

Our Mission strategy recognizes the vital importance of maintaining biological diversity and supports several initiatives in this area. The Mission financed a management study for the development of Les Arcadins Marine Park in the 1990s by international donors. Experts working in the seed and germplasm activity of our Agroforestry project work with indigenous tree species, identify superior performing trees, and arrange conservation seed orchards. A management study to protect and conserve an endangered palm species is scheduled. Under the Targeted Watershed Management project, the University of Florida has developed and is implementing a plan to manage the Pic Macaya National Park as a biosphere reserve. The Mission has completed an Environmental Profile and a separate report, "Needs For Conservation of Tropical Forests and Biological Diversity in Haiti".

USAID is also supporting important interventions with regard to tropical forests, including studies with the Land Tenure Center for land use planning, reforestation of already cleared or degraded lands, forestry training and research programs, identification and establishment of protected areas, and establishment of a network of protected tropical forest ecosystems.

4. Water

The absence of easy access to water is a serious problem in rural and urban areas of Haiti. Since 1984, USAID/Haiti has been providing funds for the construction of 36 rural water systems which will serve roughly 160,000 people in the southern peninsula. This project, implemented by CARE, emphasizes

community organization to build and maintain the systems, and provides public health education and training.

In FY 1990, when the CARE project is scheduled to end, the Mission will shift its focus in the water sector to make better use of reduced resources in support of our core program. Given DA funding constraints, and continuing high levels of assistance to national and regional water development efforts by Germany and France, the Mission does not plan to support capital-intensive, region-specific water development programs as we have done in the past. Instead, we are integrating our water activities into our ongoing and planned child survival program. Through our existing portfolio we are providing limited assistance to PVOs that want to construct small, cost-effective water systems to complement their ongoing child survival activities. This provides improved access to water and a consequent reduction of diarrheal diseases, and thus a further reduction of the infant mortality rate.

III Crosscutting Issues

The issues of program sustainability, the proper mix of growth/equity objectives, and the full integration of women into the development process are crosscutting issues which are discussed below.

A. Sustainability:

Sustainability is a long term goal of USAID/Haiti projects. However, given the magnitude of problems facing the poorest country in the Western Hemisphere, it is unrealistic to believe we can achieve sustainability for our projects in the short or even medium term. Sustainability, or the continued existence of project activities after A.I.D. funding terminates, can result from financial self-sufficiency, or when A.I.D.'s contribution to the project is assumed by outside entities (other donors or the Government).

Although there are exceptions -- our credit projects, for example -- financial self-sufficiency of many of our project activities is unrealistic since the beneficiaries are simply unable to bear all the expenses related to project services. The economic analysis for many of our projects shows that benefits will exceed costs far down the road. For example, elementary education programs enhance productive employment possibilities for an individual long after leaving school, and child survival programs produce economic benefits that are reflected in avoidance of costs for major illnesses.

Given the magnitude of the need for assistance in Haiti and limits on donor funding, it is unrealistic to assume that other donors -- who in most cases have also experienced cutbacks in assistance levels -- will assume USAID's costs after a project terminates. Also, we believe that, even with the political will to do so, it is unrealistic to assume that the GOH will be in a position to bear the costs of those service delivery programs presently being borne by USAID, during the life of the present projects. The GOH currently faces an economic crisis, and is unlikely to easily overcome administrative weaknesses and an historic lack of commitment to service provision. In the short term, we will continue to concentrate on maximizing the efficiency and

cost-effectiveness of our project activities, that is, to achieve project objectives at the least possible cost to USAID. This involves careful examination of alternate approaches to service delivery and management efficiency. Such analyses are an important part of design and implementation of our child survival, education and agroforestry activities.

In working with PVOs we emphasize ways that non-USAID inputs, including user fees, contributions from other sources, and contributions from the GOH (in-kind and local currency) can be mobilized. We strongly encourage user fees to be increased where this will not result in non-accessibility of services for needy target groups. And, within projects, we emphasize ways that one activity may generate revenues which help offset the costs of another activity. For example, under a pilot activity in our new urban health project, charges to factory workers for health services will help support the operating costs of services to indigent residents of the clinic area. In our management training project, course fees paid to the Management and Productivity Center by middle and top managers help offset the costs of training for micro-entrepreneurs. Households which can afford to pay for individual connections under our water project help defray the costs of providing water to the rest of the community.

Host country contributions to AID-supported PVO activities will become increasingly important to our program, and are significant, for example, in the development of the new Expanded Urban Health Services project. The current Ministry of Health seems favorably inclined to collaborate with and support PVO health services provision. GOH support for activities undertaken by many of the PVOs supported through USAID projects is a direction we encourage, and one which could be a significant step toward sustainability.

