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USAID/HAITI
OFFICE OF PRIVATE ENTERPRISE

STRATEGY TO SUPPORT BROAD BASED
GROWTH OF HAITI'S PRIVATE SECTOR

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EXECUTIVE SUMMARY

The strategy proposed in this paper 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 strategies. It is fully consistent with the existing Mission strategy, as elaborated in the text of this document. 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 support approaches.

It is important to note that, despite political instability and widespread social unrest over the past couple of years, 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 where it could grow quickly with but a little political and social stability. It appears that recent steps toward such stability could place Haiti in a position to appreciate considerable growth in the 1990s and that such growth can increase employment and foreign exchange earnings while contributing 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. It is worthy of continued Mission support.

The impact of the present strategy and the USAID private sector program has been considerable, despite the political and social problems over the past few years. The development of a joint public sector/private sector approach to investment and export promotion marks the beginnings of real dialogue between these two sectors. The success of the CMCID in providing a forum for policy dialogue marks a dramatic turn from earlier times in Haiti when monopolistic interests and government favors were the driving forces in setting economic policies. Specific accomplishments of USAID policy dialogue, based on USAID-supported technical assistance, are the development of a new investment code and trade liberalization, including the elimination of export taxes, the reduction in the number of items requiring import licenses from 117 to 7, and the revision of the customs duty structure. Specific PROMINEX accomplishments include its active communication with U.S. firms doing business in Haiti to maintain contracts during times of political turmoil and the development of new contracts even in these difficult times.

In the credit sector, the Mission can take pride in its initiative to modify credit laws and regulations to permit the existence of savings and loan institutions, the subsequent creation of the privately owned Haitian Mortgage Bank (BCI), and the present level of institutional competition in the mortgage lending and savings field. Additionally, the Mission has made significant inroads in the development of innovative financial instruments for low-income housing. The Mission's support for the Haitian Development Foundation (HDF) has had a dramatic impact in the availability of credit to small and microentrepreneurs. Without USAID support, HDF would not be functioning and no non-usurious credit would be available in the \$100 to \$30,000 range; without this credit, hundreds of small and microenterprises would not be functioning today. Similarly, USAID's assistance in the creation of the privately owned Development Finance Corporation (SOFIHDES) addressed the need for long-term project financing in Haiti. No other institution offers its mix of hands-on project development expertise and intermediate- to long-term credit. SOFIHDES lending has to date created thousands of jobs in Haiti. In addition, SOFIHDES is presently the only active credit institution in Haiti with expertise in agribusiness and actively financing projects in that area.

The USAID support for the Agriculture Producers' Association (APA) was directly responsible for the establishment of linkages between small farmers and private agribusinesses. These linkages have been responsible for considerable growth in several agribusinesses and also for a significant increase in the earnings of participating small farmers. In addition, USAID technical assistance to APA was directly responsible for the preparation of the case leading to the removal of the value added tax on agricultural inputs.

Finally, USAID support to the Management and Productivity Center (MPC) is directly responsible for the training of thousands of microentrepreneurs and small businessmen as well as supervisory personnel in factories. This training has filled a need for which is addressed no other institution in Haiti and can be directly linked to the success of hundreds of small businesses in Haiti.

A strategic reassessment of USAID/Haiti's intervention with the private sector is needed despite the extensive strategy development work conducted in 1981-1982, and our overall success in implementing that strategy. First and foremost, the projects presently being implemented by OPE will come to a close at or near the end of the present Mission strategy period which extends through FY 1990. Unless the Mission develops a rationale for new projects, the private sector portfolio will be closed around the termination of the existing Mission strategy period. If the Mission intends to remain involved in the private sector arena, an area critically important for job creation and long-term political stability, it must 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 is 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 recommended 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. 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 recommended in this report.

The existing 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 at the development of the present strategy now exist and are functioning well; as a result, aspects of the Mission's private sector strategy must be refined to build on these maturing institutions as well as take into account changes in the economic climate. We recommend that we continue to channel our support through intermediary institutions to bring about improvements in the economic 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. We suggest that USAID/Haiti begin working with a broader set of institutions than at present through "umbrella" implementing arrangements, and broaden our geographic coverage to include national private sector growth, rather than just in Port-au-Prince. The Mission has selected 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 Mission 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 economic 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 so that local producers could be competitive on the world markets in terms of price, quality and quantity.
- 3) Credit Availability and Financial Market Development. 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 this sector, which already employs the bulk of Haiti's laborers.

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

The strategic goal proposed for the Mission is that, by the end of FY 1995, the present negative per capita annual growth rate will be reversed and will reach a positive per capita annual growth rate of three percent. The strategic objectives proposed to achieve this strategic goal are:

- 1) There will be a significant increase in credit to the private sector and the percentage of credit to the private sector will show significant gains.
- 2) The number of jobs in the private sector will expand significantly.
- 3) The private sector will be more integrated, both in terms of linkages between the export assembly sector and local commerce and local producers and in terms of unified private sector associations in dialogue with the public sector to promote free trade.

The proposed program through FY 1995 will improve upon the successes which the Mission has already achieved and will lead to the projected economic growth in Haiti. We strongly believe that, if USAID fails to address the existing constraints to private sector development, Haiti will see a rapid return to monopolistic practices leading to higher prices, commodity shortages, accelerated growth in unemployment and a significant deterioration of the social and political situation.

ACRONYMS

A.I.D.	Agency for International Development
APA	Agricultural Producers' Association
BCA	Agricultural Credit Bank
BCI	Haitian Mortgage Bank (Banque de Credit Immobilier)
BNDIAI	National Agricultural and Industrial Development Bank
CBI	Caribbean Basin Initiative
CERC	Crafts Export Resource Center
CIDA	Canadian International Development Agency
CMCID	Consultative Mixed Committee for Industrial Development
CMP	Centre de Management et de Productivite
CNG	National Council of Government
EC	European Community
FHAF	Fund for Aid to Haitian Women (Fonds d'Aide a la Femme Haitienne)
FDI	Industrial Development Fund
FHASEP	Federation Haitienne des Associations du Secteur Prive
GDP	Gross Domestic Product
GOH	Government of Haiti
GSP	Generalized System of Preferences
HDF	Haitian Development Foundation
IDB	Inter-American Development Bank
IESC	International Executive Service Corps
IFC	International Finance Corporation
LDC	Lesser Developed Country
MPC	Management and Productivity Center
MUCI	Mutuelle de Credit et d'Investissement
NGO	Non-governmental Organization
OPE	Office of Private Enterprise
OPIC	Overseas Private Investment Corporation
PRE	Office of Private Enterprise, A.I.D./Washington
PVO	Private Voluntary Organization
SOFIHDES	Haitian Development Finance Corporation (Societe Financiere pour la Developpement)
TA	Technical Assistance
TDP	Trade and Development Program
UNDP	United Nations Development Program
USAID	A.I.D. Mission, Port-au-Prince, Haiti

I. THE PRIVATE SECTOR IN HAITI

A. Introduction

The strategic approach presented here is designed to overcome the obstacles hampering private sector growth in Haiti by building upon the substantial success of the current AID private sector strategy. The current strategy has focused on job and export creation through support to key intermediary institutions, many of which received their initial support from AID.

With the success of these institutions having been tested, especially during the past three trying years, it is appropriate for them to broaden their client base both geographically and socially in what is one of the most economically polarized countries of the world. The proposed strategy extends economic opportunities to regions and social echelons of the country which have hitherto been too costly for these institutions to serve on a profitable basis. The new strategy works with those institutions most capable of reaching the broadest client base possible while maintaining the profitability of their operations.

Each of the primary foci of this strategy integrates the productive forces of the Haitian economy so that growth is maximized and its benefits are widereaching. This approach emphasizes the complementarity of interests between the "formal" and "informal sectors", between rural producers and exporters or processors, and between the divergent elements of the political economy who must work together if genuine and lasting reforms are to be achieved to sustain economic growth for the broadest population possible.

Unless individuals in growing proportions from all socioeconomic strata feel they have a stake in working together to achieve growth, there can be no sustained development in Haiti. The philosophy underlying all of our interventions holds that the promotion of social conscience, while demonstrating the concrete benefits of collaboration, must remain an overriding concern in all of our activities.

Previous analyses of Haiti's private sector and likely areas for growth served as the basis for development of this paper (USAID/Haiti, "An Assessment of Haiti's Private Sector", and USAID/RHUDO/CAR, "An Assessment of the Construction Sector in Haiti and Opportunities for USAID to Assist in its Growth and Development"). The documents summarizing this analysis provide a considerable portion of the justification for the strategy proposed in this report and are recommended as important background documents to this strategy proposal. The assessment of what has been achieved through the private sector during the past years demonstrates plainly that the private sector in Haiti has performed remarkably well during the worst of times. Also evident is the emergence of a new, progressive class of entrepreneurs who view broad-based economic growth as a necessary condition for future stability in Haiti. The proposed strategy

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is based on our conviction that the private sector provides the only firm basis for growth in the 1990s and that, with assistance of the sort envisioned, growth will be durable and include an expanding proportion of the Haitian people.

B. Performance of the Private Sector since the 1970s

The development of the private sector in Haiti was slow through the years of Francois Duvalier. After his death and under the presidency of his son, Jean-Claude Duvalier, exports experienced considerable growth and provided a major impetus to general private sector growth. Led by the assembly sector, and fueled by tariff preferences such as the Generalized System of Preferences (GSP) for imports into the United States, over 40,000 jobs were created in Haiti's export sector during the 1970s. In the early 1980s the development of the Caribbean Basin Initiative brought about increased competition in assembly production from other Caribbean countries; also during this period there was a fallback in electronics assembly demand. Nonetheless, Haiti continued to maintain its export workforce and its relative position in export earnings. However, despite recent political turmoil and instability, especially over the past year (with, for example, four governments and political sanctions such as the cutoff of governmental assistance), Haiti continues to hold its relative place in assembly exports to the U.S.

During the 1970s, Haiti's performance showed remarkable growth when compared with the 1960s. As indicated in Table I.1, merchandise exports from Haiti to the U.S. tripled from \$45.3 million dollars in 1971 to \$137.98 million in 1979. Growth in the early 1980s continued, but not at the same rapid rate.

Table I.1: Merchandise Exports from Haiti, 1971-1983
(US \$ Millions)

<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
45.3	42.9	54.4	70.0	80.3	111.9	137.6	149.9	138.0	215.8	151.1	177.1	186.6

While exports leveled off somewhat in the early 1980s, Haiti remained relatively successful in ability to take advantage of CBI-related benefits as compared to other Latin American/ Caribbean countries. Table I.2 shows CBI-manufactured exports to the U.S. and indicates that even in 1987 after major political upheavals, Haiti maintains its rank of second in exports to the U.S.

