FINAL REPORT - PRE AID

"The Haitian Capital Market -
Institutions, Problems and Prospects"

August 23, 1982

by

Phillips Perera

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I FINDINGS AND RECOMMENDATIONS

(A) Findings

(i) Private Haitian businessmen and investors lack confidence in the Government of Haiti ("GOH") and are not committing capital to long term projects; most have their capital in time deposits with branches of foreign banks or are moving capital overseas. The flight of capital is exacerbating a serious foreign exchange shortage. Dissatisfaction is growing among businessmen.

(ii) As a result of (i) above the local capital market is relatively inactive and lacking in new initiatives. Until real confidence in the GOH and Haitian economic prospects is restored, few meaningful steps can be taken to expand and deepen the capital market.

(iii) The present capital market structure embraces a very limited number of institutions that provide over one year financing to private and public sector borrowers. There is no formal secondary market for debt securities and equities. The potential for development of a viable secondary market exists but the first step is to improve the investment climate and investment systems.

(iv) A major constraint to expanding broad investor interest in select Haitian businesses is the total inadequacy of accounting and reporting systems. Reportedly, few, if any private companies have U.S. type audits. Further, there appears a paucity of responsible accounting systems in Haitian private businesses. The two U.S. accounting firms are working hard to change the system but it is a major uphill fight.

(v) Reflecting (i) above, few Haitian businessmen and bankers believe that present laws and regulations protecting or encouraging private business in Haiti are properly enforced. For example, a number of government encouraged import substitute industries have reportedly been badly hurt by GOH's change of laws or unwillingness to enforce market protection.

(vi) Many bankers express little confidence in the operations and policies of the Central Bank.

(vii) Haiti lacks good projects. The time honoured statement applies that "the problem is a lack of bankable projects not capital." One reason for a lack of well defined projects is, as stated, a lack of investor confidence in GOH; another, is the absence of a good project development and packaging system in Haiti.

(viii) The Institute de Developpement Agricole et Industriel ("IDAI") is going "full speed" to become a public development bank. IDAI management states that it will compete forcefully with private sector institutions for business. One gets the impression that it will not play the role of the more typical public development bank which is not to compete with private financing institutions (e.g. DFC's) but to operate in those niches and sectors of the economy where projects are (a) beyond the financial capabilities of private investment and (b) not sufficiently profitable to attract private money but are of high national development value.

(ix) There is very <u>convincing</u> private sector support for a private development finance company ("DFC"). Key private sector Haitian businessmen have escrowed nearly three-quarters of a million dollars to equity capitalize a DFC. With this level of support in the <u>uncertain times</u> that prevail, the DFC could emerge later, if well managed, as a major development force in Haiti. It could spearhead changes in laws and regulations as well as accounting procedures by insisting that all its projects "season" with high level accounting/auditing procedures. Further it could serve as an important watchdog to ensure that relevant laws and rules protecting or incenting investments are enforced.

(x) Commercial banks are not cooperating as they should and need institutional encouragement and leadership to broaden and deepen the local capital market. A well managed and highly disciplined DFC could meaningfully attract banks into the development capital effort through co-financing arrangements and other forms of collaboration. (e.g. working through a commercial bank's international network to find foreign partners for local joint ventures).

(xi) External assistance sources(AID, IDB, IBRD Etc.) should exert more leverage to get changes in the system (e.g. restore confidence). Unless steps are taken immediately to correct problems bothering private Haitian business people, the overall Haitian economy will continue to worsen as projects are delayed or postponed indefinitely.

(B) Recommendations

(i) That PRE AID work closely with the AID mission in Haiti to ensure that whatever steps necessary are taken to get proposed DFC enabling legislation through by early Fall.

(ii) That PRE AID be prepared to work with AID/Haiti to provide grant support for the start-up of a private project development company (PDC) to help deserving Haitian business people develop bankable projects. The PDC would provide important pre feasibility and feasibility study assistance to qualified entrepreneurs on a cost reimburseable basis. PRE AID support could be in the form of training grants to develop key staff and procedures in the PDC.

