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STRATEGIC OPTIONS FOR HAITI'S PROMOTION OF BUSINESS AND EXPORTS (PROBE) PROJECT

FINAL REPORT

*Bureau for Asia and Private Enterprise
U.S. Agency for International Development*

Prepared for: USAID/Haiti

Prepared by: SRI International

*Sponsored by: Private Enterprise Development Support Project II
Project No. 940-2028.03
Prime Contractor: Ernst & Young*

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PREFACE

This report presents strategic recommendations to USAID/Haiti for the design of its Promotion of Business and Exports Project (PROBE). The work was conducted by SRI International under contract to Ernst & Young, as part of the Private Enterprise Development Support II Project (Contract Number PDC-2028-Z-00-7186-00).

The team consisted of Peter Boone, Senior International Economist, SRI International, Mr. Thomas Boyce, Principal Business Consultant, SRI International and Mr. Charles Beaulieu, Macroeconomist and former Governor of the Haiti Central Bank. The team worked in Haiti from April 16 to April 30, 1991. All the findings and recommendations including any errors and omissions presented in this report represent the view of the authors and not those of the individuals or organizations interviewed by the authors.

Executive Summary

INTRODUCTION

Over the past five years Haiti has not been successful in promoting investment and exports despite the efforts of a USAID-funded Export and Investment Promotion Project. Quantitative achievements during the life of the project in terms of job creation, export earnings investments and contracts generated have all been well below the targets set. Much of the failings of past promotion efforts can be attributed to the turbulent political environment over the past five years and the associated poor business climate.

This study analyses the present business environment in Haiti, along with lessons learned from the past experience, to form the basis for recommendations to guide the redirection of an upcoming USAID-funded private sector project. The new project will undertake some new initiatives and approaches aimed at promoting business and exports in Haiti.

LESSONS LEARNED: ELEMENTS OF SUCCESSFUL PROMOTION EFFORTS

Experience in investment and export promotion worldwide has demonstrated that the most successful promotion programs have first concentrated on "improving the product", i.e. improving the business climate, before engaging in active promotion. Improving the product starts by making an honest assessment of the host country's business climate "assets and liabilities." After carrying out such an assessment, promotional programs can work towards improving the comparative advantage of the country by working to turn many of the "liabilities" into "assets". During the "product development" stage, successful countries have usually adopted reactive stances towards promotion. Only after developing a "good product" have the successful programs shifted from reactive to a more proactive promotion.

PRINCIPAL FINDINGS

This report makes an initial assessment of Haiti's business climate "balance sheet". The report assesses the economic, political, natural resource, and institutional base for promoting business and exports in Haiti. An objective assessment of the opportunities and constraints of doing business in Haiti then can serve as a framework for the design of an effective business and export promotion program.

One of the salient findings of this study is that the current business environment in Haiti is not conducive to business expansion or exporting. The chief constraints are not high taxes or excessive regulations at all levels, similar to many other developing countries, but are mainly associated with the high costs and poor quality of government-monopolized-services such as port

handling, customs, electricity and telecommunications services. These problems, along with political instability, a bad image of Haiti overseas, and constrained management/labor relations, have had a combined effect of making Haiti an unprofitable or undesirable location to do business.

The magnitude of these constraints, while not beyond reach of resolving, suggests that any efforts to promote Haiti as a business site must first focus on improving the business climate in Haiti before embarking on any significant overseas promotion campaigns. In fact heavy promotion of Haiti or Haiti's products overseas might even be counter-productive in the near term, until such time as the business climate enables the "product of Haiti" to be more competitive. Pre-mature promotion can create false expectations or draw attention to many of the shortcomings of the investment or export location.

Past efforts by the PROMINEX¹ to promote investments and exports in Haiti have not yielded substantial results, partly because the political and business environment were not conducive to promotion. In order to be successful, any new program to promote business and exports in Haiti must initially focus most of its efforts and resources on improving the business climate before commencing active overseas promotion.

Haiti's current political situation offers some new hope for a more stable environment in which to operate. Although the new government may not be entirely sympathetic to the needs of businesses, at least having a more stable and legitimate democratic government does offer the possibility of having "clearer rules of the game". Many business people in Haiti recognize the opportunities offered by having a more stable political structure, but are also waiting for clearer signals of encouragement from the government before investing or expanding their operations.

The recent minimum wage hike of 67 percent is one signal that the government is sending which is generally not being very well received by the business community in Haiti. Many business leaders fear that the large minimum wage increase will lead to higher wage demands from semi-skilled and skilled workers, which will be beyond the companies' capacity to pay, given the high cost structure in Haiti for non-labor cost factors such as port charges, electricity, and telecommunications.

The macroeconomic setting for business and export promotion provides a strong case for embarking on a high priority program to create jobs and improve standards of living in Haiti. Haiti has the lowest per capita income (GNP) in the Western Hemisphere, at \$US 360 per person. Currently unemployment and underemployment together stand at about 70 percent. Moreover, about 6 or 7

¹ The Haitian Investment and Export Promotion Center

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thousand assembly sector jobs have been lost in over the past 5 years. Exports have stagnated from 1985 to 1989 and then dropped sharply in 1990. The current-account deficits in the balance of payments have been rising up to the present level of about G280 million per year. Private investment has decreased by about 50 percent over the past two years. All of the indicators underscore the need to create substantial new employment opportunities and increase foreign exchange earnings in Haiti as rapidly as possible. In order to do so, a concerted multi-year effort will be needed to improve the business climate. This business climate improvement will permit businesses to expand and create new employment opportunities.

Haiti's economic resource balance sheet includes many liabilities in the infrastructure area. The port is inefficient and is the second most expensive in the region. Few freight lines and cruise ships currently serve Haiti. Electrical power is a major constraint to all businesses with extremely high costs and frequent power outages. Roads are generally in poor condition and there is heavy traffic congestion in Port-au-Prince. Haiti possesses limited natural resource advantages; it has few mineral deposits, land deforestation, and cultural sites have deteriorated.

Haiti's net balance as a business location is currently not very positive, but there are several key assets that point to comparative advantages that can be used for targeted promotional efforts, as the business climate is improved. One of Haiti's main assets is its large pool of disciplined and competitively priced labor. Market access is also a key asset, as Haiti's location and special trade status make it a potentially competitive location for labor-intensive exports to an enormous and growing market in North America.

Given the limited size and constrained income trends of the local market, compared with a virtually unlimited world market from Haiti's point of view, it seems clear that efforts to promote a large number of new jobs rapidly should be fueled by exports. The assembly sector is potentially competitive in labor-intensive subsectors if the infrastructure conditions are improved and are more cost-competitive. Tourism could also recover with political stability, improved security, and the passing of the AIDs scare. Agribusiness has also identified several niche markets where Haiti has a competitive advantage.

The incomes earned in export sector will in turn generate domestic demand and production. It is estimated that for every job created in the export sector (assembly, tourism, agribusiness) there are an additional 1.5 jobs supporting jobs created in the local economy in areas such as food services, construction, transportation and banking. Since every job in Haiti feeds an estimated 5-7 people, each export job (including its local job multiplier) feeds from 12-18 people.

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On the institutional side, there are new opportunities for broad-based pluralistic participation and discussions on issues affecting the private sector. In the past, private sector associations have been either politicized, such as the Chamber of Commerce, or there have been serious differences or fragmentation among and within associations. Past attempts to unify the private sector to speak with one voice have been largely unsuccessful (e.g. FHASEP), but recent events such as the White Paper preparation under the leadership of the APB suggest that broad-based discussions and agreements on common sets of problems constraining the private sector may be more possible in the present environment.

PRINCIPAL RECOMMENDATIONS

1. USAID should support a business and export program focussed initially on improving the business climate by helping to remove the most binding constraints to business profitability and expansion. The program should be two-pronged: (i) improving the business climate through reform and/or privatization of government supplied services; and (ii) provision of direct business services assistance to firms in Haiti through a business support institution.
2. The efforts should be channeled principally through a service-oriented business support institution. Likely candidates for delivery of these services are existing service-oriented private sector organizations in Haiti which have a demonstrated track record and have achieved a degree of financial self-sufficiency. Many of the project activities, especially in the policy reform area, would be sub-contracted to other institutions, firms or individuals with more specialized expertise. The business promotion program should be designed after surveying the business community needs in the areas of business information, business support, problem-solving, and marketing services.
3. Policy-level private sector reform initiatives should be encouraged under the project through fora offering direct, high-level private sector/government interaction, such as the Council of Presidents and a revived "Mixed Committee".
4. Broad-based private sector participation and leadership should be encouraged in the project. Through the business support institution's Board of Director and through the Council of Presidents, broad participation in policy analysis and the design of private sector growth strategies can be achieved.
5. Encourage the reform, restructuring (including corporatization or privatization), and where appropriate re-capitalization of the state-owned infrastructure: electricity, telecommunications and port.

6. Study the feasibility of private-sector managed Export Processing Zones (EPZ) in Haiti. If the feasibility results are positive, encourage the development of the private EPZ's in Haiti. A market-oriented environment with high-quality, competitively priced, private-owned infrastructure could rapidly encourage labor-intensive investment and exports.

SYNTHESE

INTRODUCTION

Ces cinq dernières années, Haïti n'a pas réussi à promouvoir les investissements et les exportations malgré les efforts déployés par un Projet de Promotion des Investissements et des Exportations financé par l'USAID. Les résultats quantitatifs obtenus durant la vie du projet en terme de création d'emplois, d'investissements possibles à partir des recettes d'exportations et de contrats créés, se sont tous situés bien en-dessous des objectifs fixés. La plupart des efforts de promotion qui ont échoué dans le passé, peuvent être attribués à l'agitation politique des cinq dernières années associée à un climat des affaires peu favorable.

La présente étude analyse le climat des affaires actuel d'Haïti ainsi que les leçons tirées de l'expérience passée pour servir de base aux recommandations qui guideront la ré-orientation d'un prochain projet du secteur privé financé par l'USAID. Le nouveau projet entreprendra de nouvelles initiatives et approches qui viseront à promouvoir les affaires et les exportations à Haïti.

LECONS TIREES: ELEMENTS D'ACTIVITES DE PROMOTION REUSSIES

Partout dans le monde, l'expérience en matière de promotion des investissements et des exportations a démontré que la plupart des programmes de promotion réussis, se sont d'abord concentrés sur "l'amélioration du produit", c'est-à-dire améliorer le climat des affaires, avant de s'engager dans la promotion active. Améliorer le produit commence par une évaluation honnête de "l'actif et du passif" du climat des affaires du pays-hôte. Après avoir mené à bien une telle évaluation, des programmes promotionnels peuvent oeuvrer à l'amélioration de l'avantage comparatif du pays en essayant de transformer une grande partie du "passif" en "actif". Durant la phase de "développement du produit", les pays qui ont réussi, ont en général, adopté une position réactive vis-à-vis de la promotion. Ce n'est qu'après avoir développé un "bon produit" que les programmes de promotion réussis, sont passés d'une phase réactive à une phase active.

PRINCIPALES DECOUVERTES

Le présent rapport fait une première évaluation du "bilan" du climat des affaires d'Haïti. Ce rapport évalue la base économique, politique, institutionnelle et des ressources naturelles sur laquelle les affaires et les exportations pourront être promues à Haïti. Une évaluation objective des possibilités et contraintes existantes pour faire des affaires à Haïti, pourra ensuite servir de cadre à la conception d'un programme de promotion efficace des affaires et des exportations.

Une des découvertes frappantes de cette étude est que le climat des affaires actuel d'Haïti n'est pas favorable à

l'expansion des affaires ni à l'exportation. Les principales contraintes ne sont pas les taxes élevées ou les réglementations excessives rencontrées à tous les niveaux comme dans de nombreux autres pays en voie de développement, mais sont principalement associées aux coûts élevés et à la mauvaise qualité des services monopolisés par le gouvernement tels que la manutention portuaire, la douane, l'électricité et les services de télécommunications. Ces problèmes de même que l'instabilité politique, mauvaise image d'Haïti à l'étranger, ainsi que les relations professionnelles limitées ont eu l'effet combiné de faire d'Haïti un endroit non rentable et indésirable pour faire des affaires.

Quoique ces contraintes puissent être résolues, leur importance suggère que tout effort fait pour promouvoir Haïti comme un site d'affaires devrait d'abord se concentrer sur l'amélioration du climat des affaires d'Haïti avant de se lancer dans n'importe quelles grosses campagnes de promotion à l'étranger. En fait, une forte promotion d'Haïti ou des produits Haïtiens à l'étranger pourrait même s'avérer contre-productif à court terme, jusqu'à ce que le climat des affaires permette au "produit Haïtien" d'être plus compétitif. Une promotion prématurée pourrait créer de faux espoirs ou attirer l'attention sur un bon nombre d'imperfections du site d'investissement ou d'exportation.

Les efforts déployés dans le passé par PROMINEX¹ pour promouvoir les investissements et les exportations à Haïti n'ont pas donné de résultats significatifs, en partie parce que le climat politique et des affaires n'était pas favorable à la promotion. Pour réussir, tout nouveau programme de promotion des affaires et des exportations à Haïti doit d'abord concentrer la plupart de ses efforts et de ses ressources sur l'amélioration du climat des affaires avant de lancer un programme de promotion actif à l'étranger.

La situation politique actuelle d'Haïti offre l'espoir nouveau de pouvoir opérer dans un climat plus stable. Quoique le nouveau gouvernement ne soit peut-être pas très sensible aux besoins des entreprises, avoir au moins un gouvernement démocratique plus stable et légitime offre la possibilité d'avoir "des règles du jeu plus claires". De nombreux hommes/femmes d'affaires à Haïti, reconnaissent les possibilités qui leur seraient offertes s'il y avait une structure politique plus stable, mais attendent également des signes plus clairs d'encouragement de la part du gouvernement pour investir ou accroître leurs opérations.

L'augmentation récente du salaire minimum de 67% est un signe du gouvernement qui, en général, n'a pas été bien reçu par les milieux d'affaires d'Haïti. Bon nombre de chefs d'entreprises craignent que cette importante augmentation du salaire minimum entraîne les ouvriers semi-spécialisés et spécialisés à demander

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Centre Haïtien de Promotion des Investissements et des Exportations.

une augmentation de salaires que les sociétés ne pourront pas payer, vu la structure de coût élevé à Haïti pour les facteurs de production non liés à la main d'oeuvre tels que les taxes portuaires, l'électricité, et les télécommunications.

Le cadre macro-économique pour la promotion des affaires et des exportations justifie les arguments en faveur d'un programme de haute priorité qui créerait des emplois et améliorerait les conditions de vie à Haïti. Haïti possède le revenu par tête d'habitant (PNB) le plus bas de l'Hémisphère Ouest, à savoir 360 dollars Américains par personne. Actuellement, les taux du chômage et du sous-emploi en sont tous deux à 70%. En outre, près de 6000 à 7000 emplois dans la chaîne de montage ont été supprimés au cours des cinq dernières années. Le volume des exportations a stagné de 1985 à 1989, puis a fortement baissé en 1990. Les déficits de la balance des paiements courants ont augmenté et atteignent actuellement 280 millions de Gourdes par an. L'investissement privé a diminué de près de 50% au cours des deux dernières années. Tous les indicateurs économiques ont souligné le besoin de créer aussi rapidement que possible d'importantes nouvelles possibilités d'emplois et d'accroître les recettes en devises d'Haïti. Pour ce faire, il faudra déployer un effort concerté sur plusieurs années afin d'améliorer le climat des affaires. Cette amélioration du climat des affaires permettra aux entreprises de se développer et de créer de nouvelles possibilités d'emplois.

Le bilan de ressources économiques d'Haïti comporte beaucoup de passif dans le domaine des infrastructures. Le port est inefficace et le deuxième le plus cher de la région. Peu de lignes de fret et de bateaux de croisières desservent actuellement Haïti. L'électricité est une contrainte majeure pour toutes les entreprises; ses coûts sont extrêmement élevés et les coupures de courant, fréquentes. A Port-au-Prince, les routes sont en général en mauvais état et les embouteillages, inextricables. Haïti possède des avantages limités pour ce qui est des ressources naturelles; le pays a peu de dépôts minéraux, les terres sont déboisées et les sites touristiques se sont détériorés.

Le bilan net d'Haïti en tant que site pour faire des affaires n'est pas actuellement très positif, mais il existe plusieurs avantages-clé qui indiquent des avantages comparatifs qui pourront être utilisés pour des efforts de promotion visés, à mesure que s'améliorera le climat des affaires. Un des avantages-clé d'Haïti est que ce pays peut fournir une main d'oeuvre disciplinée en grande quantité, à prix relativement compétitif. L'accès au marché est également un avantage-clé, puisque l'emplacement d'Haïti et le statut spécial du commerce en font un endroit potentiellement compétitif pour des activités d'exportation à forte intensité de main d'oeuvre vers le marché énorme et croissant de l'Amérique du Nord.

Etant donné la taille limitée et les tendances de revenus contraintes du marché local, comparé à un marché mondial pratiquement illimité pour Haïti, il semble évident que tout effort

visant la création rapide de nouveaux emplois proviendra des entreprises d'exportation. Le secteur d'assemblage pourrait être compétitif dans les sous-secteurs à forte intensité de main d'oeuvre si les conditions des infrastructures sont améliorées et leurs coûts plus concurrentiels. Le tourisme pourrait également reprendre avec une stabilité politique, une meilleure sécurité et la disparition de la peur du SIDA. L'agroindustrie a permis d'identifier plusieurs secteurs spécialisés où Haïti possède un avantage comparatif.

Les revenus provenant du secteur de l'exportation engendreront à leur tour la demande et la production nationale. On estime que pour chaque emploi créé dans le secteur de l'exportation (assemblage, tourisme, agroindustrie), il y a 1,5 emplois supplémentaires soutenant des emplois créés dans l'économie locale dans des domaines tels que l'industrie alimentaire, la construction, les transports et le système bancaire. Puisqu'à Haïti, chaque emploi alimente environ 5 à 7 personnes, chaque emploi lié à l'exportation (y compris son multiplicateur d'emploi local) alimente 12 à 18 personnes.

Du point de vue institutionnel, il existe de nouvelles possibilités d'une énorme participation et de discussions cumulatives sur des problèmes touchant le secteur privé. Dans le passé, les associations du secteur privé ont été soit politisées, comme la Chambre de Commerce, soit il y a eu de sérieuses différences ou fragmentation parmi ou au sein de ces associations. Les tentatives passées d'unifier le secteur privé afin qu'il parle d'une seule voix n'ont pas beaucoup réussi (par exemple le FHASEP), mais des événements récents tels que la préparation du Livre Blanc sous la direction de l'APB suggèrent que de vastes discussions et accords sur des séries de problèmes communs contraignant le secteur privé seraient bien plus possibles dans le climat actuel.

PRINCIPALES RECOMMANDATIONS

1. L'USAID devrait soutenir un programme de promotion des affaires et des exportations qui se concentrerait d'abord sur l'amélioration du climat des investissements, tout en aidant à éliminer les contraintes qui freinent le plus la rentabilité et l'expansion des affaires. Ce programme devrait avoir deux objectifs: (i) améliorer le climat des affaires par le biais de la réforme et/ou de la privatisation des services fournis par le gouvernement; et (ii) la fourniture d'assistance directe en matière de services commerciaux aux entreprises d'Haïti par le biais d'une institution d'appui à l'entreprise.
2. Ces efforts devraient principalement être canalisés par une institution d'appui à l'entreprise orientée sur les services. A Haïti, les organisations privées orientées vers les services, qui ont fait preuve de beaucoup de succès et sont devenues plus ou moins financièrement auto-suffisantes sont les candidats susceptibles de fournir ces services. Un bon

nombre d'activités du projet, notamment dans le domaine de la réforme des politiques seront données en sous-traitance à d'autres institutions, entreprises ou individus ayant une expertise plus spécialisée. Le programme de promotion des affaires devrait être conçu après avoir fait une enquête sur les besoins des milieux d'affaires dans les domaines de l'information sur les affaires, du soutien à l'entreprise, de la recherche de solution aux problèmes et des services de marketing.