Given the Mission's focus on implementation through PVOs, especially indigenous PVOs, we try to assist these organizations to develop sufficient competence and administrative systems (including financial management systems) so they will not need expensive technical assistance by the end of a project. This can be termed administrative sustainability, as opposed to financial sustainability, an objective which is realistic for many of our projects.

Since a number of projects in our portfolio cannot be expected to be fully self-sufficient, or to be fully taken over by the GOH or other donors, at their PACDs, we are trying to assure that the greatest impact in achieving programmatic objectives can be realized at the least cost. We build into our activities measures to assure that an institution we support can operate independently, in administrative terms, even if it must still look for further donor support. The ultimate goal is development of service delivery mechanisms which, in the long run, will be maximally efficient and whose costs can be assumed by beneficiaries, other donors, or the GOH when it is capable of doing so.

B. Proper Mix of Growth/Equity

USAID strategy is based on maintaining a realistic balance between the goals of long-term economic growth and wider sharing of the benefits of growth. Both goals are critical. Without sustained economic growth, there is no way that Haiti can break out of its cycle of extreme poverty and generate the resources needed to confront its deep-seated social, political and environmental problems. Yet extreme inequalities in Haiti and the lack of even basic social services to most of the population require a strong human needs orientation to the program.

In our DA portfolio, about 50% of our obligations in FY 1989 and FY 1990 are devoted to projects which have significant growth elements, primarily in private sector development and agricultural production. For example, credit and investment promotion projects have clearly contributed to growth by stimulating investment in the most dynamic sector of the economy, and our agriculture projects are making progress toward the objectives of sustainable production and natural resource conservation which are necessary for growth. USAID could do even more in these two growth sectors if additional funds were provided in FY 1990, particularly in the ARDN and PSEE accounts which have been sharply reduced from planned levels.

We believe, however, that the dichotomy between growth and equity in the Haitian context should not be exaggerated. While the Haiti program has significant equity/basic human needs activities, almost all of our projects support both goals. Growth in the agriculture sector, for example, is seriously threatened by the severe environmental degradation that our agroforestry and watershed management projects are dealing with. At the same time, these projects are providing increased income and opportunity to thousands of small farmers. Long-term economic growth is also dependent on increasing the low literacy rate, alleviating growing population pressure that aggravates the environmental crisis, and improving basic health.

C. Women in Development

The Mission's WID strategy is to integrate gender concerns throughout our core program by taking steps to incorporate women as full participants and beneficiaries in all of our projects. Our strategy is to bring women fully into the country development process and, given the key role of women in the productive sector and their economic role within the family, to ensure their continued integration into the economic mainstream. Implementation of this strategy in our priority areas is illustrated as follows:

Agriculture/Natural Resources -- In our Agroforestry Outreach and Targeted Watershed Management projects, women are included in many key project roles, including local PVO administration, extension agents and farmers. This is especially important given the fact that much of the income earned in agriculture -- and from the sale of wood products derived from project seedlings -- falls under women's control and is devoted to meeting domestic needs. The ongoing development of the new coffee and agroforestry projects includes explicit directives to each design team to examine possible constraints to women's participation and to build steps into each design to ensure consistency with our overall WID strategy.

Private Sector -- Within our private sector portfolio, special attention is placed on strengthening the role of women in business through both credit (Haitian Development Foundation) and training (Management and Productivity

Center). Gender-specific progress is carefully tracked and is significant; for example 50% of beneficiaries employed under HDF-financed activities are women. In our crafts export projects, women are an estimated 50% of beneficiaries. Our newly developed private sector strategy emphasizes sectoral policy reform and export promotion, credit availability and financial markets development, and microenterprise development. Implementation of this strategy will target constraints to female economic participation both indirectly (e.g. through policy dialogue to support the assembly industry where an estimated 55% of factory jobs are held by women) and directly (e.g. through credit and training for micro-entrepreneurs, an estimated 65% of which are female). New project designs will identify specific steps to be taken to address constraints to female participation.

Education -- Our major effort in this area, the Incentives to Improve Basic Education project, will continue to target girls and boys equally. Recent efforts to increase the proportion of female participant trainees have borne fruit, with an upward trend from 28% in 1984-86 to an estimated level of 40% in FY 1990.

Child Survival -- Women are the primary beneficiaries of our child survival and population projects and play a key role in our AIDS prevention activities.