(iii) As above, that PRE AID be prepared, as already proposed, to assist the DFC with (a) grant support for the training of staff and (b) with reasonably priced long term money (15 years) for sub lending. PRE AID should coordinate with the IBRD and take whatever steps appropriate to have it qualify the DFC for FDI* rediscounting and other financial support.

(iv) That PRE AID use its credit guaranty facility to create a basis for attracting the commercial banks into the development finance business. The PRE AID credit guaranty could be used to help the DFC bring commercial banks into appropriate development loans. If used right this mechanism could catalyze significant additional private financing for sound development projects.

(v) That PRE AID spearhead whatever reasonable effort can be taken to get all bilateral and multilateral agencies to work together to get GOH to take the steps necessary to create confidence and improve the investment climate.

* Fond de Dèveloppement Industriel

II Overview

The capital market (local institutional sources of over one year financing) in Haiti is a primary market or one where a limited number of institutions provide medium and long term capital to private and public sector borrowers. There is no secondary market where debt securities or equities held by individuals or institutions may be sold. Whatever trading does exist is on a private basis and of insignificant proportions. Further, there are no short term money market instruments representing private or government borrowers. The absence of government paper in the local market is not surprising given the poor credit history of the Haitian Government in the local market (e.g. Certificate de Liberation Economique "CLE" experience).

The capital market is composed of one government owned commercial bank, two Haitian owned commercial banks, five foreign banks and essentially one Haitian Government development finance entity (Institute de Developpment de Agricole et Industriel "IDAI"). Other entities such as insurance companies, the IBRD sponsored Fond de Developpment Industriel (FDI), the Haitian Development Foundation (HDF) and Banque de Credit Agricole (BCA) have a minor influence at present.

The total loan portfolio of both government and private owned commercial banks is estimated to be about $220 million with about 30 - 40% of this amount or $66 - 88 million "term in nature" (see Attachment I). Such lending is really not capital lending but "roll over" finance for various operating needs of borrowers. IDAI had loans on its books (as of May 1982) of approximately $13 million with over 60% of the figure loaned to industry. Since 1961, IDB reports it has made global lines of credit of $11.1 million to IDAI for sub lending to industrial and agro-business borrowers. Reportedly all of this money has been loaned out. At present further accommodation is being considered by IDB. IDB representatives consider the present relationship with IDAI "satisfactory." OPEC has made available additional funds estimated to be around $3 million for similar purposes.

A potentially significant mechanism for injecting capital resources into the Haitian private sector is FDI. It reportedly has about $10 million of IBRD monies to make available. This mechanism was established in 1980 and is attempting to provide medium and long term financing to private sector Haitian controlled enterprises through a rediscount window for commercial banks; this program is reportedly not succeeding at present due to excess bank liquidity, a poor investment climate and a general lack of enthusiasm for the program expressed by bankers.

Haitian and foreign commercial banks operating in Haiti do provide loan facilities in the one to three-year category to their best customers; in most cases these facilities are extensions of demand loan agreements where promissory notes are secured by land and buildings. These facilities are generally not structured as term loans to be repaid out of cash flow from projects but rather flexible financing arrangements for their best clients.

The Central Bank has little impact on the capital market. Although rate structures are set by the Central Bank the bank is essentially "laissez faire" and appears to do little to encourage capital formation (e.g. no active rediscount programs for capital loans, limited information support). Local bankers express little confidence in Central Bank operations.

The primary constraint the capital market faces today in developing resources and new initiatives is the lack of confidence Haitian private businessmen have in Government policy and proclamations. Consequently, they are sending capital out of the country or holding it "in term deposits" primarily with the local branches of foreign banks. Most feel the government has done little to impart a sense of investment stability. Government officials are changed regularly and without good reason and existing laws protecting investment are not enforced evenly when and if they are enforced. Simply stated, those who have the ability to commit long term private capital are reluctant to do so until they are convinced their capital will be protected over a reasonable investment term.

There is considerable liquidity in the Haitian banking system today reflecting the desire of Haitian investors to "stay short" in the market. Many banks are refusing to accept new term deposits at market rates unless they are from established clients. Bankers report a limited ability to make reasonable spreads on new loans funded with term deposit resources.