3. Dans le cadre du projet, il faudrait encourager les initiatives de réforme du secteur privé au niveau des politiques par le biais de forums offrant une interaction directe et de haut niveau entre le secteur privé et le gouvernement, comme le Conseil des Présidents et un "Comité Mixte" reconstitué.
4. Il faudrait encourager le secteur privé à largement participer et à diriger ce projet. Par le biais du Conseil d'Administration des institutions d'appui à l'entreprise et par celui du Conseil des Présidents, on pourrait obtenir une large participation à l'analyse des politiques et à la conception de stratégies relatives à la croissance du secteur privé.
5. Encourager la réforme, la restructuration (y compris la corporatisation ou la privatisation) et en cas de besoin, la recapitalisation des infrastructures étatisées: l'électricité, les télécommunications et le port.
6. Etudier la faisabilité de Zones Franches Industrielles gérées par le secteur privé à Haïti. Si les résultats de faisabilité sont positifs, encourager le développement des Zones Franches Industrielles Privées à Haïti. Un environnement axé sur le marché ayant des infrastructures de haute qualité, à coût concurrentiel et privées, pourrait encourager rapidement des investissements de main d'oeuvre ainsi que les exportations.

I. INTRODUCTION

A. Purpose of Study

The purpose of this study is to provide USAID/Haiti with some strategic options on new directions for the Haiti Export Promotion and Investment Project. The Office of Private Enterprise (OPE) of USAID/Haiti requested this study to examine and assess possible new initiatives in the Export and Investment Project (521-0186), with a view towards proposing elements of a redesign of the project to take into account Haiti's present and prospective economic and political situation.

The project began in 1986 and its current completion date is May 1991. The project has an authorized funding level of \$7.7 million of which \$5 million has been obligated to date. Since the project's planned life is due to end soon, the Mission determined that it was necessary to reassess the project and USAID's role in the promotion of the business and exports in Haiti.

It is intended that this study provide a useful set of strategic options which can be used as a starting point for the design of the amended project. It is intended to be a "forward looking" document and not an evaluation of the ongoing project. It is expected that the study will help to guide the efforts in Haiti to encourage business and exports, deepen private sector policy dialogue with the new government and foster greater private sector integration.

B. Methodology

The study team visited Haiti from April 22 1991 to May 2 1991. During their time in Haiti, the team met with and held discussions with a total of 21 business managers from firms involved in the light manufacturing, agribusiness and tourism sectors. The team also met with 12 different private sector associations, two high-level government officials and the PROMINEX staff and Board. A list of people interviewed is provided in Annex 1.

The team conducted oral interviews with the business people using an informal survey instrument designed to obtain information on such items as company size and characteristics, work force, current obstacles and constraints, local sourcing opportunities, and future plans. A copy of the survey instrument used is provided in Annex 2.

Firm-level data was tested and cross-verified by the study team against macroeconomic and trade data, and cross-country competitiveness data from SRI International.

The emphasis of the study team was placed on listening to business people, learning about their problems and constraints, and looking for solutions to the problems.

II. ANALYSIS OF PRESENT PRIVATE SECTOR CLIMATE

A. Current Political Environment

Haiti's political climate has been very poor, and is considered to have been an important hindrance to improved business performance. With the election of a new President by an overwhelming majority in a free and fair process, it is hoped that the legitimacy of the new government should also bring new-found political stability and an end to civil unrest.

Apart from a few Central American nations and Surinam, Haiti's political situation has been among the worst in the Western Hemisphere. Over the past five years, Haiti's political climate has been characterized by severe instability and concomitant civil strife. In this environment, already poor government services and management deteriorated, local businesses became increasingly extremely hesitant to invest, while many foreign investors and customers moved to other markets.

Since the fall of the Duvalier regime in February, 1986, which was preceded by several months of civil unrest, Haiti has had six governments. The democratic process which was the objective of the National Governing Council that followed Duvalier's fall was interrupted by three political coups. However, the democratic process was restored with the election of President Reverend Jean-Bertrand Aristide, in December, 1990 and his inauguration in February, 1991.

It is not yet fully clear what the economic policy of the new government will be, however, it is clear that social justice is the highest priority of the President. Moreover, the government lacks experience and strong capabilities in economic and private sector policy making. The private sector is distrustful of the strident populist tone of the government, while the government seems to consider private sector concerns a low priority relative to increasing rapidly the welfare of the impoverished majority. Indications of the government agenda are becoming more apparent, including price controls on food staples and most recently, the dramatic 67 percent increase in the minimum wage. On the other hand, the government is committed to eliminating government waste and corruption which are important private sector priorities, as it should help to lower the cost of important services such as ports, telecommunications and electricity. Already the government has eliminated 2000 jobs from the bloated payrolls of state enterprises.

The private sector intends to work with the government to improve the economy. A White Paper on economic policy was written and submitted to the government under the leadership of the Private Bankers's Association but with the participation of the sixteen

most important private sector associations (see Annex 3). The paper presents a logical market-based outward-oriented economic strategy. While, the new government does not yet seem to totally share the views presented in the paper, the writing of the paper should be considered an encouraging development in itself, as all of the major private sector groups were involved in a pluralistic and consensus-building approach. Previously, the relationship between private sector groups was marked by divisiveness and mistrust. While it is still a fragile situation, there is increased evidence that the private sector is willing to conduct its political activities in a more open and collaborative manner, and thereby present a more legitimate and unified voice on economic and private sector policies.

B. Private Sector Policy Environment

Weak policy implementation and management of state owned enterprises, resulting in high cost and low-quality provision of government monopolized services, including electricity, telecommunications, and port services, have been a much more important obstacle to private sector development than the policy climate itself. Relative to other competing developing nations, government economic policies and regulation has been relatively supportive. Taxes are relatively low, and government interference and regulation of business activities is not excessive, although government regulation in the past has been characterized by corruption, which resulted in unequal treatment. Moreover, policies do not impede firms' access to the factors of production (labor, intermediate inputs and capital) except in the foreign exchange area, where exporters are required to sell 40 percent of their foreign exchange earnings at the official exchange rate of 5 gourdes per US\$, compared to the free market rate of over 7 gourdes per US\$. In addition, it is not clear whether the "chiffres d'affaires" sales tax, imposed on all imports, is reimbursable for exporters.

Apart from the current exchange rate policy, which acts like a tax on exporters, there are some other areas of where private sector policy needs to be improved. For example, it is much more important at this time to improve the provision of currently government supplied services, possibly through the corporatization or privatization of government provided services, including electricity, telecommunication and even eventually the port and customs clearance.

As mentioned above, it is not yet clear what the new government's economic policy will be. However, evidence is mounting that it may move away from the market-based reforms implemented progressively over the post-Duvalier regime. The recent 67 percent increase in the minimum wage could have a significant negative impact on Haitian competitiveness in export

markets, and will probably also fuel an acceleration in the inflation rate, and depreciation of the exchange rate. Moreover, it will probably lead to a significant increase in unemployment, as firms are unable to cover increased labor costs. Further measures that severely distort prices away from market levels will hurt the economy, and contravene the government's objective to improve the living standards of the poor.

C. Macroeconomic Setting

Haiti's economy has been stagnant for the past decade, and deteriorated sharply in 1990. Real GDP decreased by about 7 percent between 1980 and 1989, while the population increased by about 12 percent to about 5.6 million persons. Per capita income, at less than \$350, is the lowest in the Western Hemisphere when evaluated at the free market exchange rate. With such a low income, the size of the economy is very small, totalling about \$1.5 billion, about half that of the Bahamas whose population is 5 percent of Haiti's. This minimal local market provides little effective demand for the local private sector growth.

The deterioration of the economy is widespread. Agriculture production, upon which 80 percent of the population depends for their economic livelihood, has declined on average about 3 percent per year since 1980, and now accounts for only about 1/4 of the economy as opposed to 1/3 at the beginning of the decade. The manufacturing sector has lost at least 7000 jobs in the past five years, due to both declining domestic demand and more recently deterioration in the export assembly sector. Tourism revenues which totalled about \$220 million at the beginning of the decade have fallen by a fifth, due to fears about civil unrest and the prevalence of AIDS.

While the economy has stagnated over the past decade, the situation has deteriorated sharply over the past year. Private Investment has fallen by 50 percent since 1988, while exports fell by one-third in 1990 from 1989 levels. In addition, inflation which was remarkably low throughout the 1980's, has accelerated sharply reaching 30 percent in 1990, compared to an average of zero percent in the preceding ten years. This unprecedented rise in prices is due to a rapidly expanding fiscal deficit (5 percent of GDP in 1989) that has been largely monetized and to the accelerated rate of devaluation which has increased the cost of imported goods.

External performance is also worsening due primarily to political instability and the deteriorating business climate. As mentioned above exports have dropped by a third in 1990 alone, and almost by 50 percent since 1987. With tourism receipts also weak, foreign exchange reserves remain at precariously low levels. As of October, 1990, they totalled less than \$6 million, equal to 10 days of imports. Imports have also been compressed as a result of

stagnant local demand and the need to husband scarce foreign exchange. Imports in the fiscal year of 1989-90 had fallen by 35 percent compared to 1984 levels.

D. Export Potential

While Haiti's poor export performance is a principal cause of the country's economic woes, it should be noted that the potential for increased growth is very large. The U.S. market for labor intensive assembly products has grown dramatically over the past decade. If Haiti had simply been able to maintain its market share, assembly exports would be about four times greater than current levels, resulting in four times more jobs in the assembly sector alone.

As Table II.1 indicates, between 1980 and 1987 exports to the United States under the 807 program from less developed countries (excluding Mexico) grew by over 220 percent, while Haiti's 807 exports grew by less than 50 percent. In comparison, the Dominican Republic's 807 exports increased by 400 percent. If Haiti had maintained its market share of US 807 imports, the domestic value of 807 exports to the U.S. would have been \$156 million compared to \$68 million.

TABLE II.1

COMPARING HAITI'S 807 EXPORTS TO THE U.S.A.
WITH OTHER DEVELOPING COUNTRIES
(Dutiable, \$ Millions)

	<u>1980</u>	<u>1984</u>	<u>1987</u>
LDC's less Mexico ¹	2003	4015	6446
Haiti	48.5	62.3	68.1
Market Share	(2.4%)	(1.6%)	(1.1%)
Dominican Republic	31.5	61.6	134.4
Market Share	(1.6%)	(1.5%)	(2.1%)

Source: U.S. International Trade Commission, SRI International

¹ Mexico is excluded because its 807 exports include a large proportion of capital intensive goods such as automobiles which are not comparable with Haiti's 807 exports.

Since 1987, apparel and electronic exports, which make up the vast majority of 807 exports of Haiti, from the Caribbean to the U.S. have increased by 70 percent, while Haiti's exports of these products actually decreased by 7 percent. If Haiti had been able to implement and maintain a more competitive and secure environment for exporters, it would have been able to enjoy a substantial portion of this increase in labor-intensive exports from the Caribbean. Assuming that Haiti could have at least enjoyed a 50 percent increase, Haiti's domestic value-added from assembly exports could have been over \$225 million in 1990, instead of estimates of about \$60 million. In sum, if Haiti had simply come close to maintaining its competitive position in the U.S. market for assembly operations, the country would have had over four times its current foreign exchange earnings from the sector.

If employment increased at the same rate as exports, which is likely since domestic value-added of these goods is almost exclusively labor, then employment in the assembly sector would currently be around 160,000, instead of 40,000. Given that each job in the export sector is estimated to directly and indirectly generate 1 1/2 other jobs, the additional 120,000 jobs in the assembly sector that Haiti could have had if had maintained its market share in the U.S. market, would have resulted in another 180,000 jobs, or an additional 300,000 jobs compared to the current situation.

III. COMPETITIVE FACTORS BALANCE SHEET

A. Natural Resources

Location

With its proximity to mainland United States, Haiti is well located to serve a large regional market in a timely fashion even with perishable food items. Haiti is only 740 miles from Miami and less than two hours flying time away. Nonetheless, this geographical advantage is shared by many other Caribbean and Central American competitors, including both Mexico and Cuba which are even closer to the United States.

Haiti is also directly adjacent to the Caribbean cruise traffic which has grown dramatically in recent years. At present only three cruise liners stop in Haiti per week, and only on the island off Cap Haitien. Haiti has been a more popular stop in the past. With minimal improvements in infrastructural facilities and welcoming services, Haiti could yet again tap into the busy Caribbean cruise traffic for tourism development.

Agriculture

Although the land resources in Haiti have been seriously depleted by deforestation, there remains extensive uncultivated land which is potentially productive in growing fruits and vegetables for export. The growing season apparently is well suited for cultivating tropical fruits and winter vegetables. Irrigation water is also reportedly available, although salinity is not well known. The difficulty involved in gaining title to land due to insufficient records of inter-generational land transfer was noted as a barrier in the expansion of agribusiness enterprises. Agribusiness entrepreneurs have expressed interest in obtaining more detailed information on micro-climates and local soils conditions for growing a wide variety of high value specialty fruits and vegetables for export.

Travel

Natural beauty is often a primary attraction to tourists. Unfortunately, some of Haiti's natural beauty, wildlife, and marine life has been lost due to deforestation. Most of the interesting historic sites and architecture suffer from the deterioration of preservation. Urban areas are kept reasonably clean, but few buildings are well-painted or maintained, giving an overall impression of negligence.

Table III.1 depicts the natural resources indicators for the past decade. With tourist visits declining the stock of beds available at international travel standards has dropped by nearly half. Occupancy rates are also significantly reduced. Beyond their implications on tourism development, appropriate accommodations and pleasant surroundings play an important role in international business today. International buyers and investors expect excellent accommodation, pleasant natural and urban surroundings, and reliable telephones and electricity. These conditions are especially important for business owners and operators who are considering long term relocation of their families to Haiti.

Raw Materials

Production of cotton, once the predominant raw material in Haiti, has generally been discontinued. A new textile plant plans to import cotton to manufacture towels. The fiber used by local handicraft stores is available locally, mainly gathered from individual suppliers. Unfortunately, it has been reported that in some cases, the concern for the drivers' safety has curtailed the gathering of raw fiber in the countryside.

Poor in size and quality, the reserves of mineral deposits in Haiti cannot be recovered economically compared to international sources of, for example, bauxite and white clay. At present, mineral extraction is limited to quarrying of limestone for local cement production, and sand, gravel and stone for local construction. The production of red clay for bricks, pottery, and tiles is not widely observed.

B. Labor

Labor Resources

Our interviews indicated that a high proportion of skilled labor is employed in light manufacturing production in Haiti. Due to the high unemployment rate, a large pool of skilled and semi-skilled workers is available. Annual labor turnover rates ranged from a low of less than 5 percent to a high of 70 percent. Cases of high turnover are often attributed to the firing of uncooperative workers, many of whom desire to be fired so that they could receive severance pay (ranging from 15-days pay after 3 months to 90-days pay after 6 years). Absenteeism for those firms interviewed ranged from 3% to 10%. Few reported significant union activities, although many expressed uncertainty about the future of labor relations. Many of those interviewed noted that since the pensions and insurance programs financed by payroll deduction are now defunct, firms need to replace it by a minimal program of medical care and personal loans to meet the needs of the factory workers.

TABLE III.1

TRAVEL RESOURCE INDICATORS

	85	86	87	88	89	90
Int'l standard beds available (number)	3,000	3,000	2,500	2,500	2,400	2,400
Occupancy rate (%)	55	35	35	35	35	40
Expenditure/visitor day (US \$100)	-	-	-	125	125	125
Rental car fleet (100)	4	5	5	5	5	5

Source: Prominex Haiti

- Data not available.

Employment in both export assembly plants and production plants for the local market have dropped in recent years. Although no realistic official estimate is available, unemployment is believed to be in the range of 50 percent. Some of those interviewed noted that given the high unemployment rate, each employed factory worker probably supports another 5 to 7 people. Per capita GDP in Haiti has declined in the last few years and is currently the lowest in the Western Hemisphere, although some believe both per capita GDP and employment have been underestimated due to the unreported activities in the informal sector.

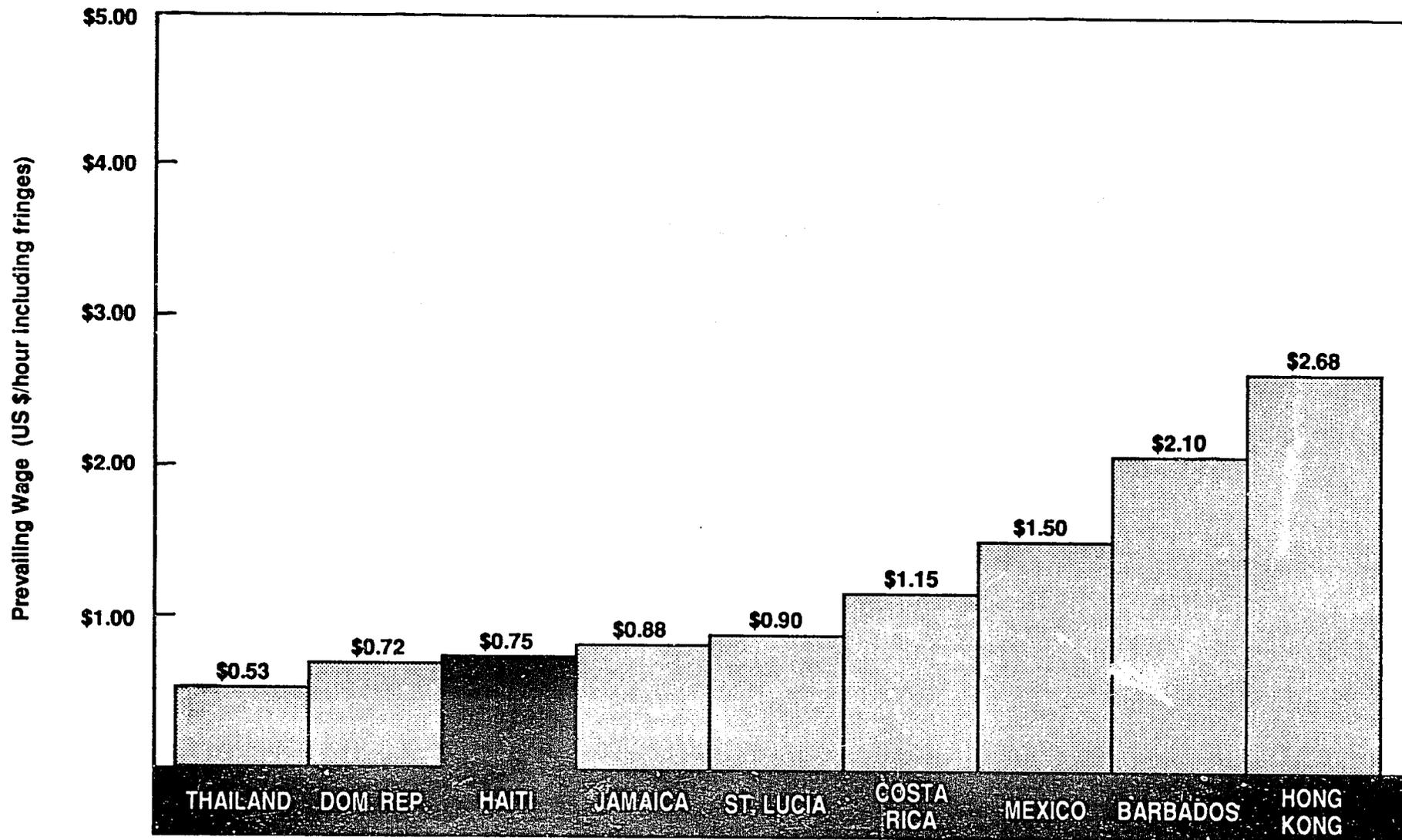
Wage Rates

The low wage rates in Haiti have been its primary competitive advantage as a business location. Until May 1, 1991, the prevailing loaded light manufacturing wage of \$0.58 per hour was the lowest among its Caribbean competitor countries. The new wage bill effective May 1, which raised the minimum wage by 67 percent, is likely to push up prevailing light manufacturing wages by an estimated 70 percent in US\$ terms.¹ At a higher loaded average wage of approximately \$0.75, Haiti's manufacturing wage will be higher than in the Dominican Republic by 4 percent, but will remain lower than in Jamaica (by 15 percent), Costa Rica (by 35 percent), Mexico (by 50 percent), and Barbados (by 64 percent). The wage comparison is depicted in Figure III.A.

After adjusting for labor productivity differences, wages in Haiti will be 15 percent more expensive than in the Dominican Republic, but remain competitive compared to other Caribbean competitors. See Table III.2 and Figure III.B.