Following recent Bureau guidance, the Mission has already taken steps to strengthen WID management. The Program Officer has been designated as Mission WID Officer; he has been working with the FSN Project Development Assistant on WID issues and has set up a WID committee. A WID Action Plan outlining steps to more fully institutionalize gender issues in our program was prepared and submitted to LAC along with our FY 90/91 Action Plan.

IV Resources

A. Other Donors

Other donors as well as the United States curtailed their assistance after the aborted November 1987 elections. Net foreign assistance disbursements fell from \$168 million in FY 1987 to an estimated \$142 million in FY 1988 and \$124 million in FY 1989 (see Annex A). About 75% of bilateral aid to Haiti is being channeled through the GOH, and about 25% through NGOs. USAID/Haiti maintains close contact with bilateral and multilateral donors to assure that assistance efforts are coordinated. A number of donors such as France, Canada, Germany, and the UNDP are supporting activities which directly complement our core program. In sectors where A.I.D. is not an active player such as transportation, mining, tourism, energy and communications, other donors are taking the lead. In FY 1989, as part of the "global solution" to programming previously frozen local currency, USAID reached agreement with the GOH to provide the equivalent of \$2.4 million as counterpart for other donor projects. For FY 1989, total economic assistance commitments from major donors were as follows:

i. Bilateral Aid

<u>Donors</u>	<u>Sectors</u>	<u>Amount (\$ millions)</u>
France	Road repair, agriculture, urban water systems, education, balance-of-payments assistance	32.1
Canada	Energy, education, rural development	12.0
Germany	Water, child survival, energy, agriculture	17.0
Italy	Food assistance	2.2
Japan	Food (wheat), agriculture, health	9.3
Total Bilateral		72.6

2. Multilateral

IDB	Transportation, agriculture, education, health	43.0
IBRD	Forestry, education, rural development, transport	20.0
IMF	Standby assistance	25.0
UNDP	Water, family planning, mining, health, education, agriculture, rural infrastructure	32.7
EEC	Coffee, cocoa	12.0
OAS	Tourism, scholarships	.7
Total multilateral		<u>133.4</u>
Total bilateral and multilateral		\$206.0

B. U.S. Resources

1. FY 1989 -- The Mission's initial DA OYB was established in early FY 1989 at \$24.5 million. This was well short of the level required for full and timely implementation of our core program. During FY 1989, the Mission was able to reprogram funds through the deobligation/reobligation process. The LAC Bureau also provided additional end-of-year "fallout" funds. In this way, we were able to increase funding in FY 1989 for our core program to \$28.2 million and thereby meet out most critical funding requirements.

FY 1989 PROGRAM FUNDING (\$000)

	<u>Initial OYB</u>	<u>Actual</u>
ARDN	10.6	10.8
POP	1.6	2.3
HE	1.5	3.0
AIDS	.15	.15
CSF	3.2	3.2
EHR	4.8	5.2
PSEE	2.7	3.4
ESF		.1
TOTAL	24.5	28.2

In addition to DA project funding, a P.L. 480 Title II food donation program of \$10.6 million supported core program activities in child survival and maternal health, and primary education. In August 1989, a Title II government-to-government emergency wheat program, valued at \$10 million, was also approved. Total U.S. assistance to Haiti in FY 89 was \$48.8 million.

2. FY 1990 -- The Mission's FY 1990 CP DA level of \$28 million is the bare minimum required to keep our core program on track. In our most recent ABS we made some adjustments in the FY 1990 CP functional account breakdown to meet priority core program requirements. However, for full timely implementation of our core program in FY 1990 we will need about \$31.8 million. The Mission will aggressively seek to reach this target level through deobligation/reobligations and reprogrammings throughout the year which may become available from the LAC Bureau.

FY 1990 CORE FUNDING (\$000)

	<u>1990 CP</u>	<u>ABS</u>	<u>Target</u>
ARDN	10.1	10.1	11.0
POP	1.1	1.3	2.0
HE	5.1	3.6	3.8
AIDS	.7	.7	.7
CSF	4.1	4.1	4.5
EHR	2.4	3.4	3.8
PSEE	4.5	4.8	6.0
TOTAL	28.0	28.0	31.8

A P.L. 480 Title II food donation program of \$13.4 million in FY 1990 will continue to support our core program objectives in child survival and maternal health, and primary education.

A key issue for FY 1990 involves potential A.I.D. support for elections. As discussed in the Democratic Development section, substantial supplemental funds would be required for a significant level of elections support. Section II E discusses the proposed resumption of public sector assistance in FY 90 including additional food aid in the form of a follow-on government-to-government wheat program under Title II.