Before an active and viable capital market can be developed in Haiti, structural deficiencies must be addressed. The Government must redress its poor image and show leadership. The laws that presently exist should be enforced evenly across the board. Steps should be taken to collect taxes due and channel the money into the economy on a planned basis.

There is a clear need for a private development finance company (DFC) to help the private sector in packaging and matriculating long term private development projects. There is considerable support for such an institution from private Haitian businessmen who have today contributed nearly $700,000 to the initial equity capital needs of this institution; it would be a great shame not to harness the resources, energy and business knowledge of this group to start-up a private development finance company in Haiti. In conjunction with the private development finance company, there should be a private project development company established with it to help entrepreneurs identify and assemble projects that could later be financed by the DFC and others.

III

A Commercial Banks

1. Haitian Banks

a. Public Sector

1. Banque Nationale De Credit (BNC)

There were no direct interviews with BNC Management. Accordingly all comments on BNC are second hand.

BNC was created in 1979 when the old Central Bank "Banque Nationale de la Republique d'Haiti ("BNRH") was split into two entities. The commercial banking activities of BNRH were assigned to a new entity BNC and the central banking function to Banque de la Republique d'Haiti (BRH). Reportedly the functions enjoy totally separate accounting and systems. The new Minister of Finance stated in an interview that the two entities which are now in the old BNRH location will soon have separate facilities. There is some concern on the part of the Ministry of Finance that having the two institutions in the same building may be encouraging some BNC loans to BRH that never make the records at the Ministry.

Although not substantiated, it was reported from a reliable source that BNC currently holds over 100 million gourdes of government debt that is non interest bearing and in default. If this is in fact the case, BNC is almost insolvent since its capital and reserves are only 115 million gourdes.

BNC reportedly has few private depositors. Its deposit base of $83 million# is drawn primarily from government employees, foreign diplomatic missions in Haiti and companies with government contracts. These might be considered "forced deposits."

BNC has an extensive branch network in Haiti. However most private businessmen reportedly do not choose to bank with BNC since it is government institution and politically influenced. As of December 31, 1981, BNC had deposits of $83 million and loans of $73 million.#

b. Private Sector

1. Banque De L'Union Haitiene SA ("BUH")

BUH is an apparently well managed and innovative commercial bank. It is the only Societé Anonyme (Public Company) in Haiti with 60,000 shares authorized,

Source: Citibank Study/Haiti

As of 1981 there were 1322 shareholders. BUH reports that it makes a market in its shares. It has recently sold new shares to each existing shareholder of record and offered 312 shares to new shareholders. This will bring the total outstanding to almost the authorized capital of 60,000 shares. BUH reportedly buys its shares back at par ($50) and sells them to new investors at a premium of $5 to reflect its estimate of a reasonable discount from market value (about $63/share).

BUH was formed in 1973. Its initial years were marked by ambitious programs. It has been involved in housing financing. Its deposit base is drawn primarily from savings accounts which have been growing significantly BUH will accept deposits of $5 and up. The bank does some term lending now but on a fully secured basis. BUH might consider a leasing program for clients.

As of 1981 (July) BUH reported total assets of $38.3 million, deposits of $20 million and loans of $12 million. Its net profits increased $175,849 or 48% from $365,458 in 1980 to $541,307 in 1981. As of December 31, 1981 it had deposits of $24 million and loans of $15.6 million#.

Source: Citibank Study/Haiti

2. Foreign Banks

a. Royal Bank of Canada

The Royal Bank is the oldest foreign bank in Haiti (1919) and until the early 1970's was blocked by the government from paying interest on deposits (GOH fear of competition). It provides the usual working capital facilities to local businessmen (importers, exporters, businesses with seasonal financing needs). According to its management over 75% of its facilities are over one year or provided on a roll over basis. It does some 5-year financing for special purposes when it has a good client and has sound collateral. Most of its clients don't need financing for over 3 years.

Royal Bank is basically a conservative bank that clearly knows how to operate in an unsettled environment. It has excellent credit files on Haitians and Haitian businesses and emphasizes that credit information exchanges in Haiti among banks are all "one way" (from Royal Bank to others).