The recent minimum wage hike is not a very encouraging signal to many business leaders in Haiti. A smaller increase would have been more in line with the supply and demand situation, but a 67 percent increase and the likely spiraling effects on semi-skilled and skilled workers wage expectations are likely to push demands to levels beyond what the many industries in Haiti will be able to bear. With wage costs composing approximately 70 percent of total manufacturing costs in labor-intensive industries, and given that Haiti's competitive advantage lies predominantly with its low wages, the new wage bill is expected to reduce the overall competitiveness of Haiti.

¹ SRI's estimate of the likely outcome of management-labor negotiated wage settlements for prevailing semi-skilled labor in the light manufacturing sector in Haiti.



Source: SRI International

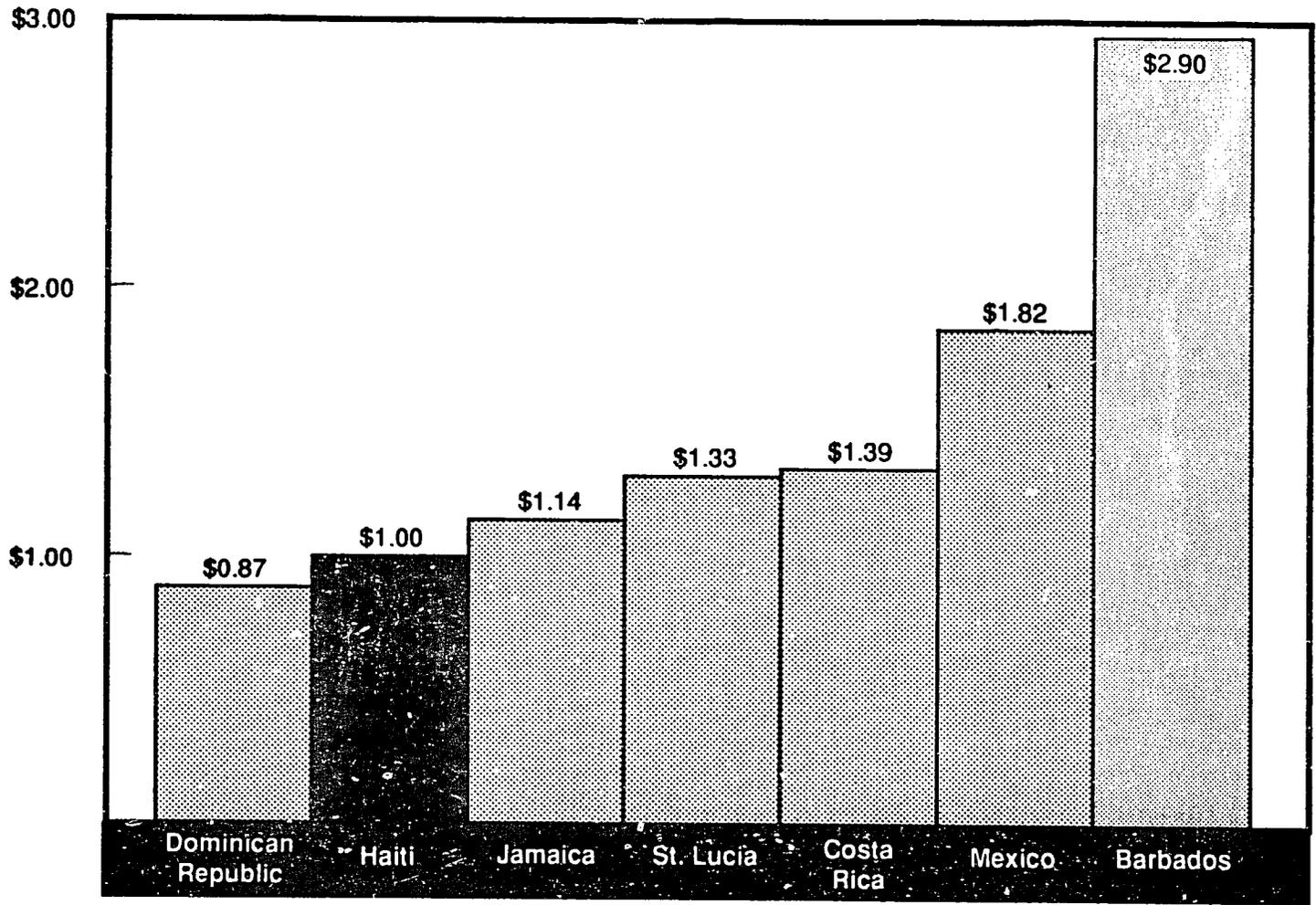
Figure III.A LABOR COSTS IN HAITI AND COMPETITOR NATIONS

TABLE III.2

COMPARATIVE LABOR PRODUCTIVITY
FOR LATIN AMERICAN AND THE CARIBBEAN COUNTRIES

<u>Country</u>	<u>Average Labor Productivity (Percentage of U.S.)</u>
Antigua	60-65%
Bahamas	65-70%
Barbados	70-75%
Belize	60-65%
Dominica	55-60%
Grenada	60-65%
Guyana	55-60%
Jamaica	75-80%
Montserrat	65-70%
Netherlands Antilles	60-65%
St. Kitts & Nevis	60-65%
St. Lucia	65-70%
St. Vincent & the Grenadines	65-70%
Trinidad & Tobago	70-75%
Puerto Rico	85-90%
Costa Rica	80-85%
Dominican Republic	80-85%
El Salvador	55-60%
Guatemala	75-80%
Honduras	70-75%
Mexico	80-85%
Panama	75-80%
Haiti	75%

Source: Bobbin International. Bobbin investigators collected data from individual country investment promotion organizations. No attempt has been made to standardize the estimates.



Source: SRI International

Figure III.B PRODUCTIVITY ADJUSTED WAGE COMPARISON*

* Prevailing average semi-skilled wage cost in developing countries (including fringe benefits) in US \$ per hour needed to produce one unit of products which would be produced by US labor in one hour of work. (e.g., for Haiti \$0.75 75% of US productivity)

The garment manufacturers are an example of the most competitive, lowest-margin industries in Haiti. A sizeable increase in their wage bill could force many of them to close down their operations in Haiti and in some cases move offshore to a more profitable location. A wage hike also could mean potential labor management problems, as marginal firms that are unable to pay the higher wage may have to reduce capacity and lay off workers.

While many companies interviewed were able and prepared to accept a smaller wage increase in the order of 20-45 percent, there is widespread concern in the manufacturing sector that the 67 percent wage increase will lead to higher wage demands at the higher skilled and semi-skilled levels leading to overall wage increases in the range of 20-50 percent. These wage cost increases, unless accompanied by offsetting adjustments or movements in the exchange rate, could well place Haiti in a precarious competitive position in the international marketplace. The higher labor costs, although still relatively competitive in the regional market, add to the already high cost structure of Haiti related to the high port charges, expensive electricity costs, and costly telecommunications.

Labor Quality

A high unemployment rate in Haiti keeps unskilled labor in abundant supply. Although the adult literacy rate in Haiti ranks bottom among the CBI countries, the Haitian work force is reputable for their diligence and excellent work ethics. The lack of formal education is compensated by their ability to learn and develop the necessary skills. Labor-management relations are sometimes strained and need improvements. Strikes are not uncommon in the industrial parks. There are about 10 items in the labor code which are ambiguous and are a constant source of labor-management friction. Labor turnover rates are reportedly higher than in Costa Rica and Puerto Rico, but below that of Mexico and the Dominican Republic.

A predominantly Creole speaking labor force puts Haiti at a disadvantage compared to English-speaking Jamaica. Although at the top management level there are entrepreneurial Haitians with good English speaking skills, the lack of capable middle managers constrains growth in manufacturing industries. Drawn mostly from the labor force, middle managers often lack both management and English skills, and tend to side with labor when disputes arise.

C. Capital Resources

For a developing country with such a low level of per capita income and consequent low level of savings, Haiti has a relatively diversified, efficient and competitive financial system that is

dominated by commercial banks. Since there are no operating capital markets aside from the very exceptional cases, only credit finance is available. Most of this credit is short-term, reflecting the short-term nature of the deposit base, which could be attributed to the unstable political climate and legal environment in which payment must be secured. With a scarcity of long-term credit and the absence of capital markets, the vast majority of business investment must be in general self-financed or provided through partnerships. Medium-term credits that can be used to finance equipment are often provided as short-term credits that are rolled over.

There are eight operating commercial banks, four of which are branches of large multinational banks, two are private locally-owned, and the remaining two are state-owned. In addition, there are two mortgage banks and one development bank. There is also a large number of smaller financial institutions in the informal sector that provide domestic and international financial services for small transactions.

For the vast majority of firms operating in the export sector, the availability of financial services and access to credit is considered to be adequate. No firms interviewed mentioned access to finance as an important obstacle. This is due in large part to the relatively less capital-intensive nature of assembly operations. Manufacturing operations in Haiti rely almost exclusively on short-term working capital finance which the Haitian financial system is capable of providing.

Interest rates in Haiti were controlled until 1989. The rates were positive in real terms when the level of inflation is low. With rising inflation in 1989, interest rates were partially liberalized, but an interest rate ceiling of 22 percent was left unchanged. As inflation reached 40 percent in some months in 1990, real interest rates plunged to sharply negative terms. However, even with low real interest rates, demand for credit from the private sector remains stagnant due to weak overall economic demand.

D. Infrastructure

Electricity and Energy Costs and Supply

Haiti's major competitive disadvantage lies with its expensive and unreliable supply of utilities and infrastructural services. At a rate of \$0.15/kwh charged by Ed'H (the state-owned electricity company), electricity cost in Haiti is the highest among its Caribbean competitor countries. It is 36 percent above that in Barbados, and more than 90 percent higher than in Costa Rica, Jamaica, Mexico, Puerto Rico, and the Dominican Republic.

See Figure III.C for a comparison of the electricity costs in Haiti and its competitor nations.

From the firm's standpoint, however, the cost of electricity is secondary to the reliability of supply, as electricity charges typically comprise only 5-10 percent of operating costs, while a reliable source of electricity supply is critical for a continuous assembly operation to meet shipment deadlines. Frequent black-outs put Haiti at a major disadvantage against Costa Rica, which enjoys a reliable and abundant supply of hydroelectric power. The frequency of the power outages, averaging 4 hours every day, is comparable and possibly worse than that experienced in the Dominican Republic. Moreover, while recent legislative changes in the Dominican Republic have allowed for private generation and sale of electricity in the free zones, no action is being taken in Haiti to ease the load on public power supply.

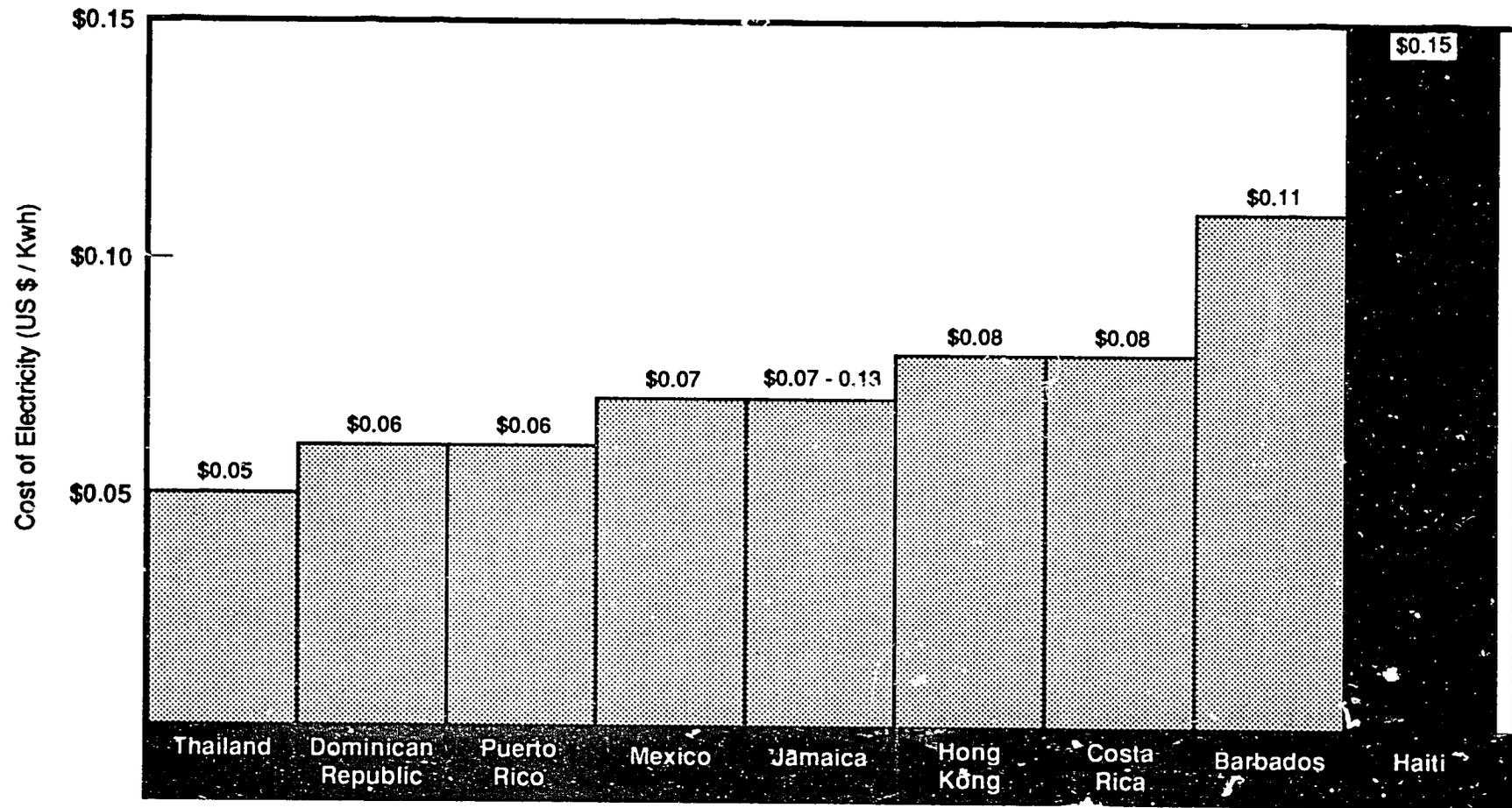
With power outages as the daily norm, and unmetered drawing from the grid reportedly widespread, every manufacturing operation interviewed has resorted to purchasing and using back-up power generators as a regular and reliable source of electricity supply. Many expressed the concern that since the generators were designed as a standby facility, continuous use would greatly reduce their useful lives and add significantly to the cost of electricity. It is estimated that the use of back-up generators has raised the cost of electricity supply to at least \$0.16-\$0.17/kwh, somewhat above the \$0.15/kwh rate charged by Ed'H.

The high costs and unreliable supply of electricity is the direct consequence of poor management of the state-owned monopoly, Electricité d'Haiti (Ed'H). It has been reported that up to 60 percent of the current users are not paying for their supply and no penalties are applied. The high direct costs of electricity and the time cost on enterprises for having to operate their own generators have combined to seriously reduce Haiti's competitiveness in manufacturing operations.

While consumption of petroleum has stagnated as economic activity has slowed, imported fuel continues to account for a large share of foreign exchange expenditure. Export earnings are controlled to provide foreign exchange at the official rate for fuel purchases, which in effect subsidize fuel consumers and encourage inefficient consumption. See Table III.3 for fuel consumption in Haiti between 1982 and 1989.

Telecommunications

Our field visits to operating plants indicate that multiple telephones, modern fax machines and computers are indeed used as an integrated part of local business operations. However, private sector interviews yield unanimous agreement about the deteriorating



Source: SRI International

Figure III.C COST OF ELECTRICITY COMPARISON FOR HAITI AND COMPETITOR NATIONS

TABLE III.3

ENERGY CONSUMPTION IN HAITI

	1982	1983	1984	1985	1986	1987	1988	1989
Diesel Fuel Consumed/Year (1000tons)	681	732	728	704	688	794	842	959
Gasoline Consumed/Year (1000tons)	449	331	387	382	380	421	430	479

Source: Prominex Haiti

quality and availability of telephone service in Haiti. Some firms complained of telephone lines being out of service for months and have stopped trying to send or receive faxes. Others reportedly had to wait months to have additional lines installed. Some businesses have resorted to doing all business on incoming calls on prearranged schedules. Many expressed an interest in installing private satellite systems to provide reliable international lines to themselves.

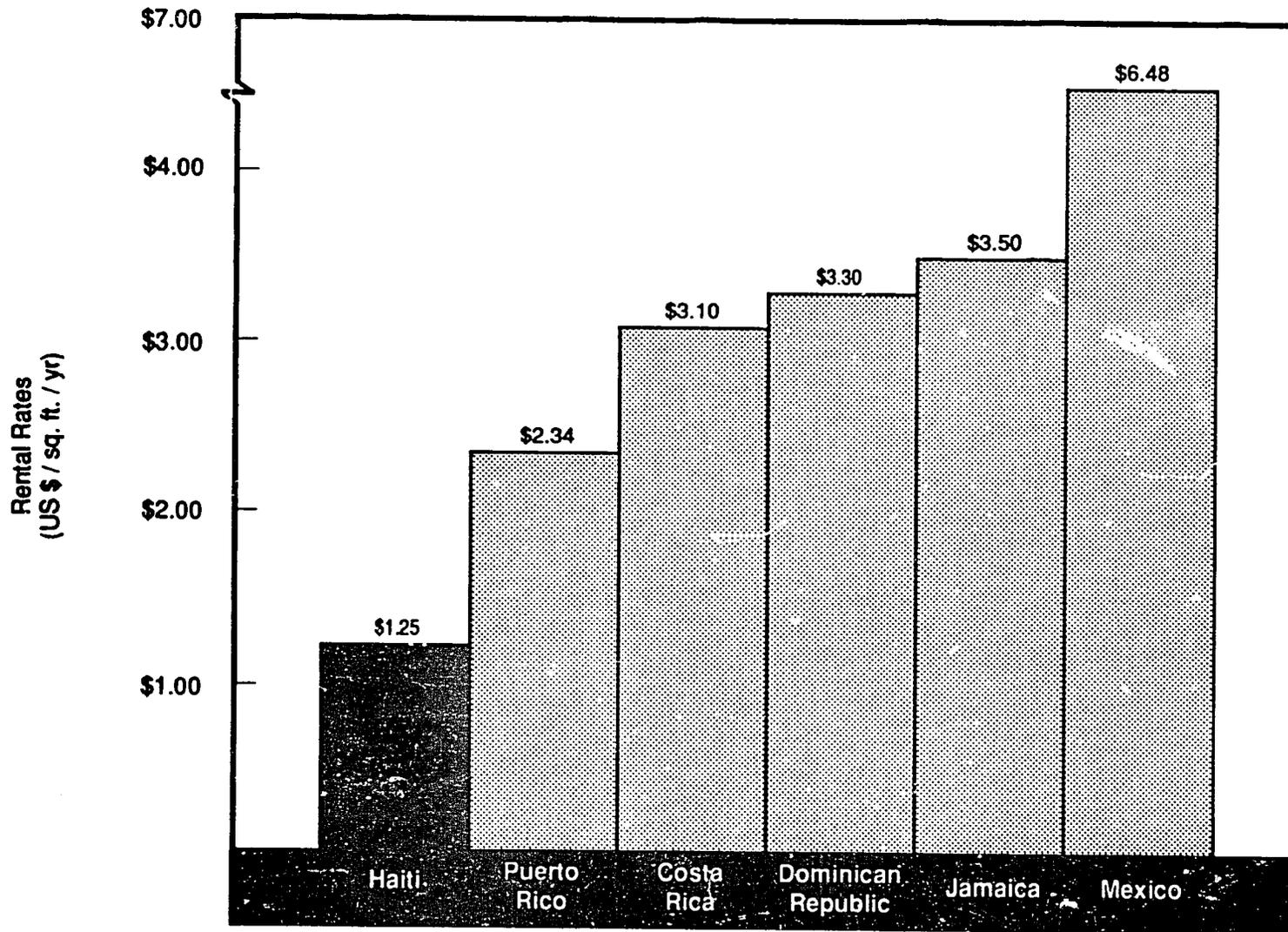
With business becoming increasingly global and modern manufacturing increasingly dependent on frequent communications between buyers and contractors, unreliable telephone lines and poor quality facsimile transmission interferes with day-to-day business operations. Further, the deteriorating telecommunications system reinforced an the general perception of Haiti as an unreliable supplier to potential customers and investors.