3. Mission Management

Since FY 1987, following the suspension of aid to the GOH, Mission management aggressively trimmed both U.S. and Haitian staff and reduced expenditures in all but one OE cost category. We also carried out a major Mission reorganization to streamline and make more efficient both Mission administration and program operations. The Mission Management Assessment gave us very high marks for making these reductions and adjusting staffing to fluctuating program levels. The NGO program described above, however, is both complex and labor intensive. We have examined specific workload adjustments and/or staff additions, recommended by the Assessment team. The staff of the HRO division which monitors the distribution of food was increased from zero to two expatriates and from one to three FSNPSCs. We have brought on board a local hire USPSC to coordinate democracy initiatives. We have increased our Information Management Office staff by one local USPSC Systems Manager. All other staff levels have remained the same or have been reduced. The FSN Classification and Wage Survey that we have been requesting for over one year has now been scheduled for the second quarter of FY 90. We believe that an OE level of \$3.8 million dollars (plus \$405,000 in trust funds) approved for FY 90 will be adequate for our needs if AID/W pays for all assignments to post and reinstates our NXP allowance as we have been assured by LAC/Controller.

4. The Future

Much attention has been given in Haiti to program realignment, staff reduction and cost containment. Looking at the problems as of November 1989, however, of equal importance are the program contingencies we still face and their staff and budget implications. We have already had to accommodate to increased work requirements related to elections planning and democratic development by hiring a PSC coordinator. Work requirements related to P.L. 480 negotiations and local currency programming and monitoring under the August 1989 Title II government-to-government agreement have added a substantial burden which will be multiplied if similar programs are started in FY 90. And a full resumption of government-to-government programs, particularly DA projects, would require substantial new commitments of resources (Section II E). The Mission Management Assessment concluded that "... if a rapid increase in program funding were to become available the Mission would need to augment its staff resources in a number of areas." USAID wholeheartedly concurs.

MACROECONOMIC ASSESSMENT
(Update as of October, 1989)

I. Introduction & Executive Summary

Haiti's economic deterioration since the curtailment of foreign assistance in 1987 has accelerated and generated a macroeconomic crisis. Real GDP declined by 1.5 percent in FY 1988 and 0.5 percent during FY 1989 (ending September 30). Domestic inflation, which had been eliminated in FY 1987, reemerged in FY 1988, increased to 12 percent in FY 1989, and is projected to accelerate unless the public sector can significantly reduce its use of Central Bank financing. Dollar deposits in the banking system declined and the parallel market discount on the gourde shot-up to over 40 percent in late FY 1989, largely as a result of excessive public sector credit and counter-productive attempts by the GOH to directly control the foreign exchange market.

While the decline of net foreign assistance disbursements from \$168 million in FY 1987 to an estimated \$142 million in FY 1988 and \$124 million in FY 1989 accounts for much of the decline of GDP, other contributory factors are also evident. The export assembly sector, which had been the most dynamic sector in the economy since the 1970s and demonstrated amazing resiliency in the face of civil and political unrest during the early post-Duvalier period, increased in nominal terms by only 4.8 percent in FY 1988 and is projected to have declined 10 percent in FY 1989. Coffee rust, hurricane damage and the recent collapse of the International Coffee Agreement have devastated coffee exports, which are expected to be only \$26 million in FY 1989 or less than half their value in FY 1986.

The loss of foreign assistance and the decline of exports are also partially responsible for a significant deterioration in the balance of payments and foreign exchange situation. BOP surpluses around \$30 million in FYs 1986 and 1987 have since deteriorated to a \$17 million surplus in FY 1988 and a projected \$12 million deficit in FY 1989. As a result, liquid foreign exchange holdings fell in early 1989 to the precariously low level of

\$8 million, representing the equivalent of just over one week of imports. Arrears on foreign debt increased from \$12 million at the end of FY 1987 to \$28 million in June 1989, including \$12 million to the IMF. The parallel market discount on the gourde, which had been as low as 5-7 percent in FY 1987 and around 20 percent for much of FY 1988, increased to the 30-40 percent range during the summer and fall of 1989.

The Avril government, which took power in September 1988, initially attempted to deal prudently with the mounting inflationary and foreign exchange pressures by adopting a balanced Treasury budget for FY 1989. However, a loss of expenditure control, poor revenue performance, and weak management of the public enterprises, especially since the attempted coup in April 1989, have produced a mounting deficit and growing need for Central Bank financing. Public sector net use of Central Bank financing up through June 1989 amounted to an estimated 166 million gourdes and is projected to reach 287 million gourdes (2.4 percent of GDP) for the fiscal year ending September 1989. This contrasts sharply with the constrained use of domestic financing equivalent to 0.8 and 1.1 percent of GDP in FYs 1987 and 1988, respectively. This public sector credit expansion coupled with a sizeable credit expansion to the private sector during the first six months of the fiscal year are primarily responsible for recent increases in inflation and the parallel market discount on the gourde.