Royal Bank had deposits of $69 million and loans of $52.7 million on December 31, 1981.

b. Bank of Boston

Bank of Boston provides the usual working capital facilities to private business in Haiti. It finances a range of clients from car importers, food distributors, pharmaceutical companies to the construction industry.

Source: Citibank Study/Haiti

Most of its loans are secured by real estate improvements such as buildings. The bank is flush with funds and is presently paying only 12% on time deposits, if it takes them. Many depositors are being turned down.

Bank of Boston does some medium term cash flow lending.

Bank of Boston had deposits of $40.6 million and loans of $23.9 million as of December 31, 1981.[#]

c. Banque Nationale De Paris (BNP)

BNP is a conservatively managed bank that makes some loans on terms up to three years when the client is well known and there is strong collateral backing a loan. It does not lend over three years. BNP had deposits of $30.9 million and loans of $21.9 million as of December 31, 1981.

d. The Bank of Nova Scotia

This bank conducts a normal working capital loan operation with a reasonable proportion of its lending over one year. Almost 100% of its loans are secured by mortgages on developed real estate (houses, factories, buildings). The bank reportedly has tight controls on its term lending activities to ensure that monies advanced are used for approved purposes (e.g. not to acquire dollars in the parallel market).

Source: Citibank Study/Haiti

Bank of Nova Scotia in 1982 took over the business (assets and liabilities) of The First National Bank of Chicago ("Chicago") when it decided to close operations in Haiti. Chicago reportedly was a wholesale oriented bank not geared to serve an essentially retail market in Haiti.

Bank of Nova Scotia is engaged in inter bank borrowing. Reportedly, it does more interbank borrowing than any other bank. This approach provides cheap money since reserves are not required. The bank is paying a low of 8% for interbank money; normal money market rates would be 12 - 13%.

According to Nova Scotia Management, it is very difficult in Haiti to collect on unsecured promissory notes that go into default. They emphasize however that there is no problem collecting on mortgages secured by land and buildings (foreclosure proceedings are straightforward).

Bank of Nova Scotia had deposits of $26.7 million and loans of $17.7 million as of December 31, 1981.#

e. Citibank

Citibank appears to be an innovative and well managed banking operation in Haiti. Its manager is well known and hardworking. Citibank is a wholesale bank in Haiti with about 60 clients. Citibank does a lot of term lending on

Source: Citibank Study (At present Bank of Nova Scotia's loans and deposits include those of the First Nat Bank of Chicago as part of an arrangement with Chicago - see Attachment II)

a cash flow basis; it like the other foreign banks, is not bothered by the 10% rule (10% of loans can be over one year) in fact, many of its loans are term in nature. Citibank is however very rigorous in setting loan conditions and monitoring results. If a loan is 60 days in arrears on interest, the loan must be recorded in New York as a non performing asset. Accordingly strict discipline is maintained to prevent slow payments of interest and principal.

Citibank is planning to do a project with FDI and is well advanced in preparing a loan application.

Citibank finds it hard to get good credits in Haiti.

The bank had deposits of $17 million and loans of $14.3 million# as of December 31, 1981.

3. Market

a. Loan Demand and Growth

Published statistics were not available on commercial loan demand and loan growth in Haiti but figures were derived through discussions with commercial bankers. As of December 31, 1981 private sector commercial bank loans were estimated to be about $148 million. (See attachment I Including loans on the books of the Banque Nationale de Credit totalling $73 million the total market approximates $220,000. Net incremental lending by all private commercia

Source: Citibank Study/Haiti

banks in 1981 (over 1980) was reported to be $9 million which represents a 6% increase in loan demand. Including BNC, the comparable figure is $29 million. Most commercial bankers concede that the private loan market is basically stagnant at present. Some believe it could decline if the overall business situation in Haiti doesn't improve.

In Summary, seven private banks are competing for about $148 million of stagnant private loan demand (see attachment II).

b. Rate Structure

1. Deposits

Account	*Int. Permitted	*Reserve Req.	Effective cost of Savings
Checking	-	34%	-
Savings	6%	34%	9.1%
Time Deposit			
Less 1 year	11 - 15%	20%	14 - 19%
Over 1 year	12 - 18%	10%	13.3 - 20%
Over $100,000	13 - 18%	Depends whether over 1 yr.	