Rental Rates and Facilities in the Industrial Parks

After the recent rent reduction, rental rates in Haiti's Industrial Parks are very cost competitive compared to its Caribbean competitor free zones. As indicated in Figure III.D, the prevailing average rate of \$1.25/sq.ft./year is \$1.09 less than in Puerto Rico, \$1.85 below that in Costa Rica, at least \$2.00 cheaper than in the Dominican Republic and Jamaica, and \$5.23 less than in Mexico. Such low rates are a mixed blessing for business promotional efforts. On one hand, they are attractive from the firm's standpoint of cost consideration. On the other hand, low rental rates are often taken as a signal for depressed demand for factory space, thus reflecting badly on the overall business environment.

Industrial Parks in Haiti also offer manufacturing firms spacious factory sites with plenty of room for expansion. With the private Industrial Park operating at 30 percent of industrial capacity and the Public Park at only 20 percent, investors can immediately move into the existing facilities and avoid a time delay incurred by the building of new sites.

Compared to the free zones in Costa Rica and the Dominican Republic, facilities provided by the Haitian Industrial Parks Haiti are less well developed. All private free zones in the Dominican Republic have an on-site clinic and canteen. Some of the private zones in Costa Rica provide low-cost housing for production workers and more luxurious condominiums for management. In general, the Industrial Parks in Haiti only offer the most basic, bare-bone structure, such as factory buildings built with tin roofs with no air-conditioning available. Canteens, clinics, or dormitories are not built specially for workers in the Parks.



Source: SRI International

Figure III.D RENTAL RATES IN HAITI AND COMPETITOR NATIONS

A fundamental problem facing business promotion in Haiti is the rapid deterioration of infrastructural facilities such as transportation, communications, and energy supply. The traffic congestion, the daily power outages, and the unreliability of telephone and facsimile services significantly reduce Haiti's desirability as a business location, despite its competitive wages and Industrial Park rental rates. Investors generally prefer a more reliable and predictable production environment even with a slightly higher price tag to cheap and unreliable services.

Transportation

A survey of the ocean freight rates in the Caribbean indicates that the shipping costs from Haiti are only moderately competitive. The comparison depicted in Figure III.E is based on quoted freight rates to ship a 40 foot container of apparel to Port Elizabeth, New Jersey. The \$2870 rate quoted for Haiti is \$535 more expensive than Jamaica, \$336 more than Costa Rica, and \$229 higher than the Dominican Republic. Haiti's rates are only competitive compared to Puerto Rico, Barbados, and St. Lucia.

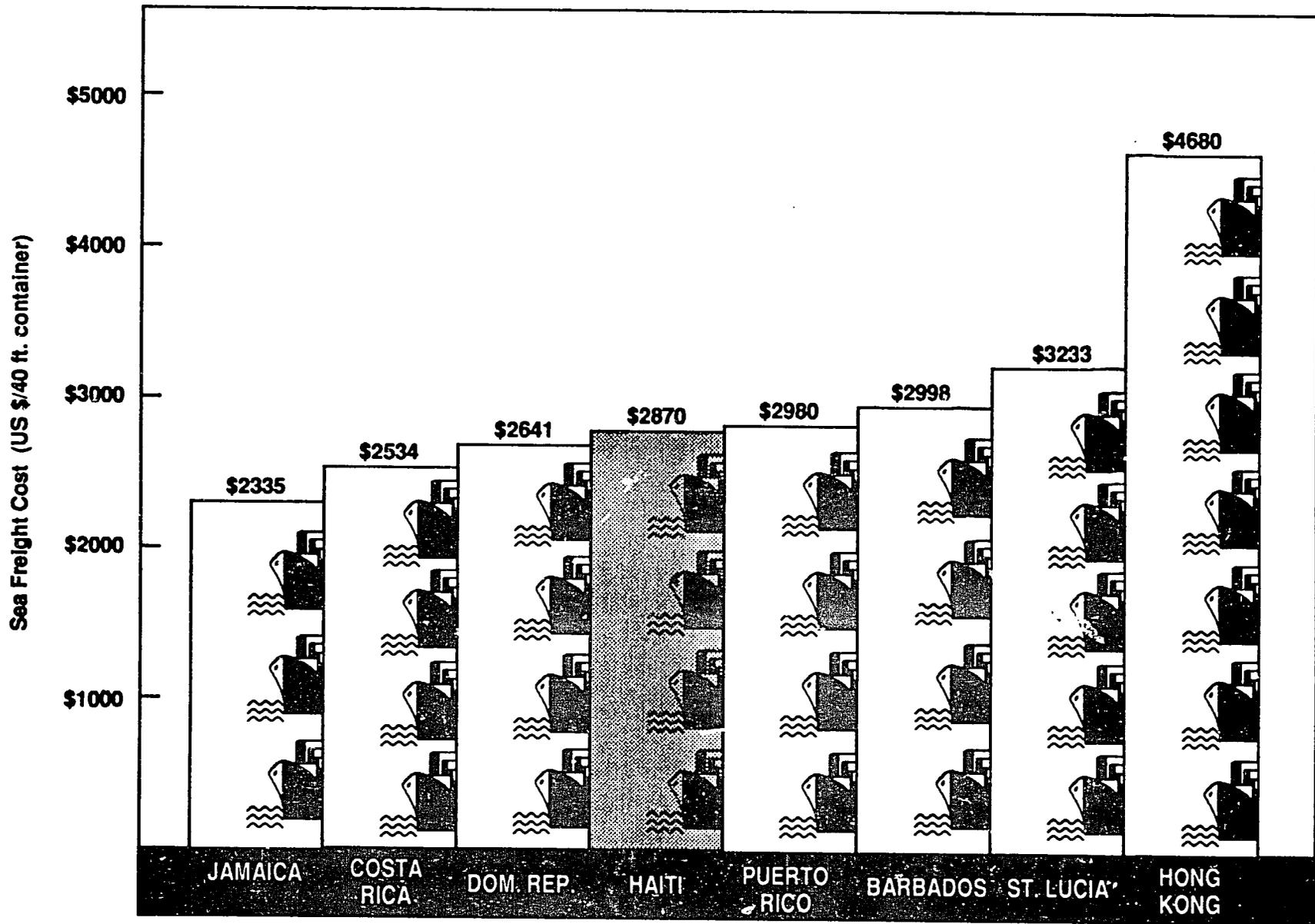
Declining freight volume and fewer arrivals by container ships reduce choices for shipment for exporters. Reduced passenger service not only makes it more difficult for buyers to visit Haitian producers but also for Haitian exporters who want to visit markets abroad. Furthermore, with fewer commercial flights and with cruise ship visits almost nonexistent, few tourists are visiting Haiti.

There is little evidence of regular maintenance of the existing roads and bridges, let alone construction of new structures. Even traffic signals have ceased operating. The decline in new vehicles registration also indicates an aging fleet of ground transportation equipment. The only tangible new transportation infrastructure observed is the lengthening of the runway at Cap Haitien.

Customs Clearance and Port Charges

Interviews with businesses revealed that slow and inefficient port and customs clearance frequently causes serious delays in shipment, resulting in unreliable delivery schedules of finished goods to buyers. Some exporters noted that it is not unusual for customs officials to be out of their office, or run out of proper forms, making the overall process unpredictable, frustrating, and time consuming.

Exporters in Haiti are also faced with port charges that are possibly highest in the Caribbean. According to a survey done by Tropical Shipping and Construction Company, port charges in Haiti was second only to Barbados in 1987. See Table III.4 for port charges comparison in the Caribbean. Since port charges have been



Source: SRI International

Figure III.E SEA FREIGHT RATES IN HAITI AND COMPETITOR NATIONS
(SEA FREIGHT RATES BETWEEN EXPORTING COUNTRIES AND NEW JERSEY)

TABLE III.4

**COMPARISON OF PORT CHARGES
IN CARIBBEAN COUNTRIES DURING 1986-87
(charges in United States dollars)**

PORT	PILOTAGE	TOWAGE AND NAVIGATION AIDS	WHARFAGE	DOCKAGE	CUSTOMS CLEARANCE	CHARGES AND DUES	HANDLING	TOTAL
Haiti	167	760	\$9,925	---	---	---	1,950	12,802
Costa Rica	567	431	---	51	167	42	2,887	4,145
Jamaica	304	519	---	82	114	---	4,725	5,744
St. Lucia	99	57	---	---	8	5,371	---	5,535
Barbados	129	---	148	---	--	266	17,336	17,879
Honduras	---	75	2,323	1,102	325	---	3,000	6,825
Guatemala	100	220	1,686	200	339	---	529	3,074

NOTE: -- indicates that no such charges are applied or they were not available from the sample data. The figures are based on a vessel of constant size (1526 gross registered tons) with the same cargo tonnage either loaded or unloaded at each port.

Source: Data on port charges compiled by Topical Shipping and Construction Company, Ltd., Riviera Beach, Florida.

From "Do caribbean exporters pay higher freight costs?", Yeats, Alexander; World Bank Discussion Paper #62, 1989, p.37.

significantly raised since 1987, the current Haitian rate of \$740 per 40 foot container could be the highest in the port charges in the Caribbean.

As in the case of energy and communications services, high port charges and slow port and customs clearance in Haiti reflect the inefficiency and mismanagement of a state-owned monopoly that has been exploited to provide employment to the underemployed work force. While the freight volume has declined in recent years, the number of port workers was substantially increased and port charges raised to generate maximum employment at the expense of efficiency and competitiveness. Unrealistically high port charges can reverse all geographical advantage Haitian exporters hold over their South American and Asian competitors. Fortunately, the Government of Haiti has recently begun to correct the inefficiency, trimming the work force by laying off some 400 excess port workers in April 1991.

E. Extensive Market Access

Exporters from Haiti enjoy preferential market access to the U.S. under the Generalized System of Preferences (GSP), the Caribbean Basin Initiative (CBI), and the Tariff Item 807 and 807A, and to the European countries under the Lomé Convention.

Haiti has been a beneficiary of the U.S. GSP, which grants duty-free access to over 3000 products. GSP benefits have been renewed for Haiti after the April 1991 annual review determined that Haiti is taking steps to afford Haitian workers internationally recognized labor rights.

Passed by the U.S. Congress in August 1990, CBI II offers broader coverage than the GSP, extending to products made from 100 percent U.S. components. Textile and apparel are both excluded under the GSP and CBI. CBI II offers Haitian exporters preferential market access to the U.S. over competitor countries such as Thailand, Malaysia, Indonesia, India, and Mexico.

Apparel exporters in Haiti can also take advantage of the U.S. trade program Tariff Item 807, which enables apparel manufacturers using U.S. fabric to pay duties only on the value added in Haiti. Tariff Item 807A offers both duty reduction and special access for garments that are cut in the U.S. In addition, 807A products are governed by "Guaranteed Access Levels," i.e., quotas can be liberally increased as market demand and production capacity grow. Access of Haitian garment export to the U.S. market was also increased in 1990 after a bilateral textile agreement removed quota restrictions from several categories of clothing and increase quotas to product groups.

Haiti recently joined the Fourth Lomé IV Convention, under which most Haitian exports, including textile and apparel, enjoy duty free access to European Economic Community (EEC) markets, provided that they meet the EEC requirements for originating status. With the exception of agricultural products, which are subject to the provisions under the Common Agricultural Policy, there are no quota restrictions on exports to the EEC.

As indicated in Figure III.F, Haiti shares the joint benefits of GSP, CBI, and Lomé with a select group of Caribbean countries, including Jamaica and the Dominican Republic. These international conventions jointly provide Haiti with better market access than regional competitor countries such as Costa Rica, Honduras, and Guatemala, and the labor-intensive Asian competitors Thailand, Malaysia, Indonesia, and India.

F. Intangible Constraints to Business Development

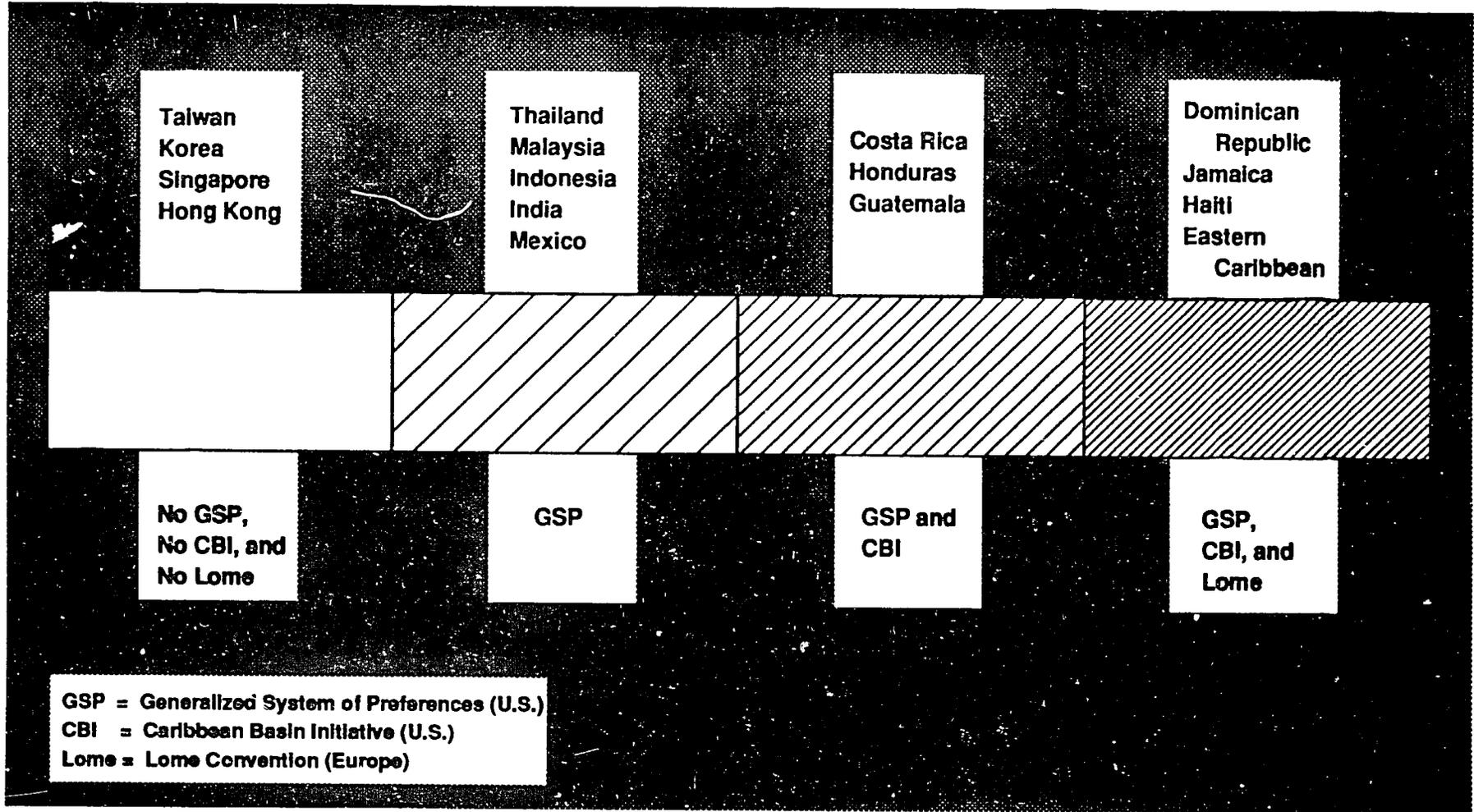
The present state of the infrastructural services, political conditions, and labor-management relations impose additional challenges and constraints to business development beyond those already identified.

Business Productivity and Time Losses

The deterioration of physical infrastructure to the point of having transportation, communications, and energy supply all being unreliable impose significant productivity and time losses on businesses. Most obviously, unreliable telephone services and poor quality facsimile transmission raise the time costs in conducting business transactions. As noted before, most manufacturing firms have resorted to purchasing their own generators and producing their own electricity. Besides having to make sizable capital investments, many businesses were dissatisfied that they have to take time away from their core business activities to purchase fuel, order spare parts, and repair the facilities. Productivity losses are also incurred when power failure raises labor down time and overhead expenses.

Political Instability

The Haitian Government changed hands six times in the past 5 years, often accompanied by violence, with the exception of the recent transition to the democratically elected Aristide regime. Political instability affects Haiti's image among overseas buyers as a reliable source of supply. Not only did Haiti's recent political experience create a general impression of instability and unpredictability, the frequent turnover of senior government officials disrupted the continuity in any meaningful dialogue between the private sector and the Haitian Government.



Source: SRI International

Figure III.F HAITI'S POSITION IN THE MARKET ACCESS SPECTRUM

For instance, the Mixed Committee created in 1988 as a forum for private sector and government policy dialogue was disbanded due to the violence associated with the elections.

Hesitancy of New Regime in Articulating Economic Policy

The new Haitian Government headed by the democratically elected President, Jean-Bertrand Aristide, has undoubtedly made an obvious break from the oppressive and corrupt Duvalier regime. While widely supported by the populace, however, the new regime is often viewed with ambivalence by the business and professional classes, and the educated elite. Displaying a general lack of direction in policy making, the three month old government has not drafted and articulated a coherent set of economic and business reform policies. Rather, the government is seen to be reacting to events and pressure. The seemingly hesitant and wary approach of the Aristide regime primarily stems from the inexperience of the technocrats in policy making and dealing with the private sector. This in turn breeds a general atmosphere of uncertainty which is not conducive to business promotion. All the business operators we interviewed have expressed reluctance to commit to business expansion or undertaking new ventures until stable and coherent rules are established for business.

Haiti's Overseas Image

Events in the past have seriously tarnished Haiti's business image. The crime, corruption, and political violence associated with previous governments sustained the impression of Haiti as an unreliable source of supply and an undesirable investment site. The flood of Haitian boat people to the United States further discredited Haiti's international reputation. While founded on ignorance and misinformation, the AIDS scare in the mid-1980s generated a fear of transmission through Haitian exports. Foreign investors and buyers were reportedly reluctant to do business with Haiti as a result of this misconception.

Constrained Labor and Management Relations

Labor-management relations have been quite tense especially in the Industrial Zones, where numerous strikes have taken place. The ten items in labor code that are ambiguous have been a constant source of labor-management friction. At present, there exists no formal mechanism or well-defined tripartite process to handle labor disputes.

G. Creating Comparative Advantage

Haiti has very strong potential comparative advantage in the North American market for labor intensive light manufacturing and agricultural activities. Haiti's strength in this very large

market is based on the low cost of the country's disciplined and productive labor resources combined with the geographic proximity and preferential access to the North American market. See Table III.5 for the Economic Resource Balance Sheet. Haiti has already demonstrated some of its potential in this market with the development of the export assembly industry in the 1970s and early 1980s. However, with the deteriorating political situation and quality and cost of support services, Haiti has not been able to maintain its competitive position, and to reap the potential gains. With the return of political stability, Haiti could now be able to turn its economic liabilities of high cost and poor quality port services, telecommunications, and electricity into economic assets through policy reforms that will lower costs and improve quality.

As the Figure III.G shows, compared to its primary competitors in the Caribbean Basin, Haiti has a competitively priced labor force, but in other key areas, including electricity, telecommunications and port charges Haiti ranks at the bottom both in terms of cost and quality. These liabilities can, however, be turned into assets through reform efforts. All of these services are supplied by government-owned monopolies that have weak managerial capabilities, and that have been used for political reasons, leading to rampant overstaffing and corruption. With reform of pricing policies, management and overall operations, the costs and quality of these services can be improved to such an extent that they would become economic assets. There are no structural reasons why the cost and quality of these services should be worse in Haiti than in competing Caribbean countries.

The rehabilitation of these services will require that the agencies be corporatized or privatized in order to establish autonomy from political interference. Even before this change, however, a "house cleaning" will have to be conducted to eliminate incompetent managers and rampant overstaffing. If the government commits itself to the reform of these industries and demonstrates this commitment by achieving politically difficult reforms such as necessary layoffs, donors should be willing to assist in funding the necessary recapitalization of the companies.

In addition to the reform and rehabilitation of currently government-owned service monopolies, government approval for private free zones to provide competitive power, telecommunications and port services should be implemented. In this way, exporters will be able to have access to lower cost and higher quality services, regardless of the pace of the overall rehabilitation process. Some of the export fueled opportunities which would emerge if the infrastructure is improved are summarized below:

- Greatest opportunities for rapid employment growth are in the export sector.