The GOH has reacted to these mounting problems with policies which have attacked the symptoms, been relatively ineffectual and/or exacerbated the problems. Legislation authorizing price controls was enacted in early 1989 but fortunately has not been put into force to date. Exchange control legislation, which was enacted in July, raised the surrender requirement on export proceeds from 50 percent to 100 percent. This effectively imposed an export tax of almost 30 percent, given the current parallel market rate, and added further to the incentives for exporters to underinvoice, move to the competing locations outside of Haiti, and/or cease production for export. A 50 percent plus drop of dollar deposits by exporters and others faced with the new 100 percent surrender requirement has generated a growing shortage of dollars in the banking system and increased demand on the parallel market. A surge of bank credit in anticipation of a Central Bank imposed credit freeze in September added to the demand for dollars, while the arrests of foreign

exchange dealers further reduced the supply of dollars on the parallel market. The resulting increase in the parallel market rate and dollar shortages caused importers to cut-back on imports. Prices on many commodities consequently increased dramatically.

In response to the deteriorating situation, an IMF mission to Haiti in August 1989 proposed a Stand-by program which would reduce inflationary pressures, arrest the deterioration of the balance of payments, and restore private sector confidence and investment. The GOH and IMF concluded negotiations in early September for the 15-month Stand-by of SDR 21 million (Approximately \$26 million at SDR=\$1.25). Commercial bank bridge financing was used to clear SDR 9.4 million arrears to the Fund on September 8. The first tranche of SDR 11 million was released soon after Board approval of the Stand-by on September 18, 1989, and provided for repayment of the bridge financing. Five subsequent tranches of SDR 2 million each will be disbursed if quarterly performance targets are met and will roughly cover repayment obligations coming due to the Fund. The stabilization program provides for a reduction of domestic financing of the public sector deficit from an estimated 2.4 percent of GDP in FY 1989 to 0.6 percent in FY 1990. As part of the program, in early September the GOH adopted decrees/regulations broadening the coverage of the value added tax, increasing customs valuations by 30 percent to reflect the exchange rate in the parallel market, and raising the price of flour by 10 percent. The program commits the government to raise electric rates by 8 percent and the wheat shorts price by 100 percent. The GOH also agreed to limit spending by hiring and salary freezes and improved control of public enterprises, thereby reducing public sector expenditures from 16.4 percent of GDP in FY 1989 to 16.0 percent in FY 1990. Credit expansion with free reserves was limited in August by increasing reserve requirements on demand deposits from 49 percent to 52 percent. The program also calls for improved private investment incentives with reform of the Investment Code.

The reform package is essential if the GOH is to avoid further economic deterioration, with likely severe social and political consequences. Without full implementation of a Fund-supported stabilization program, USAID projections indicate that in FY 1990 exports would decline by 10 percent, real GDP would fall by 2 percent, real per capita income would drop by 4 percent, the BOP deficit would increase to \$21 million, the parallel market would

continue to climb toward the 50 percent range, and inflation would accelerate to around 17 percent. In addition, a reemergence of arrears to the IMF would block further World Bank project and program lending in Haiti. The social impact on the poor masses would be especially severe, with increased food prices and losses of real income as jobs are destroyed in the export sector. Attempts by government to ameliorate the impact through price and exchange controls would only lead to shortages and increased incentives for graft and corruption. Political pressures for crisis resolution could easily result in further political and civil unrest, which could jeopardize progress toward democracy.

In sharp contrast, full implementation of the stabilization program is projected by the IMF to produce a modest recovery of exports and a real GDP growth of 1 percent. As a result, real per capita income would fall by 1 percent instead of 4 percent, the BOP would be in surplus \$14 million, the parallel market rate would decline, and inflation could be brought down to around 7 percent. Successful implementation of the Stand-by program would allow the World Bank to continue with proposed new project lending in FY 1990 (including \$12 million for industrial restructuring, \$10 million for small scale projects and \$25 million for health) and could be expected to lead in late FY 1990 or in FY 1991 to a renewal of the Bank's program lending (Economic Recovery Credit, ERC) and an IMF Enhanced Structural Adjustment Facility (ESAF). Satisfactory performance on both the Stand-by and progress toward elections may also pave the way for AID efforts to increase USAID assistance in FY 1990, including an enlarged P.L. 480 program, Economic Support Funds (ESF) and/or Development Assistance (DA) sector assistance. In addition, an AID/W proposed performance-based allocation of ESF for Haiti in FY 1991 provides for an increase of \$20 million in ESF if economic policy reform and democratic progress continue.