2. Loans#

Min. Rate	Max. Rate	Average Rate
14½%	19%	15%

By the Central Bank
Source: Citibank. Some banks are charging as low as 13% due to excess funds

At present, commercial banks are operating at about a break-even. One banker reported it now takes a 5-6% spread to break-even on a fully costed basis. As spreads decline in a period of surplus funds and stagnant borrowing demand, many commercial banks may incur operating losses.

c. Term Nature of Commercial Bank Loan Portfolios

Although there is a "rule" (there is some question whether this rule is policy or law) that only 10% of commercial bank loans may be over one year, most banks are well in excess of 10%. *Loan arrangements include working capital facilities that are not fully paid out each year and agreements with borrowers that demand loans for particul: purposes not be repaid for two to three years. Only two of the commercial banks (Citibank and Boston) are reported to be structuring term loans to be paid back out of cash flow.

Clearly if a good bank customer wants up to five year loan accommodation, the customer will get the financing on some basis. Typically collateral in the form of real estate improvements (buildings) will be obtained.

All bankers want to see legal and institutional changes taken to permit commercial banks to take moveable physical property (machinery and equipment) as security (e.g. chattel mortgages).

* It is likely that perhaps as much as 30-40% of total loans outstanding ($220 million) or $66 million to $88 million is "term in nature."

d. Cooperation Between Banks

There appears to be a minimum of cooperation between banks at present. Bankers seem to recognize this problem and wish to correct it. The energy for this correction must come from the bankers and not from outside. As an example banks are very reluctant to convey credit information on their customers to other banks. Simply stated, they are afraid of aiding a competitor who might use information to take away a customer. One bank reported that a recent credit report went as follows - "There is nothing detrimental on file."

Given the small loan market "pie" in Haiti, it is understandable that banks will play their cards "close to the chest." However if the market can be expanded and deepened, it is to be likely that commercial banks will cooperate more.

e. Rapport Between existing Development Finance Institutions/mechanisms and the Commercial Banks.

At present, commercial banks are not working effectively with FDI. One major reason is that at present the banks are overliquid and can meet most client needs with their own funds. Most customers don't need five to seven year funds anyway. If the market was tighter, there would be a greater use of FDI. Some complain that the spread the banks earn (1/6 of the FDI fee) of about 2-3% is not compensatory for the effort of packaging the loan for FDI and then maintaining a credit risk in the loan.

But to "show the flag" some banks want to use FDI in the near future. They will be more willing to do so if the FDI use generates collateral business for them.

IDAI is not accessed by the commercial banks. Most bankers reported IDAI is a poorly managed operation that is "half economic and half political." One should clearly question whether the commercial banks would readily enter into co-financing schemes with IDAI as presently managed.

B Role of Central Bank

The new Central Bank, Banque de La Republique d'Haiti is strictly a central banking operation. Previously, under the old system, the central bank Banque Nationale de La Republique d'Haiti was both a central bank and commercial bank. This provided for reportedly considerable mis-management of funds since accounting systems were not well established and enforced. Now all the commercial bank functions have been assigned to BNC.

The Central Bank sets rules for loans and deposits with respect to commercial banks in Haiti. The current rate structure was established in 1980. The Central Bank does not set standards for credit allocation within the Haitian economy. Bankers exist in a "laissez faire" economy as far as how they use their funds.

The Central Bank can rediscount loans of commercial banks but it has not done so for years. Some commercial bankers are not even aware of this facility being in existence

Many bankers question the ability of the Central Bank to return bank reserves should deposits at commercial banks decline. As one banker expressed it, "it would be an embarrassing situation." Many are unsure if bank reserves are at the Central Bank or at BNC (those reserves placed with the old Central Bank). Also some informed individuals report that the government has an overdraft facility with the Central Bank and that the facility is used irresponsibly. Also some indicated BNC is lending to the Central Bank to provide back door financing to the government.