- Export markets are large and growing.
- Incomes earned from exports will in turn fuel domestic demand and production.
- Agribusiness has identified several niche markets.
- Tourism could recover with stability, security, and the passing of the AIDS scare.
- Assembly is already competitive in labor-intensive subsectors. Opportunities exist to eventually move up the value-added ladder.
- Potential exists for greater backward linkages (sourcing) by exporters with local producers. Local sourcing not only includes goods but also services such as insurance, banking, computer services, and transportation.

TABLE III.5

ECONOMIC RESOURCE BALANCE SHEET

● **Infrastructure is a Liability:**

- Inefficient port and customs clearnace due to poor management;
- Fewer freight lines and cruise ships;
- Undermaintained roads and traffic congestion;
- Unavailable/unreliable telephone and fax services;
- Expensive power supply and frequent outages;
- Expensive imported fuel.

● **Few Natural Resources:**

- Proximity to the United States market;
- Land deforestation;
- Deterioration of natural and cultural sites;
- Poor quality of mineral deposits and locally produced natural fiber.

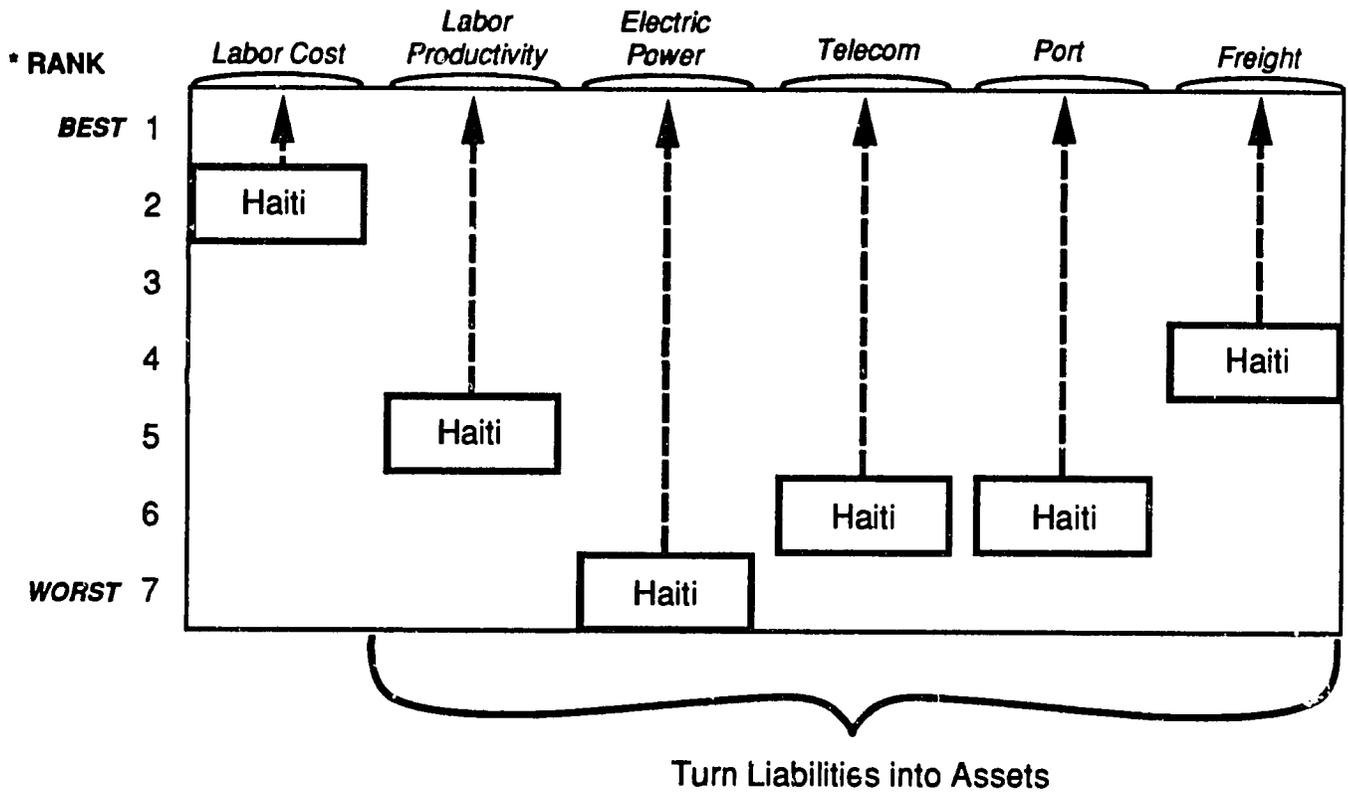
● **Human Resources are the Key Asset**

- Skilled, productive, and quality conscious labor force;
- Productive small farmers;
- Trained travel service staff;
- Entrepreneurial Haitian managers with good English speaking skills are available;
- Inexperience middle management is a constraint to growth.

● **Capital Constrained by Uncertainty**

- Good opportunities for new investment and expansion;
- Need clear rules for business operations.

Figure III.G CREATING COMPETITIVE ADVANTAGE



Means to Achieve Objectives

- Rehabilitate state owned utilities
 - "Clean house"
 - Corporatize
 - Recapitalize
- Consider free zone to provide competitive power, telecom and Port

(*) Comparing Haiti's competitiveness in the region with the Dominican Republic, Jamaica, St. Lucia, Barbado's, Costa Rica and Mexico

Source: SRI International

IV. PRIVATE SECTOR ORGANIZATIONS PROMOTING BUSINESS AND EXPORTS IN HAITI

A. Overview

Before the development of the assembly/export sector in Haiti, the only important business organization in Haiti was the Chamber of Commerce and Industry. According to numerous members of the Haitian private sector interviewed, the Chamber of Commerce used to be an organization which was heavily politicized by past governments and was not a genuinely private sector-run organization. It did, however, play some role in acting as a spokesman and lobbyist for the commercial sector in issues such as taxation and business legislation. In the late 1970's and early 1980's a few new industry and trade associations emerged, organized around sector specific activities. However, during the Duvalier regime Haitians did not enjoy complete freedom of organization.

Following the fall of the Duvalier regime an increasingly large number of business associations became established. By 1991, 16 significant private associations were established. While the establishment of this many associations is an accomplishment, the private sector until recently has remained fragmented, supporting particular sector interests. In 1988-1989, there was new hope that FHASEP (the Haitian Federation of Private Sector Associations) would be able to unite the various private sector associations by determining general areas of agreement to outside groups such as the government. Unfortunately the short-lived FHASEP fell apart by 1990. One of the problems that hampered the ability of FHASEP to bring about more unity in the private sector was that ADIH (the Association of Haitian Manufacturers), one of the largest and most influential of the Haitian private sector associations, did not participate in FHASEP.

Another group which began to develop an effective forum for private sector dialogue was the Consultative Mixed Committee for Industrial Development (CMCID) a private sector/government official group through which policies issues affecting the private sector are assessed. Formed in 1986, it began by playing a major policy-shaping role. It was seen as the guiding force behind significant policy reforms in 1986-87 relating to fiscal management, trade liberalization, tax reform and export promotion initiatives. However, political difficulties following the 1987 election slowed down CMCID activities as it was no longer able to work with the Ministers of Economy and Finance and of Commerce and Industry, leading to the collapse of the CMCID in March 1989. The Committee has remained inactive since then, but officials interviewed in the new government stated plans to re-introduce a similar committee in the near future.

Most of the private sector associations interviewed by the study team lack the data collection and analysis capability to

influence policy. In addition most of these associations do not undertake studies to inform, advise or educate their members on appropriate responses to new developments and policy shifts. There is hardly any evidence that associations provide such advisory and information services to their members today. Most of the associations have not gone beyond the limited advocacy function, characteristic of representative bodies.

There is a gap felt in providing private sector policy research in Haiti. Some recent efforts (e.g. White Paper, FONDIH) are trying to fill this void. There are further opportunities to tap external funding sources to encourage greater private sector policy research and dialogue with the government. An additional gap observed by the study team is the lack of a forum for small-scale industries to come together and make their voice heard by the government. Of the 16 private sector associations represented in the White Paper exercise, for example, none of them explicitly represent small-scale industries. A donor such as AID or another agency might want to encourage small scale industries to establish their own association for collaborative action and dialogue with the government, and to provide information and advisory services to their members in different regions.

In the sections which follow in this chapter, a number of private sector associations are described along with assessments of the types of assistance they might need to be more effective in promoting business and exports in Haiti. It should be noted that many of the institutions described in this chapter, due to their fairly narrow sectoral focus, would not be ideal candidates for role of primary implementing agency for the PROBE, multi-sector promotion business and export promotion project (See Chapter V). Instead many of these organizations would develop working relationships with the New Promotion Center. For example sectoral organizations might work with the New Promotion Center to craft promotion programs specific to their sector. It would also be envisaged that some of the key sectoral associations would have representation on the New Promotion Center's Board of Directors.

B. The Chamber of Commerce and Industry

The Chamber of Commerce and Industry is the oldest private sector organization in Haiti. In principle it should act as the umbrella group for all private sector groups in Haiti. In practice it has hardly ever performed the umbrella and coordinating role, partly because of the political nature of the Chamber in the past.

The present leadership of the Chamber offers better prospects for it to take on a coordinating role within the private sector. For example during the preparation of the White Paper, the Council of Presidents of 16 private associations met once a month at the Chamber to review progress on the paper. In addition, the Chamber

has been the location for the recent meetings between the Council of Presidents and the Minister of Commerce and Industry.

One of the Chamber's principal planned activities for the near term is to print and disseminate copies of the White Paper to the Legislative and Executive Branches of government, the training institutions, and the general public. The Chamber is also interested in further developing tripartite discussion and resolution mechanisms for labor-management issues in Haiti. The Chamber is also considering the revision of its Charter to designate the Council of Presidents of the 16 private sector associations as the Chambers' Board of Directors, and integrating all 16 associations' members into the General Assembly of the Chamber. Having the Chamber work as the umbrella organization for the private sector groups is attractive from the point of view of cost efficiency. Working through one umbrella group can help to reach a larger target group while pooling resources and reducing the operating costs of the groups, thereby increasing effectiveness.

In order to become effective in its new role as coordinator of private sector organizations, the Chamber could utilize technical assistance to advise it on the revision of its Charter. The Chamber also might require additional funding support to assist it with the printing and dissemination of publications such as the White Paper. In the area of labor-management relations, the Chamber is working closely with the ILO of the U.N.

As an umbrella group, the Chamber might consider preparing documentation to the government and to the donor community on how additional aid funds might be channeled to private sector organizations in Haiti. There are many aid donors in Haiti who are anxious to provide assistance to worthwhile projects. Additional resources to help prepare requests and documentation for the private sector groups could have a high payoff and give the private sector a greater role in the economic development process.

Because of its emphasis on being the coordinating body for private sector groups in Haiti, the Chamber would not be an ideal candidate for the direct implementing agency role as a business and export promotion center under the PROBE project. However, the Chamber could play a key role in the facilitation of dialogue between the government and the private sector through the Council of Presidents type of forum. More frequent and regular discussions should be between the government and the private sector should be encouraged to increase their effectiveness.

C. AHTH

The Haitian Hotel and Tourism Association (AHTH) has been in existence for about 50 years. It draws its 55 or so members from

hotels, restaurants, airlines, travel agencies, and other travel-related industries in Haiti.

The AHTH has been very active in recent years in supporting training programs for Haitian in management, hotel and restaurant service delivery, cuisine, etc. About 15 Haitian trainees from the hotel and restaurant industries are trained by the Caribbean Hotel Association Training School in San Juan, Puerto Rico with assistance from USAID. Mid-level Haitian managers from hotels and restaurants have also been taking short courses managerial training at the CMP (Management and Productivity Center).

One of the AHTH's highest priorities in recent months has been to encourage the establishment of a mixed government/private sector Tourism Board in Haiti. The Board would be largely self-funded with revenues coming mainly from proposed hotel room taxes and the airport departure tax. The purpose of the Board would be to promote tourism in Haiti. Other functions would include: (i) overseeing the Hotel School in Haiti; (ii) encouraging the development of a national park; and (iii) becoming involved in land-use planning related to tourism, e.g. zoning for beach areas.

In order to effectively promote business and exports in the travel industry the AHTH would require further assistance from USAID and/or other donors. One area requiring further assistance is the continued funding of training courses for entry to mid-level employees in the hotel, travel, and restaurant industries. A second area which USAID or other donors might consider supporting is the funding of a strategic plan for the tourism sector in Haiti. The strategic plan could outline the plan for the establishment of the Tourism Board, identify strategies for attracting more tourists and increasing investment in tourism, estimate the resources required to implement the plan, and provide a timetable for the recommended actions. Haiti has tremendous potential to attract more tourists if some basic infrastructural improvements were made, followed by a well crafted promotional campaign.

D. APA

The Agricultural Producers' Association (APA) was established in 1985. It initially had some 60 members who were mainly agribusiness processors and exporters. APA's original focus was on serving as a lobbying group for its members.

By 1987 the leadership of APA began to see the potential benefits of joining forces with broader based small-scale producer groups who represent a large percentage of the Haitian population. By 1988, 110 producer groups representing about 90,000 producers joined APA.

During that period, APA evolved from the narrowly focussed lobbying group to a broad-based implementing organization charged

with research and extension activities that would bring about new income earning opportunities. The encouragement of mango planting, marketing and exporting is good example of one of APA's successful intervention activities.

The APA lobbies the government for decisions which will have a positive impact on agricultural producers. Most of APA's lobby work is focussed on issues which have a strong impact on smallholder growers, since they are the largest constituents of APA. To date much of the lobbying effort could be characterized as "short-term fire-fighting" activities.

Eventually the APA would like to move to a broader and deeper policy analysis role. In order to do so, additional resources would be needed to strengthen the data collection and policy analysis capability of this group. This would enable APA to (i) present more substantive policy advice to the government; and (ii) inform, advise, and educate their own members on appropriate responses to new developments and policy shifts. The APA would also like to provide technical assistance and training to small farmers on identifying and negotiating commercial agricultural ventures. Technical assistance from a donor institution in these two areas would help the APA to more effectively carry out its tasks of promoting agricultural production and exports.

E. AIHE

The Inter-American Businessmen's Association (AIHE) was started in Haiti in 1979. The Haiti branch of the organization has 48 members. Members come from various sectors including manufacturing, commerce, agribusiness and tourism. AIHE has branches in Haiti, the Dominican Republic and Puerto Rico.

AIHE's objectives are to support free enterprise, encourage regional development, and support export-oriented tourism. AIHE is currently working with the Caribbean Action Group to encourage greater use of twin plant projects in Puerto Rico and Haiti using 936 promotional incentives.

One of the areas in which AIHE could utilize additional assistance might be in promoting more twin plant projects between Puerto Rico and the U.S. under the 936 program. Haiti has not tapped these funds nearly as much as countries like Jamaica and the Dominican Republic. An information campaign, identification of possible twin plant partners in Puerto Rico, and other activities are needed to promote this program in Haiti and Puerto Rico.

F. CMP

The Management and Productivity Center (CMP) is an in-service management training center. The CMP was established in 1986.

Since its establishment, it has provided 32 courses and seminars to middle and upper level management in Haiti. It offers courses in, inter alia, Productivity, Management, Financial Management, and Quality Control. Most of CMP's clients are mid-level managers from banks, insurance companies, the telecommunications company, the electricity company, and large manufacturing companies.

According to many of the companies interviewed by the study team, the CMP training have been extremely effective. Several companies commented that one of the reasons for CMP's success has been their willingness to tailor the courses to the specific needs of the companies' objectives.

According to CMP management, there are two training needs areas which CMP has not been able to adequately cover to date. These are: (i) entrepreneurial training for the informal sector; and (ii) middle management training for export assembly companies.

According to the CMP management team, the main constraint to them delivering more training to the informal sector is that the small and micro companies rarely have enough money to pay even a fraction of the costs of training, even though they seem to value training opportunities. It may be possible for the CMP to deliver less expensive training programs to this important target group by modifying their delivery approach to fit the cost limits of the client. By reaching out to a larger audience they also might be able to reduce unit costs. One approach worth considering would be to produce the same training programs for micro entrepreneurs on an audio cassette tape and offer it for sale at a price considerably lower than the "live" version. A second but similar approach would be to broadcast entrepreneurial training programs over the radio. Under both of these approaches, the ratio of target clients reached per dollar spent is likely to be very high.

Similar techniques may be needed to reach mid-level managers in export assembly companies. Because of the extremely competitive nature of many of the export industries, many of the companies have not had the opportunity to take a long-term perspective of the development of their staff. The CMP may want to explore with the management of these companies how they might tailor training programs for middle management that would be both cost-effective and short in duration. The production of audio or video cassettes and/or radio transmissions might also be considered for this target audience.

G. ADIH

The Association of Haitian Manufacturers (ADIH) was established in 1980. Currently ADIH has 140 members. About 60 percent of ADIH's members are export manufacturers, with the remaining 40 percent comprising manufacturers for the local market, as well as representatives from banking, insurance, and other

service industries in Haiti. Generally the most active members of ADIH and its Board of Directors are drawn from the export assembly sector.

The primary objective of ADIH is to encourage economic and industrial development in Haiti through coordinated actions and activities designed to protect the interests of its members. ADIH offers consultancy services, contacts with the government, joint venture assistance and market information to its members.

ADIH has been influential in persuading various government departments over the years to take into account the manufacturing sector's concerns on such issues as minimum wage, labor code, foreign exchange control, etc. It is considered to be one of the best organized and influential business associations in Haiti.

Despite its previous success in articulating ADIH could build upon its strengths by continuing to dialogue with the government on policy issues affecting the manufacturing sector. In order to be even more effective, ADIH could work on strengthening its analytical capabilities. A deepening of its data collection and policy analysis capability would enable ADIH to provide proactive policy advise to the government. Additionally such analysis would provide the basis for valuable advisory and information services to their members. Areas of interest to members might include analyses of ways to improve productivity, streamlining of customs procedures, alternative proposals to reduce infrastructure costs, etc.

H. APRONAH

The National Association of Haitian Producers (APRONAH) was created in May 1988 and has 50 members. APRONAH's members are manufacturing and artisanal firms producing primarily for the local market. The objective of the organization is to defend the interests of companies producing for the local market.

The leadership of APRONAH expressed concerns about what they view as unfair competition from imports. They are concerned that: (i) importers are using under-invoicing to avoid import duties, thereby undermining incentives to local producers; (ii) contraband imports, with no import duties, are also flooding the Haitian market with a similar impact on local producers. APRONAH has been lobbying the government to help resolve these problems.

The APRONAH leadership felt there were good opportunities to supply intermediate inputs to exporting firms. For example they suggested producers could make cardboard boxes or plastic bags, if the import duty structure were more favorable to local suppliers and if the price of electricity were lower.

Given that the government of Haiti has taken decision to maintain a relatively open trade policy with strict limits on the level of protection it is willing to provide local producers, it would seem appropriate then for APRONAH to promote opportunities for efficient production for the local market. It might be fruitful for APRONAH to educate its members on how to identify and exploit efficient investment opportunities in the local market.

Regarding the "unfair competition" they have found, it appears that most of the problems identified relate to the abuses in enforcement at the customs services. After the government's "house-cleaning" in the customs and port management areas, there may well be stricter enforcement of the laws. Regarding fair competition, APRONAH may wish to inform and educate its members on ways of reducing costs and coping with import competition.

I. APB

The Professional Bankers' Association was created in 1985 when the private banks decided to formalize their cooperation and exchange of ideas. The members of APB include the commercial banks, savings and loans and development banks in Haiti. The purpose of the APB is to exchange views among themselves and with the government on banking and financial sector policy. The APB was closely involved in discussions with the government in 1989 when policy changes were introduced to de-regulate interest rates and to increase reserve requirements.

Starting in 1990 the APB received a long-term technical assistance funded by USAID. The purpose of the technical assistance was to prepare a private sector initiated White Paper on economic policy in Haiti. The paper was prepared mainly by the APB technical assistant but with considerable input from 16 different private sector associations in Haiti. The paper preparation involved an unprecedented level of cooperation among the various private sector groups in Haiti.

Given the previous success with the White Paper exercise it would seem highly desirable for AID or another donor to continue to fund the long-term advisor as a follow-up of the White Paper. Additional sector-specific work could be undertaken along with detailed actions plans to encourage a full implementation of private sector development reforms.