The short-run costs of the stabilization program in terms of reduced public sector wage and non-wage payments, increased taxes and higher prices for commodities would be significant but small compared to the long-run benefits. However, a widely supported general strike September 27 protesting the Stand-by and recent price increases clearly demonstrated the popular misunderstanding of and/or frustration with the policy reforms. In addition to the potential for popular discontent weakening the government's resolve,

the implementation of some of the required policy reforms is expected to be especially difficult. Of particular concern are the pressures for extrabudgetary Treasury expenditures, especially for the military, the prospects for increased contraband with higher tax rates on imports and the difficulties of regaining full control of the public sector enterprises.

The difficulties of performance with the Stand-by would be exacerbated by continued economic deterioration, including declining export performance, unless complementary policy reforms to reestablish an effectively functioning foreign exchange market are implemented. These include the reduction of foreign exchange surrender requirements, provision for commercial bank dollar deposits to be sold on the parallel market, movement of most imports to the parallel market, and sanction and decontrol of parallel market exchange activities. These policies may also prove difficult to implement given that they basically call for an about-face by officials responsible for the recent exchange controls.

Given the expected implementation difficulties and importance of the stabilization program to overall economic performance and progress toward a stable democratic government, AID should consider increasing and preconditioning FY 1990 BOP assistance, including P.L. 480, ESF and/or DA sector assistance, on satisfactory performance with the stabilization program, including reform of the foreign exchange regime. The \$10 million monetized Title II program signed in August 1989 clearly is a start in the right direction, with its conditionality calling for cost reductions and revenue enhancement at the state-owned flour mill. AID should avoid straying away from core policy concerns in FY 1990. Attempts at more comprehensive reform could all too easily overload the weak management capacity of the GOH.

The GOH, IMF and World Bank should be encouraged to accelerate the proposed resumption of concessionary program lending, in the form of an ESAF and ERC. Conditionality supportive of financial stabilization and the resumption of export-led growth should be encouraged, including public enterprise privatization and progress toward uniform low tariffs that had been initiated by the earlier SAF and ERC programs.

SUMMARY:
STRATEGY TO SUPPORT BROAD-BASED
GROWTH OF HAITI'S PRIVATE SECTOR
1990 - 1995

The strategy for private sector development approved by AID/W in May 1989, is designed to help USAID/Haiti guide its intervention over the next several years in private sector support. It covers primarily the years 1990 through 1995 and is intended to be a follow-on to the existing private sector and Mission strategies. The strategy and areas of focus recommended are based on an analysis of private sector characteristics and trends, diagnosis of private sector strengths and weaknesses and conclusions as to private sector approaches.

It is important to note that, despite political instability (four governments over the past two years) and widespread social unrest, Haiti's private sector has performed remarkably well. Textile exports to the U.S. were at a record high for 1987; CBI exports to the U.S. from Haiti ranked second in the Latin America/Caribbean region (excluding Mexico). With the private sector performing at such noteworthy levels in times of major difficulty, Haiti finds itself in a position to grow quickly with but a little political and social stability. Haiti could enjoy considerable growth in the 1990s and such growth could increase employment and foreign exchange earnings and contribute to broad-based economic growth for the country. Even without positive performance on the part of the Haitian Government the Haitian private sector has proven its ability to compete successfully with other countries in the region and is worthy of continued Mission support.

A strategic reassessment of USAID/Haiti's intervention with the private sector was needed despite the extensive strategy development work conducted in 1981-1982 and the overall success in implementing that strategy. First and foremost, the projects being implemented by USAID/Haiti's office of Private Enterprise will come to a close at or near the end of the strategy period (FY 1990). Without a rationale for new projects, the private sector portfolio would have closed around the termination of this period. To remain involved

in the private sector arena, an area critically important for job creation and long-term political stability, the Mission had to examine its existing strategy and redefine it in terms of present obstacles to private sector development and job creation. In addition, a reassessment of the existing private sector strategy was necessary given the major changes which have taken place in Haiti's economic, social and political environment since the 1981-1982 strategy was developed.

The strategy which has been approved for USAID intervention in the private sector is based on carrying out A.I.D. and Mission objectives. The strategy aims at building on outstanding successes of Haiti's private sector over the past several years despite massive social and political instability, to create employment, increase foreign earnings and build sustainable economic growth. The A.I.D. position that "promoting private enterprise and free competitive markets is the most efficient means of achieving self-sustaining, broad-based economic growth and social progress and of alleviating the worst manifestations of poverty among the world's poor majority" provides a sound foundation for the strategy and areas of focus contained in the strategy report.