All of the above comments were made by senior bankers who should have confidence in the system. Clearly they do not

C. Institut de Developpement Agricole et Industriel ("IDAI")

IDAI was established in 1961 and is the only entity in Haiti providing development finance to small and medium scale industry and smaller scale agricultural projects. IDAI is presently in a major reorganization re direction mode. Its investment arm Société d'Equipement National ("SEN") is now operationally (accounting etc.) separate from IDAI and IDAI is now being reconstructed as a National Development Bank.

IDAI is managed by Bernard Fattou an articulate and knowledgeable individual. The general manager reports t an executive board composed of the following: Minister of Agriculture, Minister of Finance, Minister of Commerce and Industry, Minister of Planning and the Governor of the Central

Bank. Reportedly there are seven operating divisions as follows:

- Administrative
- Finance
- Comptroller
- Credit Division for Agriculture
- Credit Division for Industry
- Promotion Division for Agriculture
- Promotion Division for Industry

IDAI operates throughout the country and has four main offices out of Port-au-Prince. These offices work with many sub offices.

IDAI relies on the following funding source:

1) GOH
2) IDB
3) OPEC
4) OAS (Program)

The policy of SEN has been to joint venture projects with private investors. An exception to this approach are major government projects such as The Industrial Park. As of June 1982 SEN's total assets were 43 million gourdes or about $9 million; reportedly its joint venture investments totalled 4,500,000 gourdes or about $900,000 at the same time.# By law if investors want to acquire SEN investments, they have the right to do so; however SEN has yet to make a sale. The manager director reported "there are no buyers."

Figures provided by IDAI senior management during interview.

IDAI's loans as of May 1982 were as follows:

Agricultural loans	- 21,590,304	Gourdes	$ 4,318,061
Industrial "	- 43,417,604	"	$ 8,683,520
Total	65,007,908	"	$13,001,581 #

IDAI through SEN has been widely criticized for serving as a forced low price crop market for Haitian farmers using IDAI credit. IDAI typically makes a crop financing loan to a farmer contingent on the crop (e.g. cotton) being sold to SEN and the loan repaid directly by SEN out of proceeds. Outsiders believe SEN pays below market rates for the crop and since borrowers must go through SEN they have no choice. IDAI management is adamant that the farmers do get a fair market price through SEN and would likely do worse if they sold through third parties. (no comment)

IDAI can take chattel mortgages, unlike commercial banks. It is considering leasing programs. IDAI can provide both working capital and the longer term facilities. However it is now considering co-financing with commercial banks; in such cases the commercial banks would provide the working capital and possibly buy the early maturities of development loans.

Management reports that it takes two to three months to get loans approved although outsiders report much longer processing times. It is trying to reduce the local processing

Figures provided by IDAI senior management during interview.

period; but since most of the loan application and project development work falls on the shoulders of IDAI staff it is not easy to save time. IDAI is however staffed and prepared to do project promotion and development work underwriting the cost with its own funds.

IDAI has borrowed once from a commercial bank. It has never rediscounted with the Central Bank and is not eligible to use FDI.

COMMENT

IDAI should continue to play a key role in the development finance sector in Haiti. However one senses that management gives "all the right answers" to questions about IDAI policy and operations. It would seem desirable for IDAI to assume the role of a public development bank and to finance those sectors of the Haitian economy where a private development finance company and others are unable to participate. For example larger projects beyond the capabilities of a DFC could be financed by it; the bank could finance projects lacking the return thresholds required of private investors but because of their development impact should be established in Haiti. It would be a great mistake for IDAI as a National Development Bank to be permitted to compete directly with a private DFC.

D. Fond de Développement Industriel ("FDI")

FDI was established by the World Bank in 1980 as a mechanism for introducing IBRD resources ($10 million) to private sector development projects through the medium of commercial banks. Reportedly FDI officials have visited each commercial bank; participation agreements with FDI have reportedly been signed by each bank operating in Haiti. To date the banks have not used the facility; one bank president reported only $50,000 has been actually disbursed by FDI. FDI management is aware of the many criticisms bankers have of the program (e.g. spread to bankers rediscounting with FDI is too low, too much paperwork involved, FDI should assume more credit risk) and states it is willing to make the program more amenable to the needs of commercial bankers.