J. FONDIH

FONDIH (Foundation of Haitian Industries) is a non-profit foundation recently established in Haiti by the private sector with the aim of improving the overall social and educational well-being of Haitians. The foundation is undertaking projects in four main areas: (i) education; (ii) housing; (iii) health-care; (iv) and

promotion of free enterprise through education and information dissemination.

FONDIH's budget resource is met by two main sources: (i) philanthropic donations from the Haitian private sector; and (ii) grants from foreign aid sources such the government of Germany and the government of France to cover some of the development costs of projects in areas (i-iii) above. FONDIH is looking for additional external support to help finance area (iv) above.

FONDIH has observed a major gap in that most other private sector associations and professional associations in Haiti have not gone beyond the limited advocacy function characteristic of representative bodies. FONDIH has observed that their capacity to undertake proactive studies relevant to private sector development and tap local experts and institutions to criticize policies has been limited. Under the auspices of FONDIH, research would be undertaken on current policy issues and disseminated widely in an effort to influence policy or educate the populace on the virtues of a free-market system.

FONDIH will be testing out new concepts with the government such as the private management of socially-oriented programs in both the housing and health-care sectors. It is not yet clear if the government totally accepts these new concepts. It will be interesting to observe how well the social welfare activities mesh with the free enterprise promotion functions of FONDIH.

K. PROMINEX

In 1986 PROMINEX (Investment and Export Promotion Center) was created to: (i) execute export and promotion policies as determined by the Ministry of Commerce and Industry; (ii) stimulate new investment in agricultural, agro-industrial and industrial enterprises; (iii) promote the growth of national output and exports; and (iv) serve as a one-stop center for investors and exporters and assist them with their interactions with public center entities. PROMINEX has had a mixed Board of Director consisting of five representatives from the private sector and four representatives from government ministries including representatives from the Ministries of Economy & Finance, Commerce & Industry, Planning, External Cooperation & Public Service, and Social Affairs. The Board has not been meeting on a regular basis for over a year, as the decree needs updating. The present decree names members as individuals, not by their position. Thus when there is a change of government officials, PROMINEX is left with a Board without proper legal status because former government officials are named in the decree as Board members.

PROMINEX's Board has also been troubled by philosophical differences among the Board members. Some of the Board members have maintained that PROMINEX should be promoting investments and

contracts for the export market, while other members have argued that it should focus more on promoting investment and production for the local market.

Since its establishment, PROMINEX has been funded almost entirely by USAID funds. Over the past two years, the GOH has also contributed to the budget of PROMINEX. According to the PROMINEX Financial Administrator, GOH contributions have been made into an escrow account. It was not clear to the SRI team how much of the escrow funds have actually been drawn down. In the Project Paper and Grant Agreement it was anticipated that PROMINEX become financially self-sufficient after 4 years. This proved to be an unrealistic forecast as less than 1 percent of PROMINEX's budget has actually come from fees and commissions. In 1987 the survival of PROMINEX was threatened by the suspension of bilateral U.S. aid, which was later restored.

At the time of PROMINEX's establishment, its mandate was to promote both investment and exports in Haiti. However, with the frequent changes of government, civil unrest, and a deteriorating external perception of Haiti, it became clear that the climate was not favorable enough to promote investment at the time in Haiti. PROMINEX responded to the changes in the environment by focussing on export promotion (contract generation) instead of investment promotion. The rationale was that, in an unfavorable environment, it is easier to promote exports than it is to promote investment. Fundamentally this was a sound decision, although this still does not answer the question of what should be the most effective form of promoting Haiti's exports given that the constrained business environment in Haiti. This question will be explored later in this section.

Most of PROMINEX's activities to date have been focussed on overseas marketing, mainly through participation in overseas fairs and the follow-up work on requests for quotations and sampling generated from those fairs. Marketing has been mainly proactive, based on the staff's presence at trade fairs and some past efforts in telemarketing. PROMINEX has also produced a number of promotional brochures and newsletters which are of good standard. The Export and Investor Service Division, along with the Executive Director, have also provided services to companies needing assistance with the untangling of bureaucratic red tape.

PROMINEX was also expected to play a role in the development and improvement of government policies relating to exports and investment. For example, it was envisioned that the presence of four high-level government officials on PROMINEX's Board would ensure that policy reform would follow from the identification at the Board level of the policy constraints. In practice none of the Board members interviewed could recall a single policy reform measure taken as result of PROMINEX's proposals.

To date PROMINEX has had limited success in generating contracts for Haitian exporting firms. In fact, total Haitian exports actually declined during the implementation period from \$389 million in 1986 to \$368 million in 1990.¹ By comparison during the same time period manufacturing exports in neighboring Dominican Republic rose from \$129 million to \$750 million.

Direct export contracts generated by PROMINEX's marketing efforts have also been very modest compared with budget expenditures. According to PROMINEX's reports covering the period 1987 to end of 1990, PROMINEX's marketing activities led to the generation of 13 contracts for firms exporting from Haiti in the garment, leather belts, agribusiness, sporting goods and furniture industries. The total estimated value of these contracts is \$1.96 million. It is not known how many of these initial contracts generated by PROMINEX's efforts led to repeat contracts. Nor is it known how many contracts have been generated indirectly by PROMINEX's efforts, e.g. if an overseas buyer utilized the PROMINEX Exporters' Directory to contact and find a Haitian exporter ultimately leading to an export contract.

Regardless of the statistical problems inherent in trying to assess the true impact of PROMINEX's promotional efforts, it is apparent that its overall impact on export contracts and other quantitative measures of success has been low. However, much of the blame for the poor investment and export performance during the project implementation period can be blamed on the unstable political environment and general civil unrest that made effective investment and export promotion nearly impossible.

The firms and associations surveyed by our team had mixed impressions of PROMINEX. About 60 percent of the firms sampled felt that PROMINEX was effective or highly effective. The remaining 40 percent found the Center to be ineffective. The firms interviewed also raised the possibility of having PROMINEX provide them with specific services and assistance. The types of services most often mentioned by the firms surveyed include:

1. Contacts with the government;
2. Analysis of business constraints, and finding solutions in areas where problems are identified (e.g. port charges, customs procedures);
3. Detailed information on overseas markets;

¹Exports to the U.S. only. Up to date Haitian export statistics are only available for exports to the U.S. Exports to the U.S. represent about 70 percent of official Haitian exports.

4. Comparative data on costs and incentives in neighboring competitor countries.
5. Firm-level technical assistance.
6. Personnel Training.
7. Preparation of position papers for trade negotiations.
8. Liaison and relations with the unions.
9. Export promotion/marketing services

Clearly PROMINEX would not be able to provide all of the above services because of their limited resources. However the list does provide some interesting ideas about the areas in which PROMINEX could serve its clients. Many of these services have been requested by business firms in Haiti many times over the years but most of them have not been provided except for item 9.

Many of the firms surveyed indicated that they would be willing to pay a service fee to PROMINEX if it can effectively render those services. A few the firms interviewed questioned the wisdom of PROMINEX focussing so much attention on overseas marketing, when firms in Haiti are facing so many more acute constraints that are affecting their very ability to function in Haiti. If some of their problems (labor relations, electricity, port charges) could be resolved systematically, they would be able to market their products themselves, without difficulty. According to this line of reasoning, more effort should be placed on improving the "product" before trying to "market" it.

V. Summary and Recommendations for the PROBE for Jobs Project

A. Strategic Objectives

The ultimate objective of any business or investment promotion program is to help to achieve certain national economic goals and a good promotion plan should explicitly recognize these economic objectives. Meeting these objectives, however, requires a clear understanding of the business and export promotion process and the establishment of realistic promotion targets.

The new government of Haiti has not yet set any concrete economic targets nor has the national promotion agency. Having assessed the current business climate and its potential, the SRI team has identified some initial strategic objectives which in turn can be translated into more definite targets and programs. The objectives identified are as follows:

- Job Creation
- Income Generation
- Export Expansion
- Reversing the Trends of Declining Employment and the Shrinking Market Share in the Export Manufacturing Sector
- Building Greater Consensus in the Haitian Private Sector
- Improving Haiti's Business Climate and Business Operating Conditions
- Increasing Local Value Added

While it is difficult to establish quantifiable targets for several of the above categories, two categories for which it is possible to define specific objectives are job creation and export expansion. Light assembly jobs in Haiti fell from a high of about 46,000 in 1985 to the current level of about 40,000. If the current trend in job loss continues, Haiti will lose roughly 6,000 additional light assembly jobs by 1996. The sharp declines in income in the tourism and agricultural sectors in the 1980's also indicate that jobs were lost in those industries as well, although accurate data for current employment in those sectors is not available.

Figure V.A shows scenarios for direct jobs creation in the export sector. Continuing the current trend of losing jobs would be the low-case, "deterioration" scenario. This scenario assumes there are no major improvements in the business environment. The middle-case, "muddle along" scenario assumes that employment

remains about the same as current levels over the next five years. Under this outcome, some improvements are made in the business environment, but there are setbacks which constrain Haiti from reaching growth scenarios similar to what some of Haiti's neighbors have achieved in recent years. The "growth" scenario is predicated on a substantial number of improvements in the business environment, including: (i) a reduction in the high port charges; (ii) lower costs of electricity and improved reliability; (iii) improved telecommunications; and (iv) streamlined customs procedures. It is the broad consensus of many business people in Haiti that, if these improvements are made, Haiti's competitiveness as a business location will be enhanced dramatically, resulting in a significant increase in employment, exports, and profitability.

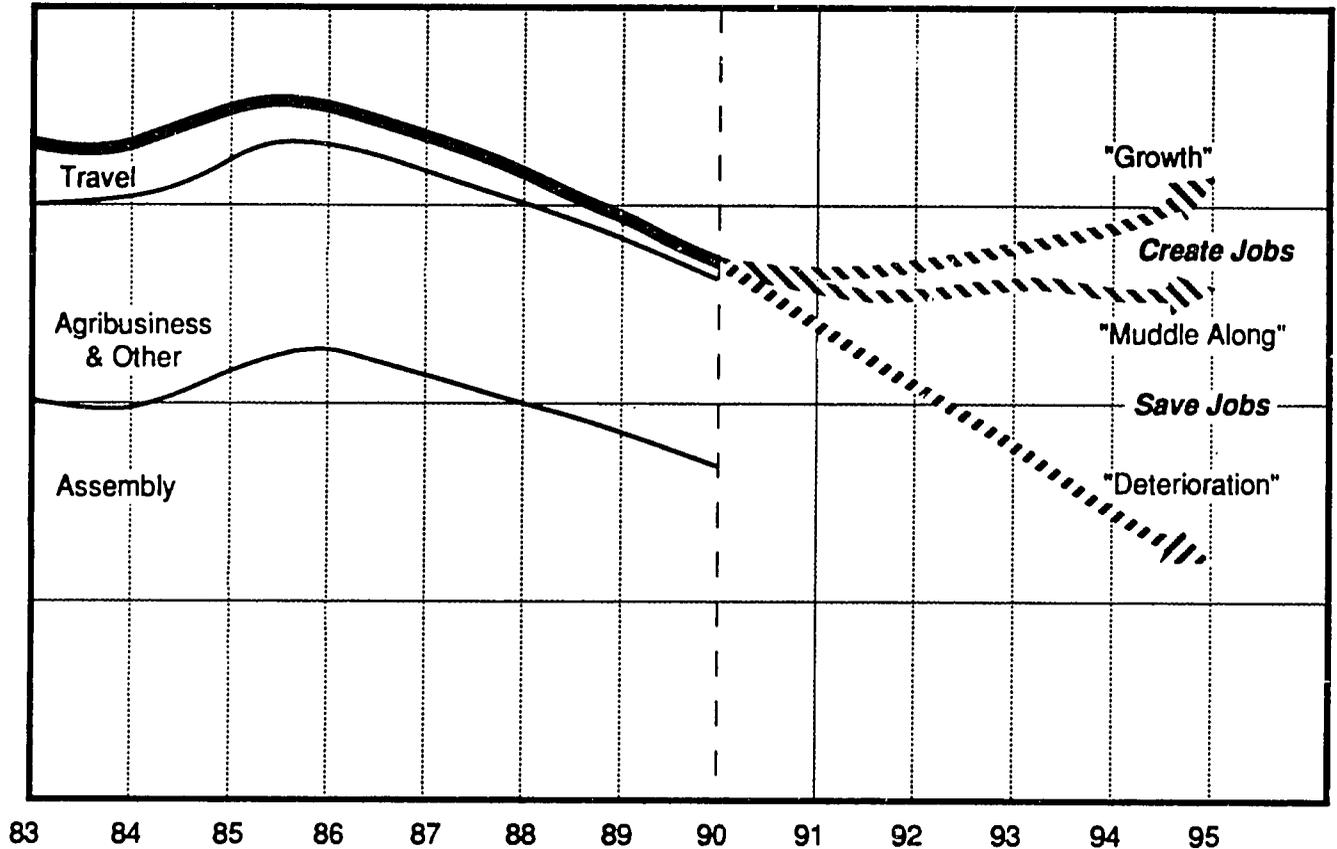
Obviously one of the first strategic objectives for Haiti in the short term (say over the next year) must be to stop the current trend of losing jobs and export market share. In the short run such an objective must be realistically set before even considering employment growth. In the medium term (next 2-4 years) the objectives should shift to rapidly increasing jobs and incomes. The actual target number of jobs to be created would need to be set by the government and the business and export promotion center.

It is the opinion of the study team that the greatest opportunities for direct job creation lie within the export market, specifically the tourism, agribusiness and export assembly sectors. Export markets are large and buoyant compared with the limited local market. Export jobs also fuel many local jobs. For every export job created it is estimated that 1.5 local jobs are created in such industries as food, construction, transportation, banking and local manufacturing (see Figure V.B). Since it is the export jobs that create the demand and foreign exchange for supporting jobs, therefore they are the ones that should be initially promoted, setting the stage for secondary employment to follow, in line with growth in demand. Cross-country research has also demonstrate

B. Project Components

Following the assessments of both the business climate and the institutional setting for business and export promotion in Haiti, (Chapters II-IV of this report) the study team recommends that two main components are considered for the new business and export promotion project: (A) Improving the Business Climate, chiefly through perform and/or privatization of government supplied services; and (B) Direct Business Services Assistance to firms in Haiti. The main components of the proposed project are shown in Figure V.C below. The project resources would be channeled principally through a services-oriented business support institution or business promotion center (hereafter called implementing institution). Many of the project activities, especially in the policy reform area, would be subcontracted by

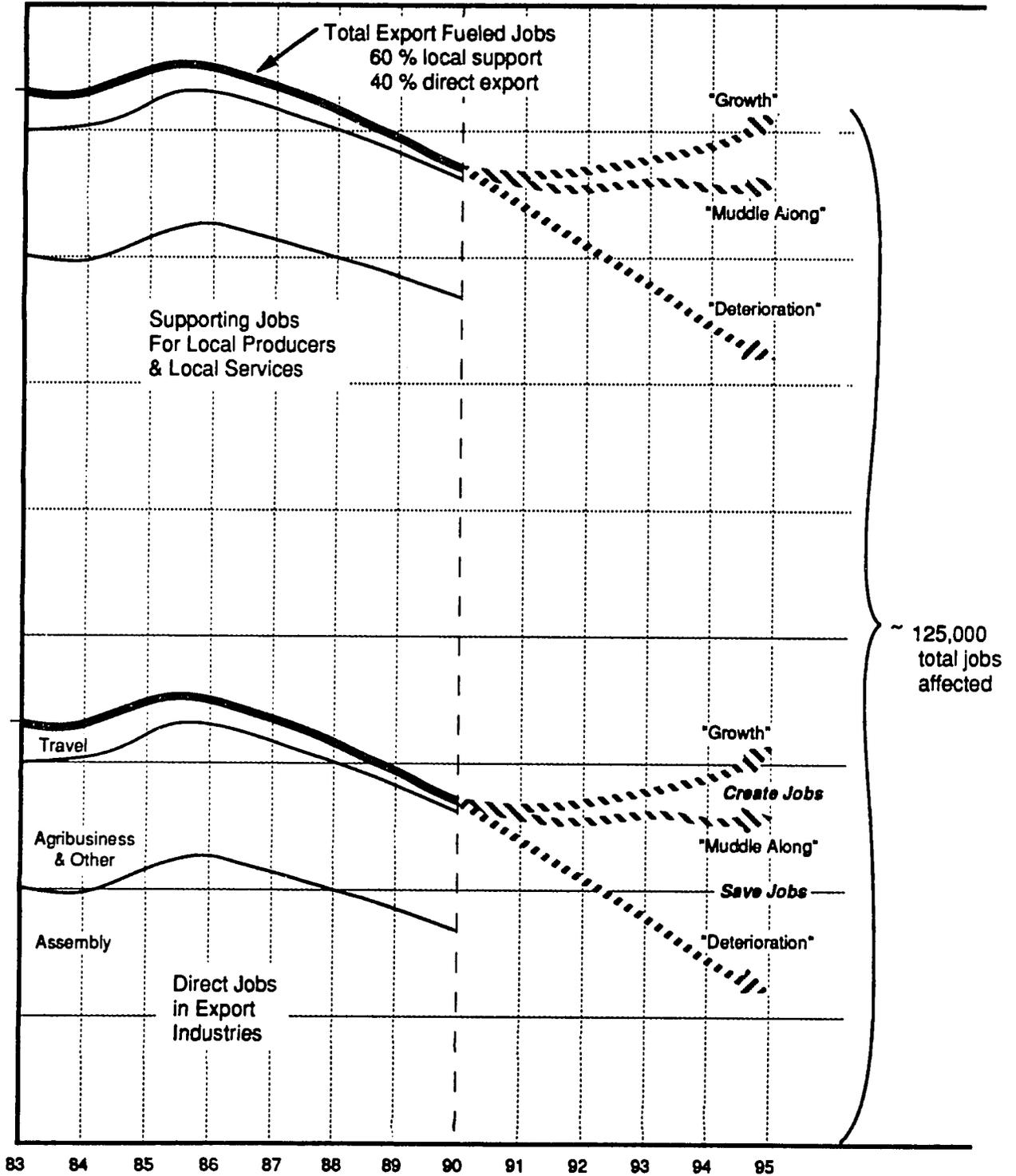
Figure V.A EXPORT FUELED JOB SCENARIOS



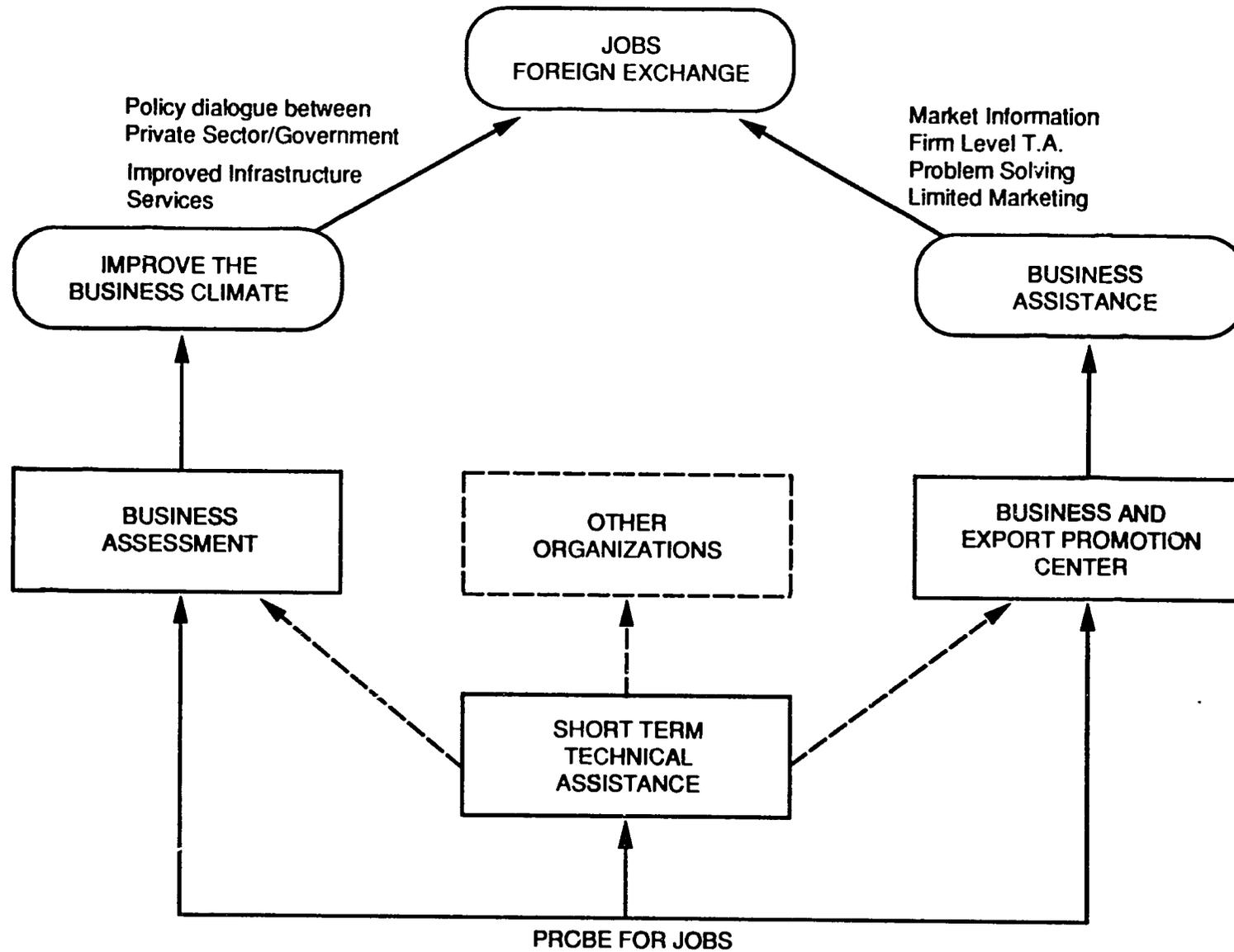
Source: SRI International

- For every export industry job there are an estimated 1 1/2 additional supporting jobs in the general economy
- Every job feeds an estimated 5-7 people in the general population
- Every export job feeds 12-18 people

Figure V.B IMPACT OF EXPORTS ON LOCAL PRODUCERS AND ON LOCAL SERVICES



Source: SRI International



Source: SRI International

Figure V.C MAJOR PROJECT FOCUS

the implementing institution to other institutions, firms or individuals with specialized expertise. The project would be supervised by one full-time USAID/Haiti project officer.