Table I.2: CBI Manufactured Exports to the U.S.
(SITC Categories 5-8)
(US \$ Millions)

	1982	1983	1984	1985	1986	1987	Projected 1988*
<u>CENTRAL AMERICA:</u>							
Belize	6.1	6.8	15.6	23.4	20.4	16.0	16.3
Costa Rica	73.0	102.3	134.3	166.6	218.6	270.6	367.0
El Salvador	89.4	94.7	121.5	90.6	57.3	78.2	92.8
Guatemala	15.9	14.6	27.7	28.4	38.6	67.5	119.6
Honduras	39.0	37.4	39.4	45.8	55.5	68.7	89.5
Panama	22.7	33.7	33.5	85.6	50.1	66.0	62.6
Totals:	246.1	289.5	372.0	440.4	440.5	567.0	747.8
<u>CARIBBEAN:</u>							
Dominican Rep.	186.3	259.6	331.9	421.3	516.8	687.2	957.6
Haiti	249.9	288.1	330.8	348.6	339.9	364.5	373.1
Jamaica	16.6	19.8	34.2	78.8	129.6	219.2	279.2
Totals:	452.8	567.5	696.9	848.7	986.3	1270.9	1609.9
<u>EASTERN CARIBBEAN:</u>							
Antigua	4.5	6.2	7.0	10.1	8.9	6.7	5.4
Dominica	0.4	0.2	0.1	8.5	8.8	6.0	5.3
Grenada	0.0	0.0	0.1	0.8	2.1	2.1	4.2
Montserrat	0.7	0.8	0.9	2.0	2.6	1.8	2.7
St. Lucia	3.8	4.3	6.5	10.7	10.7	16.8	25.8
St. Kitts	6.7	9.4	16.2	13.5	17.3	20.1	14.6
St. Vincent	1.4	3.9	2.7	7.4	7.3	8.1	14.1
Totals:	17.5	24.8	33.5	53.0	57.7	61.6	72.1

Source: U.S. Department of Commerce, Imports for Consumption, Customs Value

*Based on actual January-August 1988 data.

That Haiti has maintained its growth in export earnings, despite the major disruptions which have been present over the past two years, speaks well for the robust nature of the export sector. The Mission believes that continued support for this sector and its support services, as well as support for integration of the export sector into the broader Haitian private sector will serve as a basis for economic growth in the 1990s. Given recent performance, it is likely that political stability would bring enormous possibilities for growth and concomitant job creation.

C. Prospects for Growth in the 1990s

As already indicated, exports have remained highly competitive with other countries in the region despite political and social instability

which might have been expected to have deleterious effects on the assembly sector. We believe that the 1985 World Bank report, "Policy Proposals for Growth", remains valid and that the export assembly sector and tourism remain the two primary areas in which significant new employment can be generated. In addition, we believe that agribusiness presents opportunities for developing highly competitive export crops with significant impact on employment generation. Finally, we believe that improvements in credit availability and financial market development, with related increases in capital availability, will lead to increased investment and subsequent economic growth, including significant additional activity in construction, an immediate contributor to the employment base. Intervention in these areas should serve a catalytic role in stimulating economic growth by developing employment and exports and at the same time encouraging the development of Haiti's infrastructure base, a base which is a vital prerequisite to long-term economic growth.

Since late 1985 the assembly sector has consistently employed over 40,000 individuals and has delivered under its contracts in even the worst of times. With the possibility of detrimental changes elsewhere in the region (e.g., the election of a more leftist government in Jamaica, deterioration of infrastructure and political stability in the Dominican Republic), Haiti stands to win contracts from other countries and show significant growth in the assembly sector.

Tourism has been nearly stagnant since the early 1980s. Initially, the AIDS scare cut into tourism dramatically. Subsequent political and social instability worked to keep tourist visits at a minimum. Given Haiti's attractive beaches and tourist sites, coupled with the existing hotel infrastructure, Haiti stands to experience considerable tourism growth if stability can be maintained and negative foreign reporting can be overcome.

Agribusiness shows promise for expansion in the 1990s. Processors of food and feed and exporters of fresh and processed agricultural products have demonstrated their growing commitment to small farmer associations. The Mission has worked with the Agricultural Producers Association (APA) to reinforce the institution as it evolves from a lobbying body to an implementing organization committed to join the forces of agribusiness with those of the broad agricultural production base for their mutual advancement. While governmental intervention in agriculture has been minimal, outreach and extension activities by APA have worked to bring about dynamic new areas for growth. Mango exports serve as a prime example of success. Other nontraditional crops show potential for foreign exchange generation as well as significant job creation. The Mission believes that we presently face a window of opportunity in agribusiness which, if not addressed, could be detrimental to agriculturally based growth.

While progress has been made in establishing several credit institutions, we believe that continued support for growth of credit availability and related financial market supports is needed. The important private informal sector needs new channels of credit to enhance the efficiency of informal economic operations. In addition, development of secondary financial markets is an activity which could work to directing existing surplus capital found in the insurance industry and pension funds into credit availability. As credit is created jobs are developed, for

example in construction; job creation creates additional demand for currency and has a fan effect in spurring additional job creation. Haiti's economy is in dire need of creating a flow of currency to stimulate economic development. The construction sector is greatly influenced by credit availability; the Mission's intervention in mortgage lending has already had a significant impact in this area. Further development of mortgage and construction financing stands to contribute greatly to Haiti's economic growth while at the same time work toward developing Haiti's urban base.

The informal sector employs approximately three-quarters of all working individuals in Haiti. This sector, while difficult to reach, has great potential for employment creation. We believe that the Mission should work systematically both in the policy arena and in direct support to support growth in the informal sector. Possible areas which have significant potential for informal sector growth are increases in credit availability for microenterprises and development of backward linkages between the formal and informal sectors.

D. Development Trends

1. Economic Trends

Haiti remains a predominantly agricultural society with close to three-quarters of the population living in rural areas. However, due to the decline in coffee production and the growth in the export assembly industry, agricultural products are no longer the major source of foreign exchange earnings. The export sector and foreign assistance have strongly influenced Haiti's recent economic performance because of the smallness and openness of the economy and its low savings capacity. With the exception of regular government services, public infrastructure and utilities and a few public enterprises (dealing with flour and cement production, banking and insurance), the private sector dominates the economy and accounted for more than 40% of gross domestic investment in FY 1985-1987.

In the period 1976 to 1984 the agricultural share of the gross domestic product (GDP) declined from about 40% in 1976 to 33% in 1984. This 7 percentage point decrease is taken up primarily by increases in manufacturing (up 2 percentage points to 17% of GDP) and services (up 6 percentage points to 42.5% of GDP) (Source: Haiti: Policy Proposals for Growth, World Bank, 1985, Table ST-2). During this period, GDP increased overall by 17%, with smaller sectors contributing the remaining change, principally, government services, real estate, forestry-fishing-hunting, and construction. The overall picture is one in which agriculture is still by far the biggest GDP contributor, which would probably be even more evident if the part of commerce involved in distributing local crops were disaggregated.

The relative share of total labor force in various key sectors is provided in Table I.3.

TABLE I.3:
Distribution of Labor Force
Across Key Employment Sectors

Sector	Years				
	65-75	75-80	80-85	86	87
Agriculture	77	73	70	68	67
Industry	7	7	8	8	10
Services	16	20	22	24	23
Total	100	100	100	100	100

Following a rapid expansion in the 1970s which ended with a recession in 1981-82, Haiti's economy has remained stagnant. The average annual growth rate of GDP in real terms was -0.9% in the period 1980-1985, and real per capita income fell more precipitously during this period. This was due primarily to the cessation of bauxite mining and a decline in coffee production. Over the same time period, fiscal management deteriorated with rising public sector deficits and the emergence of a thriving parallel foreign exchange market. This trend continued until reforms were introduced by the Government in 1985-1986. As a result, after two years in which investment registered large declines, real public sector investment rebounded by six percent in 1986-1987, while private investment rose by 3%, led by an upturn in private residential construction. GDP growth was insignificant, however, as agricultural output remained depressed and economic activity suffered from the outbreak of civil unrest in the last quarter of the year.

A decline in real GDP in 1987-88 is likely to have occurred as result of the cutbacks in foreign assistance and recurring political turmoil which have brought about reduced levels of public and private investment, while hindering the performance of the export assembly industry. In addition, the strong economic policy direction of the government which was present in 1986 has fallen away and the economy at present lacks a program for direction; likewise, the lack of strong economic leadership has led to a deterioration in the economic growth of the country. With the change in Government which took place in September 1988, considerable political uncertainty still remains. Prospects for the future depend on efforts to restore investment confidence in the private sector, and, perhaps, resumption of foreign aid inflow.

2. Social Trends

Haiti is the poorest country in the Western Hemisphere. GDP per capita is estimated at \$370, and some 85% of the population lives in absolute poverty. Adult literacy is less than 25% and only about 13% of the population has access to potable water. Malnutrition and disease are widespread among the poor. It was estimated in 1980 that 70% of the households of Port-au-Prince had an average income of \$70 per month, while the real level was even lower in other cities. Per capita income has been

declining in recent years. Because of the lack of investment in social services and poor service delivery there has been a general deterioration in the social infrastructure.

Increased population pressure in urban areas and reduced economic opportunities in the countryside have contributed to some broad social conflicts revolving around class and wealth issues, labor management issues and land ownership issues. An aggravation of such conflicts would impact negatively on the investment climate.

From 1950 to 1980, between 10% and 12% of all Haitians emigrated, making the out-migration between 25,000 and 50,000, or approximately 0.4% of the population, per year. There are estimated to be as many as 700,000 expatriate Haitians. Remittances from these expatriates is a major source of foreign exchange and may range from \$35 million to \$160 million per year.

The dependency ratio (the ratio of children under 15 and adults over 64 to the rest of the population) in Haiti is approximately 0.85, about 25% greater than in industrialized countries. As children form the greatest share of this ratio, and birth rates have not yet started to decline, possible private sector contributions to per capita income growth (even if it manages to reverse recent absolute economic declines) will similarly be diluted for many years to come (RONCO, p. 185). The possible effect of the AIDS epidemic on the death rate is unknown, although it can be expected to increase.

Migration toward urban areas (overwhelmingly Port-au-Prince) is another major trend. Projecting present internal migration trends, the total urban population growth over the next several years will be composed of 55% from births and 38% from migration. This is likely to seriously aggregate the poverty belt around the capital, and increase the levels of unemployment, presently estimated at over 40%. Such a trend poses an enormous challenge for expanding urban employment, but the alternative, massive rural investment, seems infeasible for a number of reasons (RONCO p. 192). Conversations with the leadership of the Agricultural Producers Association (APA) reveal that, despite opportunities for selected agribusiness ventures, there seems little chance of large opportunities on a large scale which could employ a significant proportion of displaced rural dwellers.