Given the extreme liquidity present in the system and the absence of good projects, FDI is not viewed today by bankers as a "value added" mechanism. Most banks can structure loans to potential FDI candidates on attractive terms enabling the bank to retain 100% of the spread without the time and effort spent in preparing an FDI application.

COMMENT

Generally commercial banks are not development loan oriented. They are short to medium term collateral oriented lenders who are risk averse.

Accordingly, to place development funds at their disposal given their bias to use them in the most conservative manner is not a good long term development finance approach.

RECOMMENDATION - Channel FDI funds through the DFC. The DFC can then engage local banks in co-financing schemes with the banks acquiring the earlier maturities of development loans.

E. Other Development Capital Mechanisms

1. Haitian Development Fund (HDF)

HDF is supportive of the local capital market by providing some term funds albeit in small amounts to micro businesses in the Port-au-Prince area. Bankers give it "good marks" for its efforts in encouraging small scale businesses. Hopefully some "graduates" of this program will develop their activities into larger businesses with greater economic impact.

2. Banque de Credit Agricole (BCA)

BCA is also supportive of the capital market by assisting farmers with their crop financing needs. Most BCA credit facilities are seasonal and in small amounts. However BCA has done a very good job in mobilizing local savings (people reportedly have confidence in BCA management). BCA might be used to develop some larger scale and longer term lending programs for agro processors.

F. Proposed DFC

A great amount of hard work has been done by a number of people on the DFC proposal. It is supported by an influential core group of Haitian businessmen and Association D'Industry d'Haiti ("ADIH"). There is accordingly little merit in another detailed assessment of the concept, plans, organization format and proposed charter in this brief report. There are however several observations that should be made about the overall DFC plan. These are as follows:

(1) A DFC is clearly needed in Haiti to spearhead private sector initiative for developing a viable private long term industrial and agro-industrial project base in Haiti. Private business people in Haiti like those throughoutthe world prefer to work with private development companies. They should welcome its existence.

(2) Key members of the CORE group who are backing the DFC may lose interest if the proposed enabling legislation is not passed by early fall. Without the CORE group a vital component of DFC "thrust" will be lost.

(3) The capital market needs a DFC to help integrate the system and add depth. The DFC could draw other institutions such as commercial banks (local and foreign) investment companies, and private groups into the development finance effort. Banks could co-finance with the DFC. Ultimately the debt and equity securities of companies "seasoned" by the DFC could be packaged and offered in a local secondary market.

(4) The DFC must not be viewed as the ultimate solution to private sector development in Haiti. The underlying bottlenecks and structural deficiencies that exist must be addressed and resolved as part of an overall effort that will involve DFC management. Unless confidence is restored in the private sector the DFC will only be a shot in the dark.

(5) Along with the DFC there should be a Project Development Company (PDC) formed to help entrepreneurs identify and package bankable projects.

The project development activity should be separate from the DFC for several important reasons. First it will burden senior management with a very time consuming and management intensive function that will divert attention from the primary function of making and matriculating good development loans. Second by involving the DFC in the project promotion phase, its objectivity as a financier could be compromised.

The PDC should be private with support from AID and others. It should cooperate closely with ONAPE with respect to data base needs and other complementary services. Entrepreneurs with development projects should be guided to the PDC by the DFC and others if their projects have merit but are far from packaged in terms of data and analysis. Then the entrepreneurs in concert with the PDC will undertake the work necessary to bring the project up to bankable form.

The PDC should not provide its services free of charge. Rather it should require that entrepreneurs using its services pay a meaningful proportion of development costs either in kind or in cash.

G. Role of Insurance Companies

The Insurance industry operating in Haiti appears to play a minimum role in capital formation. There are two

Haitian companies La General d'Assurance and Companie d'Assurance d'Haiti. The former is 100% owned by Haitians and the latter 25%. La General d'Assurance does not retain any insurance written in Haiti but reportedly reinsures 100 percent. All premium income flows out of Haiti. The foreign agency business in Haiti is actively represented by ten major foreign insurance companies; another seven or eight foreign insurance companies are relatively inactive in the market.