Project Component A; Improving the Business Climate

Improving the business climate must be one of the primary objectives of the PROBE project. In order to effectively improve the business climate under the project, four key steps will be required: (i) problem identification; (ii) analytical assessments of problems; (iii) considerations of proposed solutions; (iv) implementation of solutions. Since many of the business climate problems stem from poor quality and costly government services it will be essential that high-level government officials, in addition to private sector leaders, be involved in steps (i-iv) above. Most critically, the government must be heavily involved with and "buy into" the results of steps (iii) and (iv).

It is the assessment of the study team that there are at least two delivery points which would represent effective fora for private sector policy analysis and dialogue with the public sector. The first is the Council of Presidents, and the second is a resuscitated version of the Mixed Committee.

The Council of Presidents which is described in Chapter II, has been meeting without a charter or by-laws, yet it has been an effective forum for policy analysis and discussion. The new Minister of Commerce and Industry has told the Council that he would like to meet with the Council at regular intervals to discuss policy issues. Under the PROBE Project, USAID could make funds available to the Council of Presidents for high-priority policy and business climate enhancement studies and actions.

If the Council of Presidents is selected as an effective forum for private sector policy enhancement, it could operate under the general umbrella of the Chamber of Commerce. Since the Council of Presidents itself has no official legal status it cannot legally receive grants. Therefore the funding of Council of Presidents activities and studies must be channelled through an organization which has legal status, such as the Chamber of Commerce or alternatively through an industry group such as the APB or APA, etc.

The Council of Presidents would determine areas of common interest for which they would need technical assistance, analysis and other action-oriented and catalytical activities. Once the priorities have been agreed, short-term technical assistance would be made available to one of the 16 associations in the Council. The designated association would then be responsible for the implementation of the technical assistance, reporting back to the Council through a mechanism such as a steering committee similar to the White Paper process where the technical assistance was made

available to the APB. Funding would also be needed for the printing, distribution, and presentation of some of the findings through seminars, panel discussions, radio programs, etc.

Ultimately, recommendations made by the Council of Presidents should hold a great deal of weight with the government because of the broad-based coverage of the Council of Presidents, representing every major private sector group in Haiti. Working within the framework of the Council is recommended by the study team because, in addition to holding great promise for catalyzing policy reform with the government, the Council would also help meet one of the other strategic objectives of the project -- building consensus and unity within the private sector in Haiti. Broad-based, pluralistic discussions and debating of real problems facing the private sector could help to bring more credibility to the private organizations.

A second potential delivery point for action-oriented business climate improvement would be a revived CMCID-type forum. At the time of the study team's visit to Haiti, the "Mixed Committee" had not yet been re-established, however, high-level government officials have stated they intend to revive it, using a different name. If this type of structure is revived, USAID could provide funding to the Secretariat, similar to the past, to fund technical assistance for policy papers and reform actions. When it functioned, the previous CMCID was highly effective in effecting important policy reforms in Haiti. In 1986-87 it played a major policy-shaping role in the areas of income tax reform, trade liberalization, reform of parastatals, and export-promotion initiatives.

PROMINEX was also considered as potential delivery point for policy reform assistance. However, the failure of most previous attempts of PROMINEX (at both the Board and staff level) to facilitate and effect policy reform leads the study team to conclude that policy reform should not be a direct objective of the PROMINEX in the near term. If the staff and Board evolve to the point where they can conduct high-level policy analysis and engender government responsiveness, then a broader policy-enhancing responsibility could possibly be assigned to PROMINEX in the future.

Based on the results of the study team's business survey, it is clear that one of the highest priorities for improving the business climate in Haiti is the reform and restructuring of the government-monopolized infrastructure services such as ports, customs, telecommunications, and electricity. These agencies should be corporatized or privatized in order to establish autonomy from political interference as well as introducing commercial practices. Even before these changes are introduced, a "house cleaning" will be needed to eliminate incompetent managers and rampant over-staffing. Multi-lateral donors such as the World Bank and the Inter-American Development Bank are well suited to assist

with the funding of corporatization and the necessary recapitalization of these companies.

In addition to the rehabilitation and the reform of currently state-owned service monopolies, there is a second "fast track" solution to the infrastructure problems which could be introduced to quickly ease the service supply burden to manufacturing companies. Private delivery of these services could be introduced in Haiti through a privately managed and demarcated industrial free zone. Private free zones in many countries in the world, including the Dominican Republic, Togo and Cameroon, are permitted private delivery of infrastructure services such as electricity and telecommunications.

Component B: Direct Business Services Assistance

It is recommended by the study team that USAID provide support to a local institution charged with business and export promotion. The business and export promotion center (the primary implementing agency of the PROBE project) would be service-oriented and designed to satisfy the needs of its clients. It is recommended that target clients are be export manufacturers, agribusiness exporters, travel industry businesses and potential investors in all these sectors¹. The purpose of the organization would be to provide business support services to those clients, consistent with the higher level objective of promoting business, exports, and investment in Haiti.

The study team has identified at least five different options for the institutional framework of the direct business component of the project. The strengths and weaknesses of the alternative options are discussed, leading to set of recommendations for the preferred options.

The five basic institutional options are as follows:

Option 1: Continued funding of PROMINEX, without any serious redirection or focus.

Option 2: A Reconstituted PROMINEX, focussing more on direct business assistance and less on international marketing and promotion work.

Option 3: Create a new business support institution.

¹These sectors are recommended by the study team as target sectors on the basis of our analysis that these sector offer the greatest hope of responding to promotional efforts to expand employment and income generating opportunities in Haiti in the short to medium term.

Option 4: Select an alternative existing organization which will be able to take on additional business and export promotion functions.

Option 5: Distribute functions of proposed organization to multiple implementing institutions.

Selection Criteria

The different institutional options are assessed below according how well they meet the following selection criteria:

- (a) Effectively serve the needs of businesses in Haiti, and lead directly to increased profitability, exports, and employment opportunities.
- (b) Be demonstrably cost effective.
- (c) Be quickly implementable.
- (d) Have a "critical mass" of resources -- financial, technical, and managerial.
- (e) Have the highest possibility of post-project self-sustainability.
- (f) Allow for continuity and "retention of memory" of previous promotional activities.
- (g) The institution should not have a narrow sectoral focus.

Discussion of Options

Option 1 is not recommended by the study team because of the limited success that this approach has achieved in the recent past. Because of the fundamental problems facing firms already operating in Haiti, it is recommended that the new institutional approach followed by the PROBE project focus more on providing business services to the firms which are already operating in Haiti. Option 1 would not allow for this necessary adjustment in approach (not meeting criterion a). In addition, given that PROMINEX in the past has been almost entirely dependent on an outside source of funds (USAID) it is unlikely that it will be able to satisfy criterion e. For these reasons option 1 is not recommended by the study team.

Option 2 has some advantages and disadvantages. On the favorable side, reconstituting PROMINEX would offer greater prospects for retaining the institutional memory (criterion f) relating to any of the existing PROMINEX's strong points, which might include preparation of promotional materials, knowledge of

overseas markets, working relationships with existing exporters, etc. In addition keeping the same name of the organization might help maintain continuity both with overseas business people and with Haitian firms.

On the negative side, Option 2 may be less desirable in that it could be difficult to transform the existing PROMINEX into a more service oriented business and export promotion center (not meeting criterion a). In order to effectively introduce the necessary changes in focus, PROMINEX's decree would probably need revision, along with a probable change in Board membership, a modified organizational chart, as well as some new staff to undertake the new functions assigned to the organization. A new more modest location closer to its customers would also be recommended. Finally, reconstituting PROMINEX may not eliminate one of the basic shortcomings of the current institutional setup for PROMINEX which is that the organization is almost totally dependent on one outside source of funding (USAID) for its existence. It is not clear if this problem would be alleviated with a reconstituted structure (not meeting criterion e).

With so many fundamental changes required to allow a reconstituted PROMINEX to "fit the new bill" (option 2) it may be in fact more feasible to consider assigning the new responsibilities to a separate institution so as to reduce the "reconstitution and transformation costs". Only if PROMINEX were able to quickly re-organize itself and demonstrate that it can meet criteria a, c and e, would option 2 be recommended by the study team.

Option 3 offers the advantage of establishing a new organization for which the charter could be specifically designed to respond to the current priorities of improving the business environment and providing direct business assistance services (criterion a). However, there are several important disadvantages of selecting option 3. First, the start-up costs associated with establishing an entirely new institution are high (not meeting criterion b). Second, the time required to define a new legal structure, select a Board of Directors, recruit new staff, etc. could be excessively long, delaying the important mission of the new center of rapidly creating new employment opportunities (not meeting criterion c). Third, it is likely that establishing a new institution would leave the new institution heavily dependent on outside sources of funding for the foreseeable future (not meeting criterion e). Because of these problems option 3 is not recommended by the study team.

Option 4 has several advantages. If the right institution were selected, all of the criteria a-g could be met. Criterion a could be met since an institution with a clear track record of success in servicing its clients could be selected among the existing private sector organizations. An institution which has

demonstrated cost-effectiveness and sound financial management could also be found among the existing institutions (criterion b). Criterion c could also be met by taking advantage of an existing structure with its own Board, existing building and equipment, staff etc. would allow for quick implementation of the business and export promotion program. Criterion d would be met by option 4 in that a critical mass of resources would be directed at one organization.

Criterion e could be met under option 4 if an organization with a high level of financial self-sufficiency is selected. Financial self-sufficiency in this case is broadly defined to mean that at the end of the four-year PROBE project, the implementing agency will have secured sufficient non-AID sources of funding through such sources as membership dues, fees for services, corporate contributions, and grants from foundations or non-AID development agencies (e.g. World Bank, IAMB, other bilateral donors, etc.).

If an alternative organization to PROMINEX is selected to undertake the business and export promotion services (option 4) then it will be important to plan for the transfer of any memory, data, or equipment relevant to export and investment promotion that PROMINEX currently has to the new business and export promotion center (meeting criterion f). Even if some of the knowledge and information is not of top priority in the short term, if the business climate improves in the future, then international marketing of Haiti as an investment and export site could become an important aspect of the promotional efforts. Previous knowledge and data could be extremely useful for this purpose.

In the choice of the implementing institution under option 4 it would also be important to not select an institution with too narrow a sectoral focus. The study team recommends concentrating on at least three sectors for business and export promotion: the assembly sector; tourism; and agribusiness. If an institution has a past focus which would tend to define or limit the operational scope of the institution to one of these sectors or even to a subset of these sectors then they should be ruled out on those grounds. The AHTH or the APA are examples of institutions whose focus is considered too narrow to be the implementing institution for the PROBE project.

The option of distributing the business and export promotion functions among existing institutions was also considered by the study team (option 5). There are some advantages to this approach. First, it be cost-effective (criterion b) by leveraging existing resources and institutional capacity. Second, this option could be implemented without delay (criterion c). However, the major disadvantage of this approach is that it would not deliver a "critical mass" of financial, technical or managerial resources to one point and would be too diffuse (not meeting criterion d).

Often initiatives fail because they attempt to accomplish too much with too few resources. It is the recommendation of the study team that criterion g be met, and thus option 5 would be rejected on those grounds.

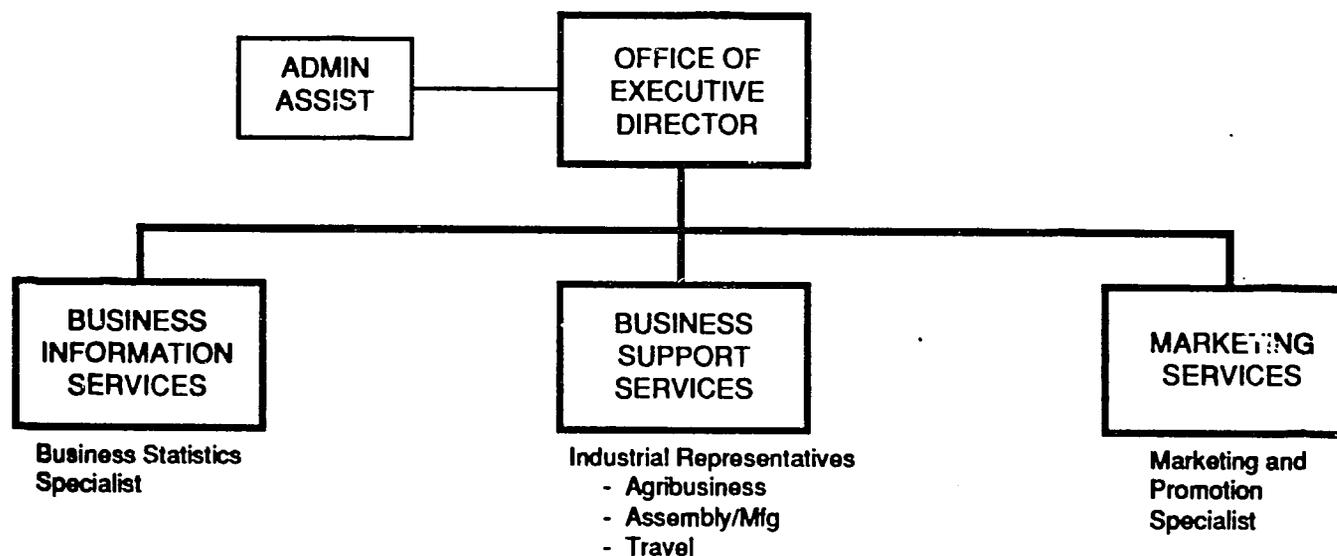
In summary, option 4 appears to be the institutional approach that comes closest to meeting all of the selection criteria. Existing private sector institutions in Haiti which appear to meet most of the selection criteria could be asked to bid for the competitive awarding of contract services under the PROBE project. PROMINEX could also be invited to bid if they feel they can adequately respond to the new focus of the business and export promotion institution. If PROMINEX is not selected as the implementing agency, then measures would need to be taken to transfer any relevant knowledge, equipment and documentation to the new promotion center.

Recommended Organizational Structure

Regardless of the above option selected, the functions of and objectives of the implementing institution with respect to the PROBE project are likely to be the same. The new promotional center under the PROBE could either be an institution in itself or a division of larger institution. Services to be provided by the Center (or Division) include information, business support services and marketing services (see Figure V.D). Initially most of the focus would be placed on business support services and business information services with only limited emphasis on overseas marketing.

The number of staff of the Center (or Division) would be kept small with a core professional staff of 4-5. Consultant services would be engaged to undertake many of the "one-time" services and more specialized activities. Proper staffing of the Business and Export Promotion Center (or Division) will be critical to its success. Ideally some of the staff members will have a background in service industries such as the travel industry, banking, or insurance. Diplomatic service can also be a good background for promotional services work. The industry representatives would ideally have private sector experience in the industries they are representing.

RECOMMENDED STRUCTURE OF BUSINESS AND EXPORT PROMOTION CENTER*



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Keys to Success:

- Advertise all positions to attract best staff
- Survey customers to design service program
- Organization should have high degree of financial self-sufficiency

* Structure proposed here could be either for an autonomous entity, or for a division of an existing institution.

Staff could be appointed on annual contracts, which would be renewed based on satisfactory performance in the provision of client services. One long-term technical assistant would also be made available to the Center (or Division) for a three-year contract, to be renewed annually based on satisfactory performance. The individual would be service-oriented, with his or her work focussing on business support services and business information.

The suggested primary functions of the Center (or Division) would be along the lines described below. It should be noted that for the medium term, each unit would consist of no more than two full-time professionals. Moreover, the marketing unit would initially be part of the another unit, such as the office of the Executive Director (or appropriate title if it is a division of a larger institution), since marketing activities would be limited.

Office of the Executive Director: This office would oversee the activities of the Center (or Division as appropriate) and would carry out liaison with private sector organizations such as the Chamber of Commerce, ADIH, APA, and AHTH, as well as with the government. The director would establish "customer-oriented" management plans for the various Center services units.

Administrative Unit: This unit would be responsible for budgeting, personnel administration, and sub-contracting.

Business Information Services Unit: This unit would be charged with developing business information in response to the needs of businesses, exporters and potential investors. It would also provide market information about export demand trends, trade programs, and other opportunities for Haitian business people. The unit would maintain a data base of key business and economic indicators.

Business Support Services Unit: This unit would provide assistance and advice to businesses in Haiti as well as to foreign investors and buyers interested in doing business in Haiti. It would act as "trouble shooters", helping firms to un snag red tape and reduce delays in their dealings with customs, the electricity company, the telephone company etc. Firm level requests for specialized technical assistance and training would be channeled through this unit.

Marketing Services Unit: This unit would organize activities (e.g. seminars, advertising campaigns, and meetings on business and export promotion issues). In close coordination with the Executive Director, this division would also carry out the Center's public relations program (with local and international press, academia, business groups etc.).

C. Program Emphasis

The primary emphasis is to improve "the product" i.e. the Haitian business climate and then promote Haiti more actively once the product is of competitive quality. Until the climate improves significantly, marketing would be mainly "reactive", responding to inquiries and the needs of potential contractors. The current business climate has enough weaknesses that discourage prospective buyers and investors from responding favorably to marketing efforts. Business climate improvements must be the top priority, otherwise more foreign firms are likely to move their operations to other locations and nationally-owned are likely to invest their additional capital offshore.

If the business climate were to improve significantly, the Center (or Division) would shift to a more "proactive promotion" approach. Significant reforms such as reduction of port charges, rehabilitation of the electricity company, reductions in customs clearance times, announcement of a new private free zone, etc. could be heralded by carefully crafted press release campaign. These events are newsworthy and are likely to be printed as news in international publications. Not only are such articles free advertising, their factual nature makes them even more persuasive than a free advertisement. A proactive program might also include some advertising in carefully targeted industry-specific trade journals and commercial journals rather than general business publications.

One of the Center's (or Division's) first tasks would be to survey their client industries to determine what service assistance they need to run their businesses more efficiently. Based on the needs identified, the Center (or Division) would draw up its work program to meet those needs. The Center (or Division) would also publish information to inform the clients of the services they provide. For the services it cannot deliver, Center (or Division) would provide a list of qualified providers. Most of the Center's (or Division's) activities are to be focussed on business support and information services to companies already in Haiti. A very modest overseas marketing campaign will be funded in the baseline case mainly to demonstrate to contractors and investors that Haiti is still in the market. This might for example include an annual trip to the Caribbean Conference or some other high priority business and export promotion event.