3. Political Trends

Frequent changes in government in the past two years, basically effected by or at the behest of the military, have contributed significantly to undermine the investment climate in Haiti. The same is true of the organized acts of violence that have been linked to such changes. In virtually all instances the expressed attitude towards the private sector of those in charge has not been negative. However, the policies followed have had varying impact on private sector access to resources and markets and on the competitive dynamics of industry.

Unbalanced fiscal policies contributed to reduce private sector access to credit and foreign exchange and to increase risk and uncertainty, especially for activities dependent upon the parallel market. In addition, the Government undertook directly a number of unprofitable industrial

investments. At the same time, a policy of high protectionism, with the granting of various monopolies, was pursued to encourage the private sector; this resulted in high cost inefficient industries.

In 1986-87 the Government embarked upon a program of structural reforms centered around better fiscal management and trade liberalization. Budgetary deficits were brought under control. Two public industries were closed and control over expenditures and operations of parastatals was strengthened. Other far-reaching reforms were implemented including the introduction of a new income tax law, and of a new tariff code with an average rate of 20%. All export taxes were also eliminated. These reforms started a move in the right direction towards creating a more propitious environment for the private sector. Unfortunately, however, both a lack of leadership on the economic front and a lack of an economic program have stalled the impact of the program introduced in 1986. It is important that this macroeconomic movement in this direction be maintained despite adverse budgetary conditions and the reduction of foreign aid currently in effect, if private sector growth is to be encouraged.

E. Private Sector Organizations

Prior to the development of the assembly/export sector, the only important business organization in Haiti was the Chamber of Commerce and Industry. Its main role was that of a spokesman and lobbyist for commerce in matters concerning legislation, taxes and, occasionally, political issues. The 1970s and 1980s saw the emergence of more specialized industry and trade associations organized around specific sectors or commercial activities.

The private sector organizations vary significantly in terms of resources, activities and members' commitment. Some have taken a leading role in certain areas -- for example, the Association of Haitian Manufacturers (ADIH) has promoted the assembly industry and related policy changes, the Inter-American Businessmen's Association (AIHE) and the Haitian-American Chamber of Commerce (HAMCHAM) have lobbied against U.S. sanctions and defending Haiti's trade preferences. But many are inactive or passive. They probably all could benefit from technical assistance to help them become more effective as instruments for exchange of information, business promotion and networking, reciprocal assistance between members, and policy dialogue with the public sector.

While several associations exist, they remain fragmented and generally supportive of particular parochial interests. A.I.D. should work to develop fora for private sector dialogue, especially among the various private sector associations, in which participants can determine general areas of agreement and ways to represent areas of disagreement to outside groups. One promising organization which might serve for this purpose is the Haitian Federation of Private Sector Associations (FHASEP). By empowering the private sector associations, especially to enable them to speak with a unified voice for the various segments of the private sector, the Mission would find a powerful channel to promote government policy.

A major channel of communication between the private sector and the

Government has been and will continue to be the Consultative Mixed Committee for Industrial Development (CMCID). The CMCID is composed of leading representatives of the public and private sectors. Its activities, supported by USAID technical assistance, have been successful to date in guiding tariff restructuring and policy formation. This body is made up of five ministers of government and ten individuals elected from the private sector. Over the past few years, this committee has been the primary forum for closed debate between the private and public sectors on economic policy issues. The private sector group meets independently and develops its agenda for presentation at meetings and has been very successful in maintaining open dialogue on major economic issues.

II. OBSTACLES TO PRIVATE SECTOR DEVELOPMENT

Haiti has a reservoir of entrepreneurs. There are people in all subsectors dedicated to business success and willing to take risks to achieve it. In addition, there is an abundance of relatively-low wage laborers necessary to implement a labor-intensive manufacturing strategy; these individuals have low supervisory and infrastructure needs and make Haiti competitive internationally.

Furthermore, there are in Haiti certain domestic and export agriculture and agribusiness opportunities in which little standardization, product preservation, new infrastructure or new marketing channels are needed. Finally, there are mining opportunities which can be exploited to create employment and to provide reasonable profit to venture capitalists.

The various recent Haitian governments have consistently supported, at least verbally, an investment climate which promotes free enterprise with few government controls. The present government speaks to a commitment to maintain and increase the strength of the private sector. The GOH provides several favorable tax incentives, and duty-free import privileges for equipment and related investment imports. Foreign and local private investments are in the vanguard of job creation, primarily in the industrial and assembly sectors, and the GOH recognizes this contribution as a necessary major component of the nation's economic growth.

Haiti's proximity to the U.S. markets makes it competitive among overseas manufacturers because of low transportation costs and short shipping times. Haiti benefits from U.S. import preferences such as the GSP and CBI. Insurance for U.S.-owned investment is available from the Overseas Private Investment Corporation (OPIC).

However, there are major weaknesses in the private sector and significant constraints to investment. Examples of these are:

1. lack of investor confidence;
2. direct and indirect government intervention in the economy, including the regulatory context in which businesses must operate;
3. inadequate availability of capital and long-term credit;
4. an immature level of industrial development including inadequate public infrastructure (both physical and social) to support expansion to areas outside the national capital;
5. inadequate land management and tenure policies, including land title registration, zoning and infrastructure planning and development;
6. predatory capitalism on the part of certain individuals and their organizations which have received preferential treatment by the GOH in the past; and
7. lack of access to commercial/economic information.

While industrial investment in Haiti grew at a rapid pace in the mid- to late-1970s, overall investment has declined significantly since the early 1980s. This has been due to both a softening of the traditional assembly markets - electronics and apparel - and an increase in competition from other off-shore assembly sources such as Mexico, Costa Rica and the

Dominican Republic, as well as the effects of real and perceived political instability. Since the demise of the Duvalier government in late 1985 and early 1986 there have been several periods of disturbances which have reduced the confidence of both foreign and domestic investors leading to a withdrawal of capital and contracts. While many investors continued to do business in Haiti, these have mainly been limited to those who have a long and satisfactory history of doing business in the country. On the other hand, the number of investors and assembly contracts has declined since 1986, Haitian productivity remains high. Despite strikes and political demonstrations in 1987, gross exports in the apparel sector continued to show growth over previous years and apparel exports in 1988 were at a record high. Also, despite the problems cited in the assembly sector, CBI exports to the U.S. in 1988 were second in the Latin American and Caribbean region, excluding Mexico.

A second major obstacle to private sector development is the policy and regulatory environment which prevails in the country. Prior to Duvalier's departure, major businesses providing essential goods were run by monopolies which were treated preferentially by the government. 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. While these changes thrust the country forward in terms of international competitiveness, there remain other areas which must be addressed to encourage investments, improve tax collection, rationalize the labor code and assist administrative reform. Change must take place in both the economic policy environment and in the regulatory processes which govern private sector operations in Haiti. Noteworthy examples of needed regulatory changes are the administration of imports and exports (presently the bureaucratic processing for such transactions is unwieldy) and streamlining the collection of taxes and duties. Examples of needed economic changes are elimination of contraband imports which operate outside of the formal import markets which, without passing through import formalities to pay duties, undercut legitimate private sector competition; titling of land (to permit clear ownership, facilitate mortgage lending, develop national land tenure policies, etc.); redirecting the existing cash liquidity in certain areas (e.g., pension funds) into credit availability by revision of the credit code (for example permitting insurance company pension funds to lend for mortgages); developing an agribusiness investment code to define investment procedures and protections for agribusiness/rural investment; and revision of the 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). In addition, there is a need for clear macroeconomic policy direction on the part of the government and strong leadership in developing and ensuring implementation of improved economic policies. Indicative of GOH policies which have interfered with rational private sector growth are the allocation of 4/5 of the national budget to the metropolitan Port-au-Prince area, which contains only 20% of the national population (Foster, p. 262).

In addition, credit and lack of capital remain major obstacles to investment. Until recently, commercial banks would not accept modest savings. Lending is carried out only under the most conservative approach by formal lending institutions. In the informal sector, the cost of credit varies from about ten percent per month to ten percent per day. There

exist major imperfections and a lack of sophistication in the nation's financial markets, and as a result, resources usually flow to established businesspeople rather than toward high expected returns. The only major financial instruments which presently exist in Haiti are mortgage-backed short-term credit and export/import documentary financing.

Haiti's infrastructure, both physical and social, remains a major obstacle to further enterprise development. Communications have improved, but remain inadequate, both internally and internationally. Electricity is reasonably reliable, but is available only in certain areas and is extremely expensive. Potable water is scarce and expensive for the urban and rural masses. Non-salt water for industrial uses is also scarce. Roads are poor, both inside Port-au-Prince and in the countryside. Under the Duvalier regime, Port-au-Prince was systematically maintained as the only international port in the country. 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 port facilities. Lack of customs services and the heavy reliance on Port-au-Prince for reference reduce the efficiency of secondary port operations. 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 for air transport. Maintenance of the infrastructure base has seriously deteriorated during the past two years, while expansion has been virtually non-existent.

Private sector development is seriously constrained by inadequate land tenure policies which lead to lack of title registration, lack of zoning and use planning, and high costs for land, construction, rent and utilities. Competition for available land, particularly land with access to infrastructure and services, is intense and contributes to the high costs and haphazard nature of development.

Other constraints to private sector development which are worthy of note include the lack of market information access. The lack of accurate and timely market information frequently inhibits the Haitian investor when considering a new investment or the expansion of an existing business. Typically, businessmen lack contacts to assist in project identification, access to foreign information, specific technical knowledge, and reliable financial data. Outdated and inefficient communications networks within the country as well as internationally also hinder private sector development. Predatory capitalism, related to governmental preferences and monopolistic practices, carry over from the Duvalier era in some key areas. While progress has been made in reducing the effects of such unbalanced market forces, the key remaining players are influential and continue to distort free market practices.

Another impediment to private sector development remains the lack of skilled managers and supervisors in Haiti. Trained personnel for these positions are scarce and, when available, as expensive as comparable personnel in the U.S.

III. USAID/HAITI'S PRESENT STRATEGY

In developing a program to bring about sustained economic growth by taking advantage of the benefits of the Caribbean Basin Initiative (CBI), USAID/Haiti's private sector program to date has aimed at two primary objectives: strengthening the private sector and promoting exports. Activities in both of these areas have been related to creation of employment, with a perspective of working with progressive minded elements of the private sector and have been designed to address obstacles to private sector growth identified elsewhere in this document.

Since the Mission has not chosen to fund specific private sector ventures, nor could it have done so even if so desired, 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 A.I.D. resources to progressive minded elements of the private sector dedicated to long term development in Haiti.