The foreign companies doing business in Haiti through local agents must reportedly deposit up to $200,000 with IDAI (depending on the volume of business done in Haiti). IDAI pays 2½% on such deposits. It is estimated that perhaps $2,000,000 is now on deposit with IDAI from these sources.

Premium income from Haitian business is estimated to be about $15 million per year. Some estimate that $50 million of reserves reflecting Haitian business are invested out of Haiti.

At present, although there is talk of change, there are no rules that require reserves and premium income derived from Haitian business to be invested in Haiti. The Insurance Companies could play a greater role in the capital market. For example they could be encouraged to invest a portion of their reserves in select development projects sponsored by the DFC. Further, they could be encouraged to join with the commercial banks in developing a commercial paper market in Haiti.

V Steps that, if taken, Would Help Improve the Efficiency And Depth of the Local Capital Market.

(A) The GOH must reestablish confidence. Haiti must be viewed as a safe environment for long term private investment - local and foreign.

(B) The GOH should "make good" on all Certificates De Liberation Economique ("CLE") still outstanding as a <u>first step</u> to building its credit in the local market. (The GOH reportedly did not redeem a substantial portion of the certificates issued to private investors at maturity dates.) Later, a government (and commercial) paper market supported by local banks could be attempted.

(C) The Central Bank "image" must be corrected. The bank should be considered a disciplined and well managed operation by local commercial bankers.

(D) Structural deficiencies must be addressed. Of primary importance is the need for existing rules and regulations to be <u>evenly enforced</u>. Tax collection systems should be improved (e.g. particularly the collection of excise taxes on cigarettes etc.) and the monies properly used for planned budgetary needs.

(E) Capital market institutions need to cooperate better. Commercial banks should be encouraged to share more information and work together on development projects. They should explore how a short term money market might be established. Later when a DFC is created, the commercial banks should be encouraged to co-finance with it.

(F) IDAI should be discouraged from becoming a major competitive force to the proposed DFC. IDAI should concentrate its resources on sectors of the Haitian economy where development projects are needed but where the capital required is beyond the capabilities of the private sector or where the returns on such projects do not appeal to private capital. This is the proper role for a public development bank.

(G) A private DFC should be established, as proposed, with the support of AID. The DFC should be encouraged to develop ties with a number of outside multilateral, bilateral and private financing sources. It is likely, for example, that the IDB will place resources through the DFC; IBRD is also likely to follow suit. The start-up of the DFC will be an important symbol to encourage private Haitian business people to recommit investment to local projects; further it will add an important new dimension to the local capital market. Over time and with rigorous, disciplined management the DFC should help to create "seasoned" business enterprises that can be offered to the public in a secondary market. In the meantime, by drawing commercial banks into the development finance effort through co-financing programs it will reinforce the capital market system.

ATTACHMENT I

LOANS AND DEPOSITS
OF
ALL PRIVATE HAITIAN BANKS
As of December 31

(millions)

Year	Loans	Deposits
1975	$ 61.1	$ 58.3
1976	68.2	85
1977	77.8	104.3
1978	94.2	131.8
1979	125.2	152.1
1980	138.4	200
1981	147.3	213.6

LOANS AND DEPOSITS
OF
BNC
As of December 31

(millions)

1980	$ 53	$ 73
1981	$ 73	$ 83

TOTAL LOANS AND DEPOSITS

1981	$220	$ 297

Source: Citibank/Haiti

ATTACHMENT II

PRIVATE BANK LOAN#
AND DEPOSIT FIGURES AS OF
DECEMBER 31, 1981*

(millions)

Bank	Deposits	Loans
Royal Bank of Canada	$ 69	$ 52.7
First Nat'l. Bank of Boston	40.6	23.9
Banque Nationale De Paris	30.9	21.9
Bank of Nova Scotia	26.7	17.7
Banque De L'Union Haitiene	24	15.6
Citibank	17	14.3
*First Nat'l. Bank of Chicago	5.8	1.2
Total	$214	$147.3

* Bank of Nova Scotia assumed loans and deposits of First National Bank of Chicago when it withdrew from Haiti in 1982.

Source: Citibank/Haiti

\# Banque Industriel is a second private Haitian bank but its assets were reported to be diminimus (e.g. $1 million); therefore it is not included in the figures.

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