D. Priority Project Activities

A list of top priorities for short-term technical assistance and action activities is provided below:

- Survey by New Center (or Division) of local business and export assistance needs;

- Development of an Exporters' Guide to Haiti;
- Corporatization or privatization of state-owned infrastructure: electricity, telecommunications and port;
- Private export free zones pre-feasibility studies;
- Implementation of one-stop shop for import and export customs procedures;
- Labor code reform and other efforts to improve labor-management relations;
- Middle-management training;
- Backward linkages to local suppliers;
- Exposure tour to successful free zones and export promotion centers in the region;
- Audio and radio dissemination of entrepreneurial training information;
- Development of a Strategic Plan for the Tourism Sector;
- Improve New Center's data base on business and economic statistics.

E. Resources Required for the PROBE Project

A baseline estimate of the USAID resources to implement the above project is \$7 million over a four-year period (see Table V.1 below). The budget is broken down by major project components.

One of the budget items not discussed as a project component above, but consistent with the overall direction and objectives of the project, is a pool of funds which would be made available to the Mission for miscellaneous "need-based" activities. The funds might, for example, be used to finance the pre-feasibility studies for the private free zone. The funds might also be used to finance new private sector initiatives, which for various reasons, fall outside of the domain of the Council of Presidents. For example, if a new association needed assistance or advice on how to get established, USAID could help them through this fund.

In addition to USAID financial contributions, the other possible sources of funding for the New Center include: (i) GOH contributions; (ii) private sources such as user fees and/or membership fees; (iii) other donors' contributions.

TABLE V.1
INDICATIVE PROBE PROJECT
BUDGET FY 92-95 -- USAID CONTRIBUTION
(Thousand \$US)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>Sub-total</u>
Component A - Improving the Business Climate					
I. Council of Presidents	\$ 200	\$ 250	\$ 250	\$ 225	\$ 925
II. New CMCID	100	150	175	150	575
Component B - Direct Business Assistance Service					
I. Operational Grant to New Center	350	350	320	300	1,320
II. Long-Term T.A. to New Center	75	150	150	75	450
III. Firm-Level Training and T.A.	400	400	375	375	1,550
IV. Mission Managed "Needs-Based" T.A. Fund	250	300	300	300	1,150
V. Monitoring/Audits	<u>20</u>	<u>40</u>	<u>60</u>	<u>90</u>	<u>210</u>
Sub-total	\$1,395	\$1,640	\$1,630	\$1,515	\$6,180
Price Escalation*	<u>70</u>	<u>168</u>	<u>257</u>	<u>325</u>	<u>820</u>
Total	\$1,465	\$1,808	\$1,887	\$1,840	\$7,000

*Assuming U.S. dollar denominated annual inflation rate of 5 percent per year.

Because of the current extremely strained government financial situation, only a small portion (say 10 percent) of the New Center's budget can realistically be expected to be contributed by the GOH.

Regarding the second source of funds, experience worldwide has shown that private contributions, while desirable, can provide only about a maximum of 10-20 percent of most business and export promotion Centers' costs. Moreover, private user-fee revenues can not be expected to start flowing until the quality of the promotion center's services has been well established.

In light of these observations, the new center will most likely be forced to rely principally on donor funding over the short to medium term. A multi-donor support of the New Center would eventually be desirable, provided that such funding is properly coordinated. One possible strategy would be for the lead donor (USAID) to finance the core equipment and operating costs of the Center. Other donors might be invited to fund specific bilateral promotional costs such as trade missions, foreign language brochures, market research, etc. Many bilateral donors are particularly willing to support promotional activities geared toward promoting trade or investment from their own countries. Others offer funding for short-term training.

VI. Managing the PROBE Project Under Uncertain and Changing Circumstances

A. Background

In developing their managerial approach to the PROBE Project, the PROBE management team will need to consider the elements of risk and uncertainty that must be factored into projects of this type. The study team is assuming that the business environment is likely to change dramatically over the next few years in Haiti. We base this assumption on the economic and political events of the recent past in Haiti, and experiences learned from other countries. In order to cope with change and uncertainty, it is advisable to prepare contingency plans for all stages of project implementation. Such planning can be a critical factor in responding to negative, "downside" risks, or as a means of capitalizing on emerging opportunities and "upside" risks.

B. Identifying Risk Factors

We are recommending that the PROBE management team identify risk factors and potential obstacles to successful implementation at an early stage. Some of the possible changes represent negative risk factors, while others represent positive opportunities. In evaluating risks that are incumbent to the project, the study team has identified several that should be examined more carefully during the earliest stages of project implementation. Some possible "downside risks" that we foresee include:

1. Lack of political or popular support for expanded private sector (especially export sector) role in the economy.
2. The possible breakdown or dysfunction of the Council of Presidents as a forum for private sector unity and government/private sector dialogue.
3. Decelerated or aborted development of the Mixed Committee.
4. Turnover of government officials or erosion in the government constituencies which support the PROBE project mandate.
5. The emergence of strong constituencies which oppose private sector reform elements of policy required to improve Haiti's business environment.
6. Lack of resolve to reform infrastructure services.
7. Stalemates regarding the implementation of agreed-upon policy, regulatory, or administrative reforms.

8. Deterioration of management/labor relations in the private sector.

Possible "upside risks" or success-related opportunities that should also be considered in project planning and implementation include:

1. A dramatic improvement over the next four years in the overall business climate.
2. The prospect that the success of business and export promotion efforts might exceed the service capacity of the New Promotion Center.
3. The private sector becomes more unified and pluralistic through the Council of Presidents.
4. Another foreign donor or the government of Haiti seeks to build upon initial successes by seeking to expand the role and resources of the New Promotion Center beyond levels anticipated at the project design stage.

C. Development of a Baseline Implementation Plan

Similar to other AID projects, in the PROBE project a logical framework should be designed, outlining the project goals and objectives. The logical framework would be modeled on a baseline implementation scenario, established with objectively verifiable output indicators, based on a realistic set of assumptions about the business and policy environment, institutional framework etc. The project management team should examine each expected output, and determine how each of them is going to be accomplished. These are the project inputs or the resources and activities required to achieve each output. It will be critical that each manager of the various project activities clearly understand what he or she is responsible for carrying out and that he or she "buys in" to the project implementation plan.

It is interesting to note that in the previous project management plan (for the Haiti Export and Investment Promotion Project), summarized by the logical framework in the Project Paper, several of the baseline assumptions for the project proved to be incorrect or changed. For example, the baseline plan assumed that the Mixed Committee would continue to exist. It also assumed that private and public sector would continue to cooperate and dialogue. The economic plan on the Project Paper assumed that exports and investments would continue to rise, and the financial plan assumed that by year 5 PROMINEX would be financially self-sufficient. Nearly all of these assumptions and forecasts proved to be off target. Moreover, when it became clear that the environment was changing and the original assumptions were not holding, there was

no contingency plan to fall back on. The management plan relied heavily on a single set of assumptions with no adjustments anticipated or introduced to respond to changes. To a large extent, the project managers became paralyzed because there was no contingency plan to respond to changes in the business environment.

D. Formulating Contingency Plans and Alternative Scenarios

In order to avoid the same problems in the PROBE project we are recommending: (i) using more realistic assumptions to begin with in the baseline scenario; and (ii) formulating contingency plans in case the baseline set of assumptions and outputs deviate from plans. The study team suggests that three-to-four implementation scenarios be developed to facilitate contingency planning. Scenarios development can be a useful tool decision making under conditions of uncertainty. More specifically:

- Scenarios provide frameworks for structuring the manager's perceptions about alternative future environments in which the project might be implemented.
- They confront uncertainty better than single-point forecasting or a single set of assumptions by defining the limits of planning uncertainty.
- They identify the full range of opportunities and threats likely to confront the project.
- Scenarios act as "test beds" for assessing the resilience and payoffs of alternative options and contingencies.

Consistent with the job creation scenarios developed in Chapter V, project implementation scenarios could be designed for different sets of environmental assumptions. A different set of outputs, inputs, and environmental and institutional assumptions would be associated with each of the implementation scenarios. Previous experience in Haiti suggests that a high growth scenario is not highly likely in the short run due to the constrained business environment. Experience elsewhere does indicate, however, that significant promotional success can be achieved even in constrained environments by focussing on high potential firms in specific sectors¹. Three possible scenarios might be:

¹See "Promoting Trade and Investment in Constrained Environments: AID's Experience in the Latin America and the Caribbean," November 1989 by Louis Berger International. See particularly page 30 about the promotion experience in the constrained environment in Honduras. Initially the export promotion program there was overly ambitious, but later they adopted a more modest and targeted program aimed at high potential firms in

Scenario A (Baseline Scenario): No major improvement in the business environment resulting in slow growth in employment and exports.

Scenario B (Growth Scenario): Major improvements in the business and policy environment resulting in a marked increase in employment and exports. Under this scenario Haiti can be considered as a competitive site in the Caribbean for investment and exporting.

Scenario C (Deterioration Scenario): Serious worsening in the business environment leading to declines in employment and export levels.

E. Establishment of Performance Indicators

Output indicators would be established across all of the project activities for each scenario: (i) training and technical assistance; (ii) business support services; (iii) information services; (iv) export promotion; and (v) business environment improvement. The project activity goals would need to be as specific as possible in order to increase the likelihood of effective execution. Illustrative examples of quantitative indicator targets include: the number of firms created or assisted, growth in exports and employment in targeted sectors; number of policy studies and position papers resulting in improvements in the business environment, etc.

Because the New Promotion Center will be a service organization, the ultimate indicator of the success of the organization will be the level of satisfaction of the customers it is serving. To measure this indicator, frequent independent surveys of the new Promotion Center's business clients should be programmed into the implementation and monitoring plans.

Project implementation schedules would also need to remain attentive to the sequencing of activities such as institutional development, staff training, domestic outreach, policy analysis, and promotional strategy development. Short-cuts in project implementation should be avoided.

The implementing units which perform their activities the most successfully should be rewarded by the management team.

specific sectors. After adjusting the program FIDE achieved moderate success in an unfavorable environment.

Performance-based incentives can include, inter alia, additional budgetary resources to the performing units, salary increases, promotions, awards, and press coverage of successful activities.

F. Tracking Indicators through an MIS System

The key implementation and performance indicators would be tracked through an automated MIS system established by the project management team. Under the MIS system, output and input indicators for each of the main project components would be tracked to measure performance against the implementation schedule in the baseline scenario. Information from the Promotion Center client surveys would also be integrated into the MIS system. The automated MIS system would be easy-to-use, menu driven system. It will be used to improve overall project management, facilitate the decision making process, enhance quality control, and encourage productivity.

An "early warning alert system" could be incorporated into the MIS system to test whether the project is getting off track. The early warning alert system would begin by identifying the key problems that are the most likely to become obstacles to successful plan implementation. These problems could associated many of the "downside risks" which have been identified above. Illustrative examples of early warning indicators of problems include: (i) the Board of Directors of the New Promotion Center stops meeting; or (ii) a survey of private sector clients indicates dissatisfaction with the quality of service provided by the New Center; or (iii) a set of reforms widely endorsed by the key private sector groups is rejected by the government, etc.

The problems would then be incorporated into a set of questions that, if regularly and objectively answered, would pinpoint problems at an early, precrisis stage. An efficient line of communication between project managers would also be drawn to encourage constructive joint action when an early warning is reported. The early warning system would establish a regular monthly reporting system assessing all components of the project. It would confirm that components are:

- Green light = "OK," -- no problems
- Yellow light ="Caution" -- potential problems have been identified by project manager
- Red light = "Warning" -- problems require management assistance

G. Adjusting the Program in Response to Changes

In order to prepare for risks and uncertainties, we suggest a management approach which will allow the PROBE management team

to frequently adjust the program in response to changes in the environment and marketplace. The system would help ensure a constructive, positive environment for managing the project and resolving problems. It should help avoid project crises or management inertia.

The level of managerial input needed would be defined according to the magnitude of the problem. For example at the AID Mission level, the project manager might discuss solutions to all "caution" indicators with the Chief of the Private Sector Office, while all "warning" indicators might require input from the Mission Chief before a solution could be found.

If the management assessment of the "warning" indicators determined that implementation was seriously off course, a number of management solutions could be introduced such as implementing one of the contingency plans or alternative scenarios. In these cases, assumptions and targets of one the contingency scenarios would be utilized to develop a new implementation plan. In the very worst case scenario, if major obstacles impeded the project from accomplishing its agreed-upon mandate, a high-level managerial decision could be taken to cancel the project.

H. Implementation Guidelines

In order to best prepare for risks and uncertainty, the following guidelines are proposed by the study team for the management of the PROBE project:

1. The management of the PROBE project will require extensive interaction and communications among the project management team.
2. Initially it is recommended that the project be carried out with modest expectations and objectives, in targeted sectors offering the greatest chances of success. Targets may be revised upwards in response to changes in the environment, but only in the presence of compelling prospects for success.
3. The Promotion targets should be as specific as possible in order to increase the likelihood of effective execution.
4. Project planners and implementors must remain attentive to the proper sequencing of implementation activities. Implementation shortcuts should be avoided.
5. Contingency plans must be developed in the early stages of project implementation planning, rather than after the fact.

6. Early warning indicators must be developed in order to identify if, when, and how the project is getting off course.
7. The PROBE management staff should test, review, and adjust the implementation strategy frequently as changes in the marketplace and the environment warrant.

ANNEX 1

LIST OF INTERVIEWS

60H

Mrs. Marie Michele Rey, Minister of Economy and Finance
Mrs. Julie Carre, General Director, Ministry of Commerce and Industry

Private Sector Associations

Mr. Gerard Bailly, President of the Chamber of Commerce and Industry
Mr. Jean-Edouard Baker, President of ADIH
Mr. Frantz Gardere, President of APRONAH
Mr. Charles Clermont, President of APB
Mr. Richard Sassine, President of AAM
Mr. Fritz de Catalongne, President of AAH
Mr. Raoul Auguste, Cap-Haitien Chamber of Commerce
Mr. Rudolph Boulos, President of AIHE
Mr. Bertrand Roy, Executive Director of APA
Mr. Roger Dunivell of AHTH

Other Organizations

Mr. Maurice Weiner, Executive Director of CMP
Mr. Joel Thebaud, Executive Director of PROMINEX
Mr. Claude Levy, President of the Board of PROMINEX
Mr. Saidel Laine, Board Member of PROMINEX

Private Companies

Mr. Jeffrey Blatt, Luke Manufacturing
Mr. Bob Loughlin, Releve Industries
Mr. Lucien Rousseau, Rainbow Industries
Mr. Richard Kern, Heiden Moden
Mr. J. M. Buteau, J.M.B. Exports
Mr. Robert Handal, General Sewing Ent.
Mr. Nagib Handal, General Sewing Ent.
Ms. Chantal Ewald, Hudicourt, Elie and Woolley
Mr. Nonce Zephir, Etablessements Novella
Ms. Deborah Currelly, Needlepoint Exports
Ms. Ann Hauge, Agri-Supply
Ms. Mireille Merove-Pierre, Merove-Pierre Accounting Firm
Mr. Herve Nau, CM Brokerage
Ms. Youri Mevs Philippon, Shodecosa Industrial Park
Mr. Joel Reycraft, Haiti Ceramics
Mr. Victor Boulos, Ace Basket
Mr. Joe Jordon, Kellwood
Mr. Philip Balthazar, Mostro International

Individuals

Mr. Leslie Delatour
Ms. Maryse Penette

USAID

Mr. Don Smith, OPE USAID/Haiti
Mr. John Currelly, OPE USAID/Haiti
Mr. Jim Vermillion, LAC Bureau
Ms. Mary Beth Allen, LAC Bureau

U.S. Department of State

Mr. Eugene Tuttle, Economic/Commercial Officer, U.S. Fmbassy,
Haiti
Mr. Aruna Amirthanayagam, Economic/Commerce Attache, U.S.
Embassy, Haiti

ANNEX 2

HAITIAN BUSINESS SURVEY

Company Name: _____

Contact Person: _____ Position: _____

Address: _____ Telephone: _____

Contact Date: _____ Interviewee: _____

I. COMPANY BACKGROUND

A. Ownership Structure:

- 100% local
- 100% foreign (where) _____
- Joint Venture

B. Start of Initial Local Operations: _____

C. Number of Employees: _____

D. What are your primary products?

E. What is your total annual production?

Total Sales: _____

Total Units: _____

F. Origin of Raw Materials:

1. U.S.: _____

2. Local: _____

3. Other: _____

G. Destination of Exports:

1. U.S.: _____

2. Local: _____

3. Other: _____

H. Are your export products shipped by air or by sea?

air _____ sea _____

I. Do you take advantage of any of the following trade programs?

806/807 []

GSP []

CBI []

Other []

J. How has your sales volume changed over the last year?

1. Improved _____ 2. No change _____

3. Deteriorated _____ 4. Don't know _____

II. WORK FORCE

A. Average salary and wage rates?

1. Unskilled: _____

2. Skilled: _____

3. Managerial: _____

B. How much do fringe benefits or add to the total? _____%

C. Number of hours worked per week? _____

D. Any notable labor shortages or skill deficiencies?

1. Unskilled: _____

2. Skilled: _____

3. Managerial: _____

E. Any union activity? _____

F. Percentage of absenteeism and turnover per year?

absenteeism _____% turnover _____%

G. How does labor productivity compare with other locations that you or your company has experienced? _____

III. CURRENT OBSTACLES AND CONSTRAINTS

A. The business environment within which your firm operates is:

- 1. Better than it was a year ago _____
- 2. Worse than it was a year ago _____
- 3. The same as a year ago _____

B. What are the primary infrastructure constraints to your operations?

AVAILABILITY COST QUALITY

- 1. Telecommunications
- 2. Electricity
- 3. Roads
- 4. Ports
- 5. Airport
- 6. Water

C. What are your primary regulatory constraints?

- Investment approval _____
- Tax regulations _____
- Foreign exchange controls _____
- Import procedures _____
- Export controls _____
- Customs (time period to clear goods) _____

D. Are there any other serious obstacles to your business?

E. Do you belong to any type of business or trade association? _____ (If yes, specify:) _____

F. Please rate the following business organizations according to their effectiveness:

- | | <u>Very Effective</u> | <u>Effective</u> | <u>Not Effective</u> |
|-------------|-----------------------|------------------|----------------------|
| 1. PROMINEX | | | |
| 2. APA | | | |
| 3. APRONAH | | | |
| 4. AHTH | | | |
| 5. ADIH | | | |

G. Which of the following services would you want a business or trade association to offer (or increase).

- | | <u>YES</u> | <u>NO</u> |
|---------------------------------|------------|-----------|
| 1. Access to credit | | |
| 2. Technical assistance | | |
| 3. Personnel training | | |
| 4. Contacts with government | | |
| 5. Feasibility studies | | |
| 6. Market information | | |
| 7. Trade/Investment matchmaking | | |
| 8. Other | | |

H. What specific steps could the government or a foreign aid agency take to assist your operations? _____

IV. SUBCONTRACTING AND LOCAL SOURCING

A. Does your firm have any experience in subcontracting?

B. What factors constrain expansion of subcontracting?

C. What goods or services do you purchase locally? _____

D. What factors constrain local sourcing? (quality, reliability, price, trade programs, marketing, local regulations/bureaucracy) _____

E. What steps can be taken to increase local sourcing and subcontracting? _____

V. FUTURE PLANS

A. Do you have any plans to expand upon your present facilities? (time frame) _____

B. What is your preferred location within the country? _____

C. Do you prefer to be in a free zone or operate outside?

ANNEX 3

LIST OF 16 PRIVATE SECTOR ASSOCIATIONS IN HAITI

Association des Agences de Voyage

Association des Assureurs d'Haiti

Association Hotelière et Touristique d'Haiti

Association Interaméricaine des Hommes d'Affaires

Association Nationale des Importateurs de Produits Pharmaceutiques

Association Professionnelle des Banques

Chambre de Commerce et d'Industrie d'Haiti

Haitian-American Chamber of Commerce

Associations des Agences Maritimes

Association des Exportateurs de Café

Association des Industries d'Haiti

Association Nationale des Distributeurs de Produits Pétroliers

Association des Producteurs Agricoles

Association des Producteurs Nationaux

Chambre Franco-Haitienne de Commerce et d'Industrie