A primary constraint to private sector development has been and remains investor confidence; to combat this, the Mission has supported PROMINEX - Haiti's investment promotion center - to serve as a primary liaison between Haiti and the potential investor, especially the foreign investor. PROMINEX provides 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 in the U.S. PROMINEX also helps investors overcome specific regulatory and infrastructure problems by providing linkages to relevant government offices. Through the PROMINEX project the Mission has also provided technical assistance to the Consultative Mixed Committee for Industrial Development (CMCID), a joint private sector-public sector policy formulation body. It is in the context of the CMCID that the Mission has been directly involved in policy dialogue and has worked toward improving the free market environment to make Haiti more competitive internationally. With respect to the lack of mid-management skills, the Mission has supported the Management and Productivity Center (MPC) to provide management, entrepreneurial and supervisory training programs.

In addition, the Mission has provided support to Zin d'Art, a Haitian foundation for crafts exports. This foundation provides technical assistance to Haitian artisanal workers in design development and in marketing and shipping so that Haitian crafts workers can develop products according to the market and produce them at acceptable prices, with an adequate quality and in sufficient quantity to meet orders. The foundation also provides marketing services to sell products in North American and Caribbean markets.

The lack of credit availability prompted the Mission to support three 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 microentrepreneurs. 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 aims 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.

Finally, the Mission has begun to focus on private sector development in rural areas through its private sector outreach and agribusiness activities. Activities in these areas have been directed at developing linkages between Mission-supported intermediary institutions and private entrepreneurs in the provinces. A pilot project has been undertaken in Cap Haitien to develop interventions for the HDF, MPC and Zin d'Art. These are presently being expanded to include the services of SOFIHDES, PROMINEX, APA, and BCI during the present strategy period. Simultaneously the Mission has continued to provide technical assistance directly to APA, with its membership of small farmer associations and individual agribusinesses.

While in the short-term political instability has forced the Mission's private sector program into a mode of maintaining existing jobs and businesses, assuming stability in the medium and long term and funding availability, the Mission would like to increase its support for agribusiness, especially to increase nontraditional exports.

Under the present strategy, activities at various intermediary institutions have been highly interrelated. For example, while PROMINEX works with an investor to identify producers and obtain necessary government approvals for projects, SOFIHDES is likely to provide part of the credit necessary to start up or expand a venture. MPC frequently provides the training for staff of the local operation as well as for its middle management and supervisors. Or, for smaller activities, HDF might provide credit while MPC trains the entrepreneur. One example of why such training is necessary is that in Haitian small businesses the proprietor frequently commingles business and personal funds which can lead to disruptions in payments on debt in cases of personal financial problems.

The impact of the present strategy and the USAID private sector program has been considerable, despite the political and social problems over the past few years. The development of a joint public sector/private sector approach to investment and export promotion marks the beginnings of real dialogue between these two sectors. The success of the CMCID in providing a forum for policy dialogue marks a dramatic turn from earlier times in Haiti when monopolistic interests and government favors were the driving forces in setting economic policies. Specific accomplishments of USAID policy dialogue, based on USAID-supported technical assistance, are the development of a new investment code and trade liberalization, including the elimination of export taxes, the reduction in the number of items requiring import licenses from 117 to 7, and the revision of the customs duty structure. Specific PROMINEX accomplishments include its active communication with U.S. firms doing business in Haiti to maintain contracts during times of political turmoil and the development of new contracts even in these difficult times.

In the credit sector, the Mission can take pride in its initiative to modify credit laws and regulations to permit the existence of savings and

loan institutions, the subsequent creation of the privately owned Haitian Mortgage Bank (BCI), and the present level of institutional competition in the mortgage lending and savings field. Additionally, the Mission has made significant inroads in the development of innovative financial instruments for low-income housing. The Mission's support for the Haitian Development Foundation (HDF) has had a dramatic impact in the availability of credit to small and microentrepreneurs. Without USAID support, HDF would not be functioning and no non-usurious credit would be available in the \$100 to \$30,000 range; without this credit, hundreds of small and microenterprises would not be functioning today. Similarly, USAID's assistance in the creation of the privately owned Development Finance Corporation (SOFIHDES) addressed the need for long-term project financing in Haiti. No other institution offers its mix of hands-on project development expertise and intermediate- to long-term credit. SOFIHDES lending has to date created thousands of jobs in Haiti. In addition, SOFIHDES is presently the only active credit institution in Haiti with expertise in agribusiness and actively financing projects in that area.

The USAID support for the Agriculture Producers' Association (APA) was directly responsible for the establishment of linkages between small farmers and private agribusinesses. These linkages have been responsible for considerable growth in several agribusinesses and also for a significant increase in the earnings of participating small farmers. In addition, USAID technical assistance to APA was directly responsible for the preparation of the case leading to the removal of the value added tax on agricultural inputs.

Finally, USAID support to the Management and Productivity Center (MPC) is directly responsible for the training of thousands of microentrepreneurs and small businessmen as well as supervisory personnel in factories. This training has filled a need for which is addressed no other institution in Haiti and can be directly linked to the success of hundreds of small businesses in Haiti.

While, at present, the Mission maintains objectives to support the private sector and to promote exports, only very limited funds are available to implement our private sector activities. As shown in Table III.1, present control levels for funding through FY 90 are about \$2 million short of needs to carry out the existing OPE program. The Mission's private sector projects have been funded on a year-to-year basis with, consequently, low project pipelines; project mortgage commitments have been high and funding cuts in FYs 87 and 88 have had a dramatic impact on project implementation. While this paper recommends new activities for the private sector portfolio, we realize that the Mission is not in a position to consider any new starts while facing shortfalls on existing projects. Indeed, without increases from the levels of funding programmed in the FY 91 Action Plan presentation for the FY 89-90 period, the Mission may need to reconsider supporting certain activities, as well as its commitment to an export promotion objective through FY 1990.

Table III.1 provides a summary of existing Mission private sector projects with their actual funding levels through FY 88 and projected funding levels through FY 90. Table III.2 provides a timetable for existing private sector projects through FY 90.

Need for Reassessment

As can be seen in Table III.2, only three of the Mission's private sector projects extend beyond the present strategy period, which extends through FY 90: Technical Consultants and Training, Crafts Export Resource Center and the Management and Productivity Center. Of these projects only Technical Consultants and Training will not have received most of its funding by the end of FY 1990. Also, the three projects remaining after FY 90 will be in a wind-down stage, with minimal USAID inputs and few activities requiring significant AID management and supervision. Two of the credit projects are planned to be completed by the end of FY 89 while the third credit project extends only through the 3rd quarter of FY 90. The Mission can choose to let its activities in the private sector portfolio terminate at the end of the present projects or can decide to continue to have input into the private sector and design new starts based on presently existing constraints to increased private sector viability, job creation and economic growth. This strategy development exercise and its recommendations are based on the assumption that the Mission will continue to have private sector development objectives as critical to improving the status of the Haitian economy in general and of Haitian citizens in particular.

Since the present strategy was developed there have been major changes in the local economic, social and political environment. These changes make it necessary to reassess not only OPE's and USAID's strategies but also make it risky to adopt strategies which even fairly recent reports (e.g. the World Bank 1985 policy recommendations) propose, without further examination. As the present OPE project portfolio matures, there is a real question of whether concentrating support on a few institutions is still necessary or desirable. There may be the need and opportunity to broaden the impact of OPE interventions by supporting a wider range of private sector institutions. Providing capital support deserves particular scrutiny, since, first there is excess liquidity in certain segments of the local formal-sector financial market (e.g., insurance companies and pension funds), and, second, other donors (e.g. IDB) specialize in massive capital support (although only through agreements with the GOH and not directly with private institutions such as those supported by OPE).

TABLE III.1:
USAID/Haiti Private Sector Portfolio
Obligation Status
(\$000)

PROJECT	Proj. End Date	Total Amount	Obs to 1987	Obl. 1988	Obl. 1989	Obl. 1990	Short- fall
521-0167 Technical Consult and Training **	12/31/90	3,000	755	500	420	850	475
521-0183 Management and Productivity Center	2/28/92	4,100	2,000	1,105	474	521	0
521-0179 Crafts Export Resource Center	7/31/91	3,400	1,500	450	350	790	310
521-0186 Investment and Promotion (PROMINEX)	8/31/90	7,700	2,859	1,496	649	1,975	721
521-0154 Development Finance Center (SOFIHDES)	12/31/89	10,000	8,900	0	0	550	550
521-0181 Haitian Development Foundation	6/30/90	5,153	2,200	1,181	853	919	0
521-0163 Haitian Mortgage Bank (BCI)	8/28/89	1,750	1,100	0	578	0	72
TOTALS:		35,103	19,314	4,732	3,324	5,605	2,128
			55.0%	13.5%	9.5%	16.0%	6.1%

** Private Sector Component only;
total project authorization was \$8.1 million

Figure III.1:
USAID/Haiti Private Sector Portfolio Summary (\$US Millions)

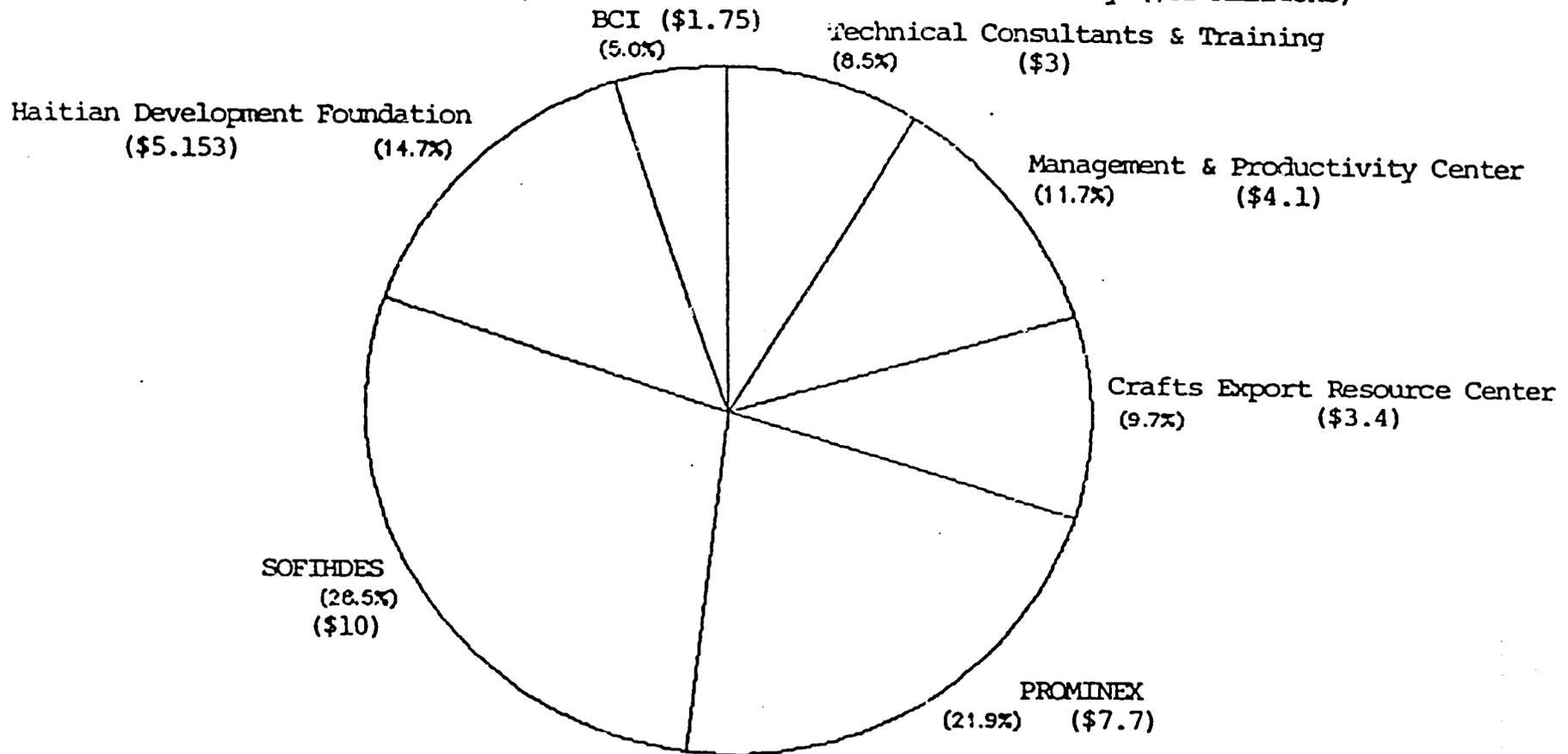


TABLE III.2:
USAID/Haiti Private Sector Portfolio
Implementation Schedule
(CY 1988-1992)