The private sector strategy of developing intermediary institutions to create jobs through increased exports, credit availability and training remains valid and satisfactory as a building block for expansion with a new thrust. Institutions which were lacking when the prior strategy was being developed now exist and the direction of the Mission's private sector focus must change to build on these maturing institutions as well as changes in the economic climate. The new strategy recommends continued support through intermediary institutions to bring about improvements in the macroeconomic environment -- in both policy and practice -- and to better permit Haiti to profit from the benefits of CBI, GSP and other preferential tariff treatments provided by the USG for imports from and activities in the region. The strategy recommends that USAID/Haiti begin working with a broader set of institutions than at present through "umbrella" implementing arrangements and place emphasis on national private sector growth, rather than just in Port-au-Prince. The strategy builds on the export assembly sector as a basis for expanding jobs and creating markets for entrepreneurs outside of that sector with subsequent fan effects on job creation and economic growth.

The new strategy recommends four specific areas of focus in working with the private sector, based on timing of existing projects, Mission resource constraints and likelihood for achieving the Mission objectives of strengthening the private sector and increasing exports. The four recommended areas of focus are:

- 1) Policy Analysis and reform. Since recent A.I.D. evaluations have indicated that the single most important variable in effective job creation is the policy environment, rather than the specific projects implemented, the strategy development team believes that the cornerstone activity for private sector and economic growth must be based on working with the GOH and the private sector to institute the correct macroeconomic environment. This focus would provide resources to examine the existing policy environment, evaluate policy proposals and implement policy reform.
- 2) Export Development and Private Sector Integration. This area of focus would build on the Mission's successes in export development and would further build backward linkages between the export sector and local producers, especially in terms of developing the local producers to be competitive on the world markets in terms of price, quality and quantity.
- 3) Financial Market Development and Integration. This focus would build on credit activities already undertaken and would expand them to other institutions (such as credit unions) to increase credit availability as well as develop innovative financial markets and instruments.
- 4) Informal Sector Employment and Productivity. This focus would build on already successful Mission activities with the informal sector and would provide new opportunities for job creation within the sector which already employs the bulk of Haiti's laborers.

The strategy assumes that intervention in these four areas would lead to substantial impact on economic growth in general and job creation in particular during the next several years.

A new credit project will be designed in FY 90 for authorization in FY 91. This is necessary since existing credit activities will all be completed by FY 90 and continuity of Mission focus in this area is viewed as essential. The next recommended new start would be a policy analysis activity with proposed design and authorization also in FY 90 or in FY 91. Export promotion activities should build on the existing Mission PROMINEX project, with either an amendment to that project or a new follow-on activity; this project should be authorized in