PROJECT	1988				1989				1990				1991				1992			
	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q	Q
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
521-0167									:											
Technical Consult and Training	X	X	X	X	X	X	X	X	X	X	X	X	X							
521-0183									:											
Management and Productivity Center	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			
521-0179									:											
Crafts Export Resource Center	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X				
521-0186									:											
Investment and Promotion (PROMINEX)	X	X	X	X	X	X	X	X	X	X	X	X								
521-0154									:											
Development Finance Center (SOFIHDES)	X	X	X	X	X	X	X	X												
521-0181									:											
Haitian Development Foundation	X	X	X	X	X	X	X	X	X	X	X	X								
521-0163									:											
Haitian Mortgage Bank (BCI)	X	X	X	X	X	X	X	X												

:
:
End of present
Strategy period

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IV. RECOMMENDED DIRECTIONS

A. Background

Factors which are important prerequisites to any proposed strategy are links with other foreign resources and availability to leverage capital to support interventions. Assuming political will on the part of the GOH to support private sector growth, USAID has demonstrated strength in providing technical assistance to support direct operation of project elements. OPE enjoys strong links to foreign private sectors and is ideally situated to work with other donors or elements of USAID. While USAID has limited resources in comparison to other sources with respect to available capital, it is uniquely situated to provide leverage with other major bilateral and multilateral donors in complementary activities to yield maximum benefit from their interventions.

The objective spelled out in the Director's introduction to the 1984 Report of the Bureau for Private Enterprise still provides a basis for A.I.D. intervention with the private sector. That report states 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". The Mission believes that development should be a process whereby the real per capita income of the country increases over time, subject to the stipulations that the number below an 'absolute poverty line' does not increase, and that the distribution of income does not become more unequal.

OPE has the opportunity to play a significant role as a catalyst to COH and the private sector in executing the country's national strategies. This role is consistent with OPE's human and financial resources, A.I.D. and Mission objectives and OPE's strengths and weaknesses vis a vis other donor organizations and other Mission offices. OPE's chosen strategy must be effective across the range of likely social, political and economic scenarios which Haiti might face. OPE's experience with current projects and institutions are part of its resources, so it is reasonable that the resulting strategy should build on these experiences. The strategy should be based on broader considerations than the convenience of remaining with present projects, however; indeed OPE's very success with its projects implies that it is able to contribute more broadly than at present to Haiti's private sector development. In addition, the termination of most OPE projects by the end of FY 90 leaves room for expansion into new areas of intervention.

In sum, the strategy development team developed its recommended directions based on certain basic requirements. These requirements were that our strategy:

1. Assist in the implementation of national strategies and A.I.D./USAID objectives;
2. Be effective over the range of reasonable local and US scenarios;

3. Employ proven OPE strengths and abilities;
4. Have separate and complementing long-term and short-term results;
5. Inject just one or two "missing ingredients" into situation in which all others are present;
6. Be implemented by nonpolitical institutions.

B. The Proposed Strategy

The recommended overall goal proposed for the Mission is to encourage increases in productive employment and long-term, broad-based economic development through improved national integration of the private sector. Specific LAC objectives recommended for the Mission remain a) to strengthen the private sector and b) to promote exports. In addition, we believe that if the proposed strategy is adopted, the Mission should have a broader goal of economic growth for Haiti's economy.

The strategy proposed for USAID/Haiti's support to the private sector is to continue to work through intermediary institutions to bring about improvements in Haiti's economic environment, both in terms of policy and practices in order to improve Haiti's competitiveness in the region under benefits from CBI, GSP and other preferential tariff treatments provided by the USG. As a corollary, USAID/Haiti should work to make local Haitian industries more competitive on the world market, in terms of both price and quality, so that they can supply goods and services needed by the export and, perhaps, tourism sectors and compete with contraband imports. While emphasis must be given to the export and tourism sectors as the most likely sources of new employment on a large scale, the Mission should encourage development of local capacity, inasmuch as that capacity is productive on world-competitive terms. Furthermore, the Mission should encourage credit availability as a necessary prerequisite to economic growth, development of opportunities for small and microenterprises, and private sector growth nationwide.

The strategic goal proposed for the Mission is that, by the end of FY 1995, the present negative per capita annual growth rate will be reversed and will reach a positive per capita annual growth rate of three percent. The strategic objectives proposed to achieve this strategic goal are:

1) There will be a significant increase in credit to the private sector and the percentage of credit to the private sector will show significant gains.

2) The number of jobs in the private sector will expand significantly.

3) The private sector will be more integrated, both in terms of linkages between the export assembly sector and local commerce and local producers and in terms of unified private sector associations in dialogue with the public sector to promote free trade.

C. Implications for OPE Project Development

1. Strategy Planning

Our strategy has been refined based on discussions with interested Mission, donor, private sector leader and beneficiary groups.

2. Identification of Focus Areas

It is important to note that since most of OPE's present projects are scheduled to end by the close of the present Mission strategy period, the Mission will need to begin project planning in some areas (e.g., credit/finance) immediately after approval of this strategy to prevent disruptions in ongoing programmatic areas. This section of the report proposes a timeframe for project design based on continuity of programmatic areas, time demands on Mission personnel for project design, and likely funding availability. It is also important to note that before this strategy can be implemented, approval will be needed for additional resources to support recommended new activities. There will need to be a transition period between the closeout of existing activities and the startup of recommended new activities (FY 91 at the earliest, given funding constraints). A recommended approach to this transition is discussed below.

In developing suggested areas of focus, we have taken an approach of limiting the number of new starts and, accordingly, the management demand on limited Mission resources. We believe that one project designed to implement each area of focus will provide an internally consistent approach to project implementation. All projects must include proposed costs for project monitoring.

Figure IV.1 provides a graphic overview of the four focus areas proposed for Mission intervention and their proposed interrelationships. The specific focus areas for intervention proposed are Policy Analysis and Reform, Export Development and Private Sector Integration, Credit and Financial Market Development, and Informal Sector Employment and Productivity. The first area, Policy Analysis and Reform, is the basis for implementing the strategy.

The Policy Dialogue Imperative

Although not publicized, OPE's support to date for the Mixed Consultative Committee for Industrial Development (CMCID) has been effective at addressing important regulatory issues. OPE realizes that the impact to be achieved from such an intervention is long term, and has proceeded in small steps. It is clear that such TA has excellent potential as a basis for improving private sector growth in general. Policy dialogue can be effectively delivered even under difficult conditions through a tested vehicle and would potentiate other donors' programs as well as facilitate growth related to other USAID interventions.

We believe that development and maintenance of a favorable policy environment is a necessary and sufficient condition to significant growth in the private sector. The policy environment which must be addressed over the strategy period is twofold; one one hand, the economic policy

environment must be such that free enterprise policy dialogue marks a dramatic turn from earlier times in Haiti when monopolistic interests and bribes were the driving forces in setting economic policies. Specific accomplishments of USAID policy dialogue, based on USAID-supported technical assistance, are the development of a new investment code, trade liberalization, including the elimination of export taxes, the reduction in the number of items requiring import licenses from 117 to 7, and the revision of the customs duty structure.

That the entrepreneurial strength of Haiti is strong is indicated in many ways; for example, many civil servants run their own business on a part time basis. Unfortunately, some of the country's entrepreneurial energy is diverted to socially unproductive rent seeking activities. This in part reflects the ambiguous attitude of the public sector which, on one hand, is publicly committed to foster private sector growth, while on the other, attempts to control private economic activities through extensive controls, regulations and laws. Consequently, if all laws and regulations were applied to the letter, enterprises would be subjected to an unbearable amount of bureaucratic interference and paperwork. By the same token, loose administrative procedures, the arbitrary nature of some administrative decisions and the importance of personal relationships to circumvent red tape combine to deter some productive investments while creating opportunities for politically connected rent seekers. These are primary areas which need to be addressed in the regulatory area of the Mission's policy dialogue agenda. As a result of the present policy and regulatory environment, two particular groups are deterred from doing business in Haiti: (i) large foreign, especially U.S., corporations which find the environment unattractive because of the elusive nature of the rules of the business game; and, (ii) potential Haitian entrepreneurs who do not belong to the traditional political and/or economic power structure (e.g. younger ones or some returned expatriates).

The private sector is now at a crossroads. Either the Government maintains an open economy and implements the macroeconomic policies (fiscal, wage, tax and foreign exchange) compatible therewith or it can revert to the inward oriented policies that will distort relative prices with an adverse impact on productivity, income and growth. The choice of the latter option is incompatible with the country's factor endowments and will forgo the opportunities offered by the availability of the large pool of productive, low cost labor. In the short run such an option will quickly lead to unsustainable imbalances in the external accounts and destroy the full convertibility of the domestic currency. The expedient temptation to implement restrictive policies must be resisted as since it will lead to a decline in economic growth, but it is politically attractive because it would please powerful groups who are used to prosper in a protected environment. In the macroeconomic policy realm, the Mission must strongly discourage the introduction of new protectionist policies and must encourage elimination of those which presently exist.

As labor is the main resource of the country, the main potential in the short run lies with the export of labor intensive manufactured goods, an area where Haiti has demonstrated its ability to successfully compete. The Mission must encourage macroeconomic policies to permit such competition. With such a focus, there are several advantages to a policy

of full convertibility and fixed exchange rates. But, full convertibility and the fixed parity can be maintained only if the management of public sector finances can avoid prolonged disequilibrium. Over the last few years, the Gourde has lost some of its convertibility and a parallel foreign exchange market has developed. The main cause of this disequilibrium has been the effect of cumulative public sector deficits. If such a situation is allowed to persist, the end result will be domestic inflation, devaluation, capital flight, in short, the destruction of the framework that is essential for the flourishing of private investment. The Mission must encourage sound macroeconomic policies.

The long-term capacity of the public sector to provide guidance, planning, and regulations for the complex process of urbanization for Haiti is negligible. To date, land development has evolved in a chaotic and haphazard manner. Zoning regulations may exist, but are not enforced. Efforts to implement a cadastre for Port-au-Prince are still in their infancy and cover only a small portion of the city. No efforts have been made to survey and register land in rural areas. As such, the government does not know what public lands exist and are available for development. In addition the public sector is not currently fulfilling its role in delivering and maintaining basic infrastructure, a vital prerequisite for encouraging investment and employment generation. The Mission must develop a policy dialogue agenda which promotes systematic development of Haiti's urban areas.

If the correct development choices are made, the private sector can provide the spur needed to sustain long term growth. Events of the past three years have demonstrated the strength, resilience and flexibility of the private sector. In the face of political turmoil, social strains and acute labor union militancy, Haitian productivity has remained high. If investor confidence is restored and the proper economic framework is in place, exports of manufactured products will resume the growth they enjoyed in 1970s, especially if supporting policy measures are put in place in the areas of infrastructure, finance and promotion. In turn, an expanding export sector will provide a larger market to import substituting industries, allowing them to produce closer to their installed capacity, thus reducing unit costs. There is no conflict between the growth of the assembly sector and that of import substitution industries, since the workers of the former are the market for the goods produced by the latter. While moving forward in developing the policy framework for private sector expansion, the GOH must look toward privatization of its parastatals. The Mission will need to develop a policy dialogue agenda which aims toward privatization of these entities in the shortest possible time frame.

Even with an ideal policy framework, however, there will be weaknesses and constraints to be overcome to unleash the full potential of the Haitian private sector. Some of the problems are policy induced and may be tackled through policy dialogue with the Government, while others are more structural in nature and may require longer time and patience to be solved. The basis of USAID's intervention to seek private sector growth, job creation and sustained economic growth must be to improve the policy and regulatory environment in the country. The remaining areas of focus compliment this focus by providing necessary complementary resources in the key areas of export promotion, credit and finance, and informal sector strengthening.

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FOCUS AREA 1: Policy Analysis and Reform

While progress has been made in developing a favorable policy environment for private sector growth, especially immediately after the fall of Jean-Claude Duvalier, there remain many policy and regulatory obstacles to overcome in order to promote private sector development. The Mission has worked through the CMCID to develop a policy agenda for discussion between the private sector and the government, but successes of this group have been limited in scope recently. There exist many major policy areas which still need to be addressed, and the GOH has very limited resources to adequately study alternative policy choices and their implications for the national economy. We believe that, as indicated in the recent A.I.D. Evaluation Special Study No. 53, "A.I.D.'s Experience with Selected Employment Generation Projects", the policy environment is the single most important variable in developing the private sector and in job creation.

Examples of activities which might be pursued under this focus include:

- a. Build constituencies for policy change by assisting the public and private sectors in developing a policy dialogue agenda. Based on policy dialogue, work with private sector institutions, the CMCID and the GOH to modify regulations, policies, requirements, and practices to permit economic development in Haiti. These should include formulation of policies and legislation which will allow for efficient land development, and other policies and legislation which affect investment, export promotion, construction, property ownership, ability of insurance companies to develop mortgage and other appropriate credit portfolios, and other areas of policy concern where the role of the government is primordial.
- b. Provide support and resources to private-sector institutions involved in policy dialogue.
- c. Provide technical assistance to the dialogue process by permanently funding (retaining) a local consulting firm with strong political consciousness (but not party ties).
- d. Support local or foreign technical expert study time, with the goal of allowing the local consulting firm to assemble well-supported policy proposals on a wide variety of subjects when needed.
- e. Establish a donor coordinating committee to work in a unified manner in addressing policy problems with GOH.
- f. Sponsor study trips for policy makers to similar developing countries.
- g. Finance technical assistance and cover a part of administrative costs of developing public-private sector boards of directors in key sectors, for examples public sector participation on the Tourist Board and private sector participation on the CAMEP (Water Authority) and Electricite d'Haiti boards.

- h. Identify existing private sector companies and/or associations which are interested in becoming privately owned companies with development objectives having a public purpose. This would formalize the role which the private sector is already playing in this area and provide for additional investment incentives. Such companies could mobilize necessary capital and provide management for the development of land and infrastructure for commercial and residential development as well as engage in rehabilitation and expansion of existing facilities and infrastructure.
- i. Provide local or foreign technical expert study time. After two years, it may be possible to assist in the establishment of a multi-sponsor foundation devoted to policy studies; however it is unlikely that this will be possible before the end of the planning period.
- j. Finance activities designed to increase the role of small and medium sized enterprises in the national economy.

SUGGESTED TIME FRAME FOR ACTIVITIES WITHIN THIS FOCUS AREA: 5 YEARS

SUGGESTED AUTHORIZATION/INITIAL OBLIGATION: FY 91

PROBABLE COMPONENTS: Consultation and Technical Assistance, Training, Institutional Support, Evaluation/Audit, Project Monitoring.

SUGGESTED BUDGET: \$6,000,000.

FOCUS AREA 2: Export Development and Private Sector Integration

The Mission has had valuable experience in this area, primarily through its PROMINEX project. The World Bank, in its 1985 "Policy Proposals for Growth", identified the export assembly sector as the most likely area in which jobs can be created. With changes in the region which possibly will disfavor other countries who are in competition with Haiti's assembly sector, it is possible that Haiti will gain in the sector. This sector has performed extremely well in times of major social and political disruption over the past three years, remaining the second CBI importer to the U.S. for the region (excluding Mexico). Growth has been consistent and prospects for continued growth are good, even with the problems which were present over the past couple of years. If there is political and social stability in Haiti, the prospects for growth in this sector are excellent.

In addition to the traditional assembly of textile and electronic components, there are good prospects for export development in agribusiness. This area has shown considerable expansion over the past couple of years and Haiti finds itself favorably placed to take advantage of U.S. markets for its agricultural products, in particular mangoes and nontraditional ethnic agricultural goods.

While we believe that the past emphasis on promotion of exports should continue, there should also be attempts to link export promotion with the indigenous private sector. Such backward linkages would not only

strengthen the local private sector, leading it toward world market competitiveness, but also help to give legitimacy to the export sector among local private sector entrepreneurs. Types of linkages which might be developed include local production of shipping materials for export goods (such as cardboard boxes or packing materials for agricultural goods to replace those which are presently imported from the U.S. by the export assembly sector), local sourcing of componentry where possible, and development of local suppliers for workers in the assembly industry (e.g., provision of space for competing informal sector suppliers of clothing and on-site food). Linkages of this type are mandatory to permit a sharing of the benefits of export assembly contracts with local formal and informal sector entrepreneurs. Without such linkages, the export assembly sector could fail to gain broad-based support from the local private sector and is likely to be subjected to continuing criticism for benefitting from unfair "preferential treatment" (e.g., regulations governing this export sector).

Activities in this focus area should, thus, be of two general types: support of exporter links to foreign resources and of backward linkages between the export sector and local production capacity. Suggested activities are as follows.

a. Support of Exporter Links to Foreign Resources

1. Line up visits to relevant local institutions (including PROMINEX and MPC) by US representatives from A.I.D. and IFC Joint Venture Feasibility Funds, PRE Revolving Fund, TDP, OPIC, and centrally-funded IESC and VITA specialized projects to explore Haitian institutions' access to and need for assistance.
2. Amend and extend the PROMINEX grant. Increased support to PROMINEX should include the following: a) coverage of part of prospective US or Haitian partner trip costs (about 20 trips per year, costed assuming 1/2 to New York and 1/2 to Hong Kong); b) completion of a Tourist Commission strategic plan which focuses resources on tourist target groups likely to prefer Haiti over other Caribbean destinations (e.g. French-speaking "adventure tourists" interested in exotic cultures) and carry through with links to the public sector to promote regulatory (e.g. zoning), administrative (e.g. consular, customs and immigration procedures) and infrastructure support requirements (e.g. allowing private satellite-communications systems instead of TELECO); c) expanded data collection and research on market and investment opportunities; d) technical assistance to Government on export/investment promotion and a publicity package; and, e) extension of the overseas marketing network, with increased emphasis on agribusiness.
3. Finance research and development for Export Processing Zones (EPZs).
4. Support the development of a network of associations, firms and individuals to assist potential business partners (assembly, agribusiness export, mining and tourism) develop proposals for assembly sourcing and investment promotion efforts.
5. Increase support to APA to promote non-traditional exports.

b. Exporter Cost Reduction and Private Sector Integration Through Exporter Backward Linkages.

1. Increase export worker services and, as a result, worker productivity while at the same time promoting business opportunities for small local firms. Some areas for OPE supported technical assistance are for-profit health maintenance organizations, lower-cost and more nutritious worker lunches through present informal-sector suppliers, and for-profit day-care centers near plants.
2. Provide support for communications between the export assembly sector and local producers to encourage local sourcing contracts.
3. Analyze possibilities for local material supplies; provide technical assistance and support to selected local producers to help bring them up to a level which is competitive and can supply export assembly firms.
4. Identify about three existing, healthy private sector organizations (e.g. APA for agribusiness) which are interested and committed to private sector integration. Provide (perhaps with IDB) technical assistance to establish a loan-guarantee fund, maybe using local currency generations to back up commercial, long-term financing (e.g. via SOFIHDES) for pilot projects.
5. Provide technical help through PROMINEX to encourage returning Haitians and new and existing export industries to build linkages with the informal sector.
6. Through PROMINEX or another suitable private sector intermediary, fund a feasibility study for a fully self-contained assembly zone in a low labor cost provincial city.

SUGGESTED TIME FRAME FOR ACTIVITIES WITHIN THIS FOCUS AREA: 4 YEARS
(Through extension of current project)

SUGGESTED AUTHORIZATION/INITIAL OBLIGATION: Extend current project through FY 95.

PROBABLE COMPONENTS: Consultation and Technical Assistance, Training, PROMINEX Operational Support, APA Operational Support, Tourism Promotion, Travel, Evaluation/Audit, Project Monitoring.