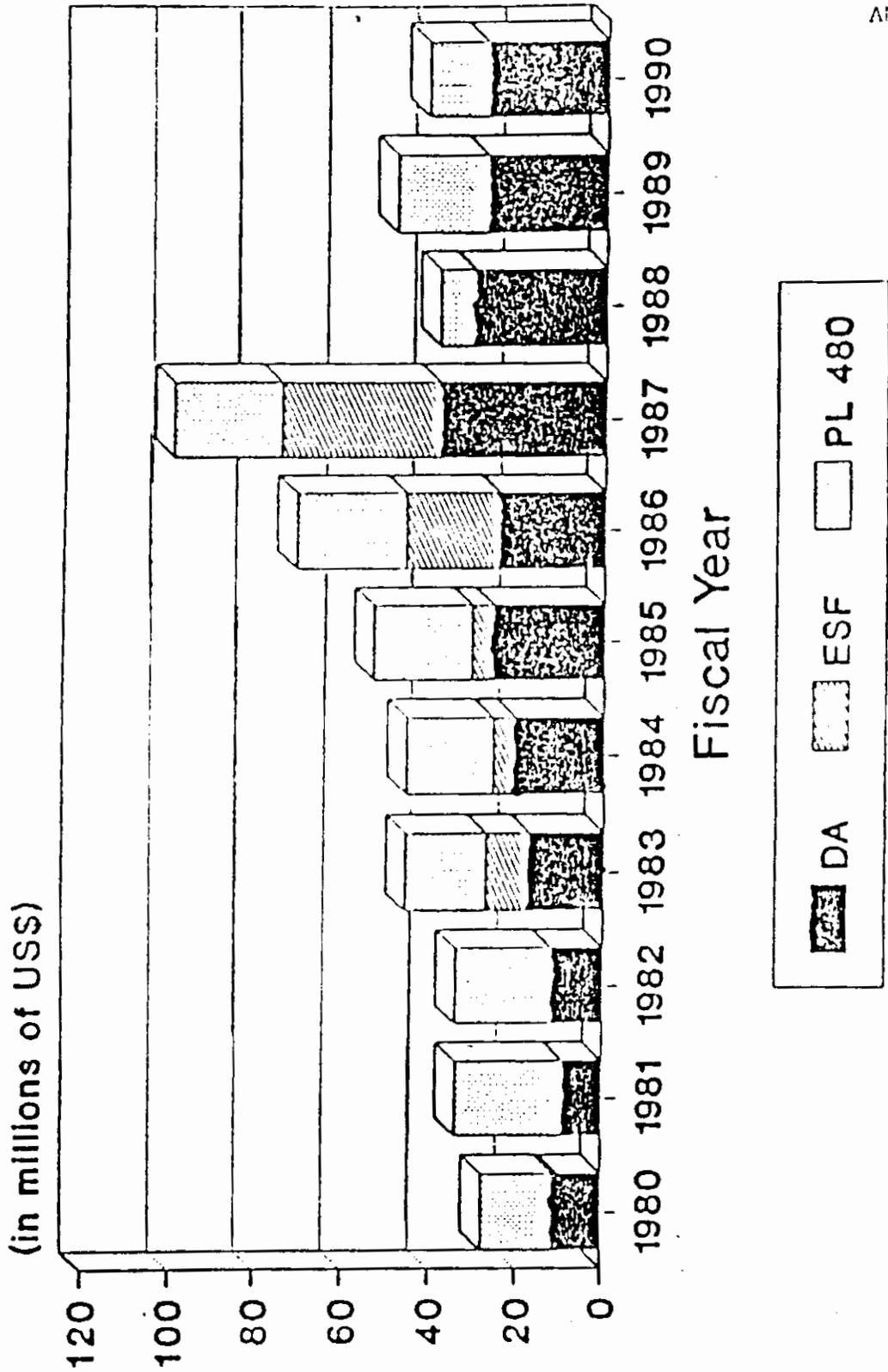
FY 92. Finally, the focus on informal sector employment should build on existing Mission activities such as those with the Haitian Development Foundation, the Agricultural Producers Association and the Management and Productivity Center; a project in this area should probably be authorized in FY 91.

While it is difficult to predict required funding levels prior to project design, initial rough estimates for funding for proposed new activities for the period 1990-1995 are as follows:

Policy Analysis:	\$6.0 million
Export Development:	9.8 million
Credit/Finance:	12.5 million
Informal Sector	4.5 million
Total	32.8 million

USG Assistance to Haiti

Fiscal Years 1980-1990*



* Projected for FY 1990

N.B. The FY 90 figure does not include a possible resumption of assistance to the GOH as discussed in Section II F.

UNITED STATES ASSISTANCE TO HAITI IN THE 80'S
(MILLIONS OF DOLLARS)

PROGRAM	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
DA	\$10.1	\$ 9.2	\$12.0	\$17.3	\$20.6	\$25.7	\$25.6	\$38.5	\$30.5 (1)	\$28.1	\$28.0
ESF	\$ 1.0	\$ 0.0	\$ 0.0	10.0	5.1	5.0	\$21.2	\$36.0	\$ 0.3	\$ 0.0	\$ 0.0
Non-Project Project	0.0 1.0	0.0 0.0	0.0 0.0	0.0 10.0	0.0 5.1	0.0 5.0	18.0 3.2	33.7 2.3	0.0 0.3	0.0 0.1	0.0 0.0
FOOD AID	\$15.8	\$24.5	\$22.2	\$18.5	\$19.8	\$23.2	\$29.2	\$25.0	\$ 8.0	\$20.6	\$13.4
Title I/III	8.6	8.6	13.0	11.0	11.0	15.0	15.0	10.0	0.0	0.0	0.0
Title II Regular	5.9	13.8	7.8	7.1	8.7	7.6	7.0	5.1	8.0	10.6	13.4
Title II Emergency	1.3	2.1	1.4	0.4	0.1	0.6	7.2	8.0	0.0	10.0	0.0
Section 416								1.9			
TOTAL	\$26.9	\$33.7	\$34.2	\$45.8	\$45.5	\$53.9	\$76.0	\$99.5	\$38.8	\$48.8	\$41.4

Note: (1) Includes Reobligations of \$10.8 million for NGO/UNO projects following the cut-off of public sector aid on November 29, 1987.

N.B.: The FY 90 figure does not include a possible resumption of assistance to the GOH as discussed in Section II E.