SUGGESTED BUDGET: \$9,845,000

FOCUS AREA 3: Credit and Financial Market Development

When the Mission began its private sector activities, there were few financial institutions, and those which existed addressed primarily the needs of Haiti's wealthy. No mortgage institutions existed, long-term credit was virtually non-existent, and credit for small businesses was unavailable. The Mission has had a major success in the creation of the Haitian Mortgage Bank (Banque de Credit Immobilier or BCI). The laws

regulating savings and loan organizations have been changed and, since the inauguration of the Haitian Mortgage Bank, one more mortgage institution has been opened in competition with BCI and at least one more is in the design stage. The Haitian Development Foundation was in poor financial condition when A.I.D. became involved in funding the present project. Since, the HDF has become a major player in small and microenterprise credit. Finally, SOFIHDES has developed as an exemplary model for long-term credit and has stimulated commercial banks to undertake activities in this area.

While these successes have been far-reaching, there remain considerable obstacles to capital and credit availability. This comes at a time when there is excess liquidity in Haiti. The Mission should actively pursue continued intervention in the credit forum, emphasizing less the individual institutions which have been supported, and emphasizing more the structural problems in the financial markets. This will require emphasis on directing the existing excess liquidity toward credit availability and the markets necessary for this conversion. In addition, the Mission should emphasize credit and capital availability outside of Port-au-Prince and expansion of existing financial institutions to secondary cities. This would contribute to the enhancement of income-generating opportunities and provide some encouragement to decentralization and development outside of congested Port-au-Prince.

Activities which should be pursued in this focus area include, but are not limited to:

- a. Technical assistance to financial institutions to streamline lending processes. This could include better organization of credit approval procedures, development of innovative lending mechanisms to facilitate loan approvals to non-traditional banking customers, and special lending programs for low income households. This activity would also be linked to policy-related activities insofar as attention should be paid to land titling procedures for broadening the range of households which can access credit from formal institutions.
- b. Support for development of credit unions (including technical assistance through the channels of the Informal Sector Employment and Productivity Project) to generate and execute plans for facilitating short term credit through existing rural as well as urban groups. Credit unions are institutions which reach down to the lower income levels and allow the beneficiaries a major role in the management of business affairs, thus developing their own human potential. AID has had success worldwide with credit union programs, particularly in Africa, and Haiti is ripe for the development of such a system. Support in this area should be addressed through our other focus areas, as well, and involve the Agricultural Office as well as OPE. Coordination with IDB to set up funding through their new private sector lending subsidiary may be important.

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- c. AID should also pursue the possibilities of expanding upon its successful experience with establishing a private mortgage institution, BCI, to facilitate the development of a stronger housing finance system in Haiti. Interest has already been expressed by commercial banks for AID assistance in enhancing institutional capacity for mortgage and home improvement lending.
- d. Technical assistance for project preparation, somewhat like PADF support in developing projects for presentation to lending institutions to make them bankable.
- e. Lending capital in U.S. dollars on a grant/loan basis as previously provided through SOFIHDES.
- f. Support for local training and follow up technical assistance in financial market innovations, aimed at local top bank management and returning financial entrepreneurs. Additionally, budget for local expert coordination with FDI to set up a guarantee fund to back secondary financial institutions (this is a possibility for A.I.D. local currency generations as it is noninflationary, but it is preferable to use other donors' funds). IFC technical assistance may be available, as well, for this task. Provide, as necessary, financial support for financial institutions as seed money to develop secondary markets for financial instruments.
- g. Institute a Private Sector Housing Guarantee loan for infrastructure improvements and for land development. The Haitian private sector has expressed interest in potential urban development activities in Port-au-Prince which include integrated land development as well as downtown urban renewal activities. Such pilot endeavors could be launched by private sector consortia which might apply for HG financing once they had demonstrated their viability.

SUGGESTED TIME FRAME FOR ACTIVITIES WITHIN THIS FOCUS AREA: 5 YEARS

SUGGESTED AUTHORIZATION/INITIAL OBLIGATION: FY 91

PROBABLE COMPONENTS: Consultation and Technical Assistance, Training, U.S. Dollar Lending Capital, Evaluation/Audit, Project Monitoring.

SUGGESTED BUDGET: \$11,500,000

FOCUS AREA 4: Informal Sector Employment and Productivity

A difficult, but important, area of focus is Haiti's informal sector. This sector employs nearly three-fourths of Haiti's productive population yet remains outside of the legal structures of the country. The primary component of Haiti's private sector is, indeed, the informal sector. Attempts to stimulate broad-based development cannot ignore the informal sector.

Most of the PVOs working in Haiti support the informal sector, but few try to strengthen formal-informal sector links. On the other hand,

many PVOs have excellent, intimate, trusting relations with informal sector groups. IDB reports that it has selected Haiti as its primary target for informal sector projects under its Small Projects Department. Funds and a highly regarded appraiser are available, but project approval is slow, in some cases because of GOH reluctance to give "no objection" letters. UNDP and CIDA report growing interest in private sector projects within the informal sector.

OPE's experience with the informal sector has been considerable. After some initial implementation problems, both HDF and MPC have effectively lent to and provided management development assistance to the top levels of the informal sector (e.g., loans of \$1,000 to \$5,000). The Foundation for Aid to Haitian Women (FHAF), supported under a block loan from HDF, has had considerable success in true microenterprise lending. Support to APA appears to be leading to help in organizing some rural small-producer groups. CERC is an unusual attempt to tie a part of the informal sector to export markets and is successful, although on a small scale. Recent developments in low-income housing loans involving BCI and the Mennonite Economic Development Agency (MEDA) are exemplary in developing opportunities in the informal sector. Organizational development appears to have been slow and management-intensive, but OPE has successfully transferred operating and management techniques to these institutions. There is a longer term possibility that PROMINEX may be able to stimulate investments involving informal sector suppliers, perhaps by following some lessons learned through the CERC project.

OPE has an unusual opportunity to give existing private sector organizations in the informal sector access to businesslike and effective management techniques, as well as links to formal-sector sources of credit, markets and training. It should not provide capital or attempt to establish new institutions but should work with other donors and formal-sector sources which want to provide the former and PVOs which want to support the latter using a market driven approach. OPE's contribution should be in the areas of management, marketing and coordination assistance. Positive experiences such as the BCI-MEDA low-income housing experience or the experiences in Jamaica in linking PVOs with credit institutions could be more broadly applicable in Haiti.

Clearly any activities in this focus area will require associated interventions in the policy and credit areas. The Mission should build on its several successful activities addressing the informal sector.

Activities which should be pursued in this area of focus include, but are not limited to:

- a. Establish a separate informal-sector organizational support unit in MPC or HDF. Fund local and foreign expert time as well as training support for microbusiness and small entrepreneurial development.

- b. Continue technical assistance aimed at micro-lending, crafts export and agricultural institution development. Experts could be placed in one or more of the AID-supported institutions (e.g., HDF, CERC or APA). To the extent that there is the capacity within PVOs and credit institutions, technical assistance for lending activities to support home improvements, water connections and sanitary facilities should also be promoted. These activities should also include provision of technical assistance for the development of a credit union system in Haiti (see focus area 3) and support for PVO linkages with formal sector lending institutions to develop programs enabling these institutions to lend to the informal sector. A potential model is the program currently being designed to link MEDA and the BCI so that BCI can finance home purchase and home improvement loans for low income households.
- c. Sponsor the development of informal-sector leadership organizations.
- d. Sponsor the development and implementation of business and entrepreneurial development training suitable for informal sector, presented through MPC or another contractor.
- e. Monitor and study the cost effectiveness and impact (e.g., job creation) of different approaches to informal sector support.

SUGGESTED TIME FRAME FOR ACTIVITIES WITHIN THIS FOCUS AREA: 4 YEARS

SUGGESTED AUTHORIZATION/INITIAL OBLIGATION: FY 92

PROBABLE COMPONENTS: Consultation and Technical Assistance, Training, Research and Replication of Pilot Activities, HDF and MPC Support for Specific Informal Sector Activities, Evaluation/ Audit, Project Monitoring.

SUGGESTED BUDGET: \$4,520,000

The proposed timetable for authorization and implementation of these projects and for funding of the projects is given in Tables IV.1 and IV.2. A schematic of the proposed focus areas for intervention is given in Figure IV.1.

TABLE IV.1:
USAID/Haiti Private Sector Portfolio
Proposed Obligation Timetable for Proposed New Projects
(NOTE: PD&S FUNDS ARE NOT INCLUDED)
(\$000)

PROJECT	Proposed Authoriz.	Total Amount	Obl. 1990	Obl. 1991	Obl. 1992	Obl. 1993	Obl. 1994	Obl. 1995
Focus Area 1 Policy Analysis	3 Q FY 91	6,000	0	1,909	1,691	1,400	1,000	0
Focus Area 2 Export Development	Extend Existing Project	9,845	0	0	1,750	2,670	2,680	2,745
Focus Area 3 Credit/Finance	2 Q FY 91	11,500	0	2,500	2,500	2,500	2,500	1,500
Focus Area 4 Informal Sector	FY 92	4,520	0	0	1,340	1,240	1,075	865
SUBTOTALS:		31,685	0	4,409	7,281	7,810	7,255	5,110
Plus Existing Mortgages			5,605	1,506	0	0	0	0
OYB Requirements for Proposed OPE Program			5,605	5,915	7,281	7,810	7,255	5,110

SOURCES OF FUNDING:

	YEAR					
	FY 90	FY91	FY92	FY93	FY94	FY95
PSEE:	4,234	5,115	6,281	6,810	6,255	5,110
ARDN (FOR TCT & POLICY)	850	800	1,000	1,000	1,000	0
EHR (FOR MPC):	521	0	0	0	0	0
TOTALS:	5,605	5,915	7,281	7,810	7,255	5,110

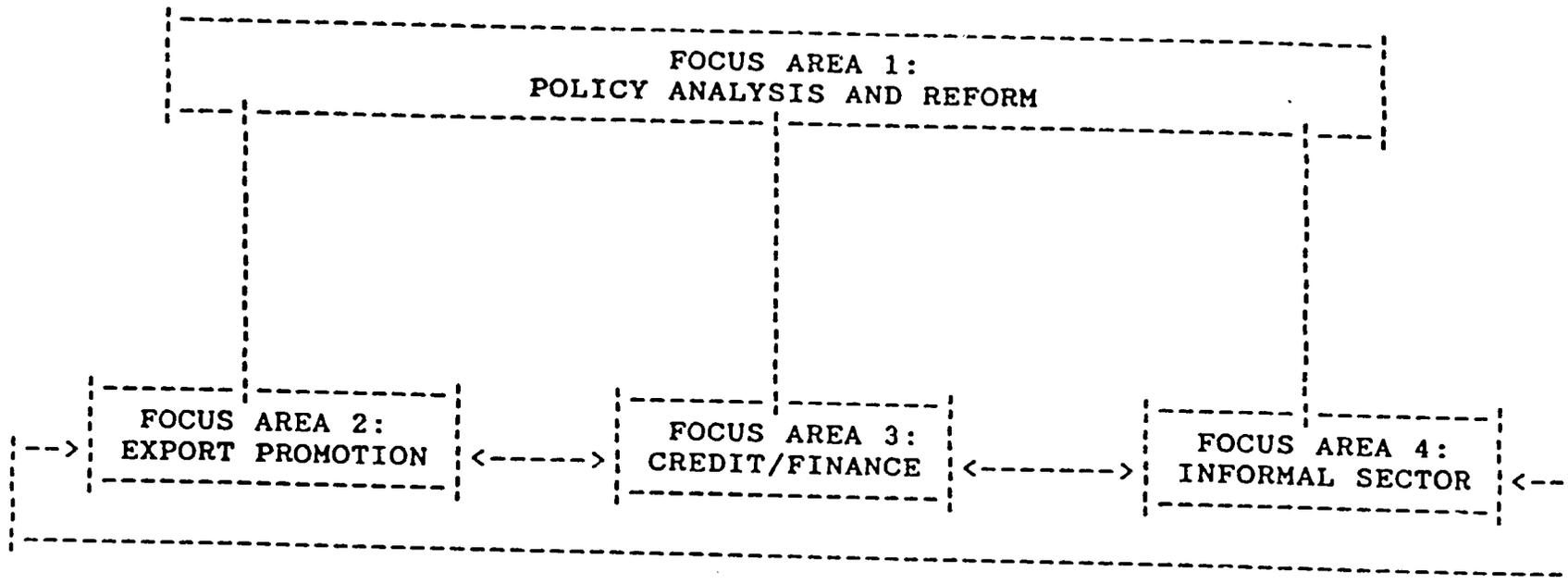
TABLE IV.2:
 USAID/Haiti Private Sector Portfolio
 Implementation Schedule For
 Proposed New Projects

PROJECT	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
	Q Q Q Q	Q Q Q Q	Q Q Q Q	Q Q Q Q	Q Q Q Q	Q Q Q Q
	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4
Focus Area 1						
Policy Analysis	XXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXX
Focus Area 2						
Export Development		XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	
Focus Area 3						
Credit/Finance	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	
Focus Area 4						
Informal Sector		XXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	X

FIGURE IV.1

OFFICE OF PRIVATE ENTERPRISE

PROPOSED AREAS OF FOCUS FOR STRATEGIC INTERVENTIONS



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D. Transition between the Present and Proposed Strategies

It is important to note that while suggested authorization dates begin in FY 91, there will be critical gaps in programmatic areas addressed in the present OPE portfolio. We realize that existing control levels for FY 90 do not include such new starts in FY 90 and will require a transition approach to continuing important programmatic areas.

As can be seen in Table III.2, the Mission's credit activities will draw to a close early in the present strategy period. The PACD for the SOFIHDES project is December 31, 1989; the Haitian Mortgage Bank project ends on September 30, 1989; the Haitian Development Foundation project ends on June 30, 1990. Since the Mission will want to continue activities in credit it will need to have an interim approach to working in credit until the new credit and financial markets project can be authorized in FY 91. A likely approach is to provide credit technical assistance through the Technical Consultants and Training project, maybe housed at SOFIHDES, but with a scope of work which includes technical assistance to several financial institutions. In addition, a one year extension of the HDF project should be considered, especially in light of its new directions in targeted lending outside of Port-au-Prince. These activities, while not complete, would provide bridging activities in credit which would continue momentum generated by the Mission, especially in agribusiness lending and small/microenterprise lending.

The Investment and Export Promotion project has been recently evaluated and this project will be amended based on the findings of this evaluation. This amendment should reexamine funding needs of the project and should include a mandate much broader than simple funding of PROMINEX and technical assistance to the CMCID. The Mission could undertake development of a project paper supplement for this project in early FY 90.

In the meanwhile, the Mission will need to develop a financial markets analysis as a prerequisite to designing a credit and financial markets project. This analysis should begin in FY 89, with PID development in FY 90. The Mission is presently undertaking an analysis of policy priorities as a basis for developing the PID for a policy analysis project. This work should provide a document which can serve to help set the Mission's economic and regulatory policy agendas and which can be used as a framework for developing the policy project.

E. Differences between Present and Proposed Strategies

While the proposed strategy is in many ways similar to the existing Mission strategy for private sector development, there are several changes worthy of note. The following table presents the areas of importance in the Mission's private sector strategy and presents the present and proposed interventions.

<u>AREA</u>	<u>PRESENT STRATEGY</u>	<u>PROPOSED STRATEGY</u>
Policy	Project Driven	Basis for Strategy
Export Development	Basis for Activities	Diversification
Credit/Finance	Create Institutions	Increase No. of Institutions Involved; Develop Financial Markets
Informal Sector	Project Components Only	Major Focus for Activity
Donor Strategy	Limited	Deliberate
Geographic Focus	Port-au-Prince	National

Annexes

ANNEX A.
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ANNEX B.
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ANNEX C.
METHODOLOGY FOR DEVELOPING THE PROPOSED STRATEGY

USAID/Haiti recognized over two years ago that its private sector strategy was rapidly maturing and that while the directions which it was pursuing with the private sector were valid, they did not necessarily reflect the present obstacles to growth in the private sector. The strategy being implemented was one which dates back to the early 1980s when Haiti's private sector operated under the Duvalier regime and when the rules of operation were considerably different from those of today. While changes after the departure of Duvalier opened up the private sector in many respects, the subsequent political turmoil and disruption in business affairs have posed new problems to consistent private sector growth.

It was decided with the 1989 Action Plan that the Mission would undertake a private sector assessment and subsequently the development of a new private sector strategy. This process took place over the course of four governments and it became clear that any strategy developed would need to be robust to political changes and hold potential for implementation as long as A.I.D. chooses to be involved with the Haitian private sector. The Mission emphasized its desire to build on the major successes which it has achieved in the private sector, most notably its work in developing credit availability, policy work in establishing free trade, work with small and microenterprises, and support for the export assembly sector.

USAID/Haiti engaged the services of Trade and Development International consultant Cameron Smith and local consultants Raymond Magloire and Karl Couba to undertake an analysis of the existing private sector in Haiti. This analysis served as a basis for examining the strengths and weaknesses of the private sector and potential areas for growth. In addition, with the assistance of RHUDO/CAR, Deloitte. Haskins and Sells performed an analysis of the construction sector in Haiti. These analyses indicated that the Mission should modify its directions somewhat and at the same time build on successes which permit further expansion.

During the private sector analysis, contacts were made with Haitian private sector organizations, individual businessmen, international donor organizations, private sector institutions and private voluntary organizations involved in private sector support. Draft documents were distributed to these organizations and their comments were considered in subsequent versions of the report. This final strategy statement has taken into consideration the input of most major private sector institutions in Haiti.

The proposal for a new comprehensive credit and financial markets project reflects a maturing of the Mission's private sector portfolio since credit availability remains a problem in Haiti, but no longer caused by the lack of institutions to extend credit. Likewise the new emphasis on backward linkages in the export and investment promotion project indicates an expansion of the focus of this area to build bridges between the export sector and the commercial sector.

The separate emphasis on the policy dialogue and policy analysis

priority area reflects the strongly felt belief that the policy environment is the single most important factor in developing the proper environment for private sector growth. Indeed, the Mission believes that if the policy environment is good then private sector growth will occur despite other variables.

The focus on informal sector employment and productivity formalizes the Mission's involvement with the informal sector over the past several years and will dedicate a project to encouraging growth in the informal sector. Since the analysis of the private sector identified strengths in Haiti's private sector and existing constraints to development of the private sector, the strategy aims to build on these strengths and to help overcome these constraints to facilitate private sector growth.

The private sector analysis recommended that, in implementing a new strategy, the Mission increase the involvement of other donors, beneficiary and private sector leaders in the design, execution and evaluation of projects. "Politics in the wake of the Duvalier departure in 1986 suggests that substantial change in terms of bettering the circumstances of ordinary people, while possible, is unlikely. The constraint is in part the difficulty that 'progressive' elements in the political class are likely to have in gaining preeminence. More of a constraint is fundamental ignorance, even among progressive elements, of the circumstances of ordinary people. In the absence of means through which ordinary people can make themselves heard politically, ignorance among progressives is not likely to be replaced with knowledge in a near future." (Fass p. xxvii).

OPE has done an excellent job in soliciting the ideas of progressive private and public sector leaders during the design of projects and has set up boards of directors, representing top private sector views, to run them. The above recommendation calls for OPE to continue such policies but to broaden them to involve progressive public and private sector leaders in the program planning phases, also involving them in fairly frequent, informal evaluations, apart from the formal ones done by outside consultants; and to increase those involved at all stages, up to representatives of beneficiaries and interested donors.

A recommendation for increased donor coordination makes sense for donor projects elsewhere, but in Haiti they are especially important because of social fragmentation (even well-intentioned leaders may not know what is happening in other social groups), poor development of other organizations which might otherwise serve as information channels, and the wide range of probable future scenarios. Comparing experience in Haiti with that elsewhere, Haitian entrepreneurs are very articulate in expressing their felt needs and what they think USAID should do. Given Haiti's fragmented social structure, it is sometimes difficult to divide progressive private sector leaders' statements into accurate perceptions, sincere but mistaken ones, and self-serving ones. A particular problem is perceiving foreign assembly-sector partners' views through the filters of their local partners' opinions.

Following is a presentation of the relationship between the areas of focus proposed under the new strategy and the specific obstacles to private sector development which they address or the particular strengths of Haiti's private sector on which they will build:

OPPORTUNITY/STRENGTH

FOCUS AREA

1. Wealth of entrepreneurship

2. Export Development and Private Sector Integration
4. Informal Sector Employment and Productivity

2. Labor intensive manufacturing

2. Export Development and Private Sector Integration

3. Export agriculture and agribusiness

2. Export Development and Private Sector Integration
4. Informal Sector Employment and Productivity

4. Mining

2. Export Development and Private Sector Integration

OBSTACLE/WEAKNESS

1. Lack of investor confidence

1. Policy Analysis and Reform
2. Export Development and Private Sector Integration
3. Credit Availability and Financial Market Development
4. Informal Sector Employment and Productivity

2. Direct and indirect government intervention in the economy

1. Policy Analysis and Reform

3. Inadequate availability of capital and long-term credit

1. Policy Analysis and Reform
3. Credit Availability and Financial Market Development

4. Infrastructure deficiencies

1. Policy Analysis and Reform
2. Export Development and Private Sector Integration
4. Informal Sector Employment and Productivity

5. Inadequate land management policies

1. Policy Analysis and Reform
3. Credit Availability and Financial Market Development

6. Predatory capitalism

1. Policy Analysis and Reform
3. Credit Availability and Financial Market Development

7. Lack of access to commercial/
economic information

1. Policy Analysis and Reform
2. Export Development and Private Sector Integration
3. Credit Availability and Financial Market Development