AGRICULTURAL POLICY ANALYSIS PROJECT, PHASE III

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LIST OF ACRONYMS

ADIH	Association des Industries d'Haiti
APA	Agricultural Producers Association
APHIS	Animal and Plant Health Inspection Services (USDA)
CARE	Cooperative for American Relief Everywhere
CCH	Cooperative Cafeieres d'Haiti
CIMCO	Circle Manufacturing Company
EDH	Electricite d'Haiti
FAO	Food and Agriculture Organization
FDI	Fonds pour le Development Industriel
GDP	Gross Domestic Product
GOH	Government of Haiti
HDF	Haitian Development Foundation
IDB/BID	Inter-American Development Bank
LAC TECH	Latin America & the Caribbean Agriculture and Natural Resources Technical Services Project (Chemonics)
MARNDR	Ministry of Agriculture, Natural Resources and Rural Development
MEDA	Mennonite Economic Development Associates
NGO	Non-Governmental Organization
OAS	Organization of American States
ODVA	Organisme de Developpment de la Vallee de l'Artibonite
OPIC	Overseas Private Investment Corporation
ORE	Organisation pour la Rehabilitation de l'Environment
PADF	Pan American Development Foundation
RCH	Rice Corporation of Haiti
SAFICO	S.A. Filature et Corderie d'Haiti
SECID	Southeastern Universities Consortium for International Development
SHAISA	Societe Haitienne Agro-Industrielle S.A.
SOFIHDES	Development Finance Corporation
USAID	United States Agency for International Development
USDA	United States Department of Agriculture

Note on currencies: The Hatien "gourde", abbreviated in this report by "Gde" and "G", was valued at approximately 14.5 to the U.S. dollar when this report was prepared. Some values are also shown in Haitian dollars ($H), which is equivalent to 5 gourdes.

PREFACE

As part of USAID's commitment to assist in the redevelopment of the Haitian private sector, we are pleased to have sponsored the Haiti Agribusiness Subsector Assessment at the request of the Ministry of Agriculture. This study was undertaken as part of a collaborative effort by USAID and the Food and Agricultural Organization to conduct a broad-based agricultural sector assessment for the Ministry of Agriculture. While the FAO report will present a wider sectorial review, the USAID analysis focuses on the agribusiness subsector, especially medium and large scale enterprises. This study was conducted by Abt Associates Inc., under the Agricultural Policy Analysis Project, Phase III at the request of USAID/Haiti, through USAID's Latin America/Caribbean and Global Resources Bureau. Support and valuable input were provided by members of the Haitian agribusiness subsector through the Presidential Commission's Sub-Committee on Agribusiness. 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.

The reactivation and expansion of the agricultural sector is one of the immediate priorities of the Government of Haiti since it holds great promise for the country's long-term economic, political and social stability. It is estimated that more than 750 thousand people, or 25% of Haiti's work force, are employed in agribusiness-related activities. This is a significant percentage in a country where close to 80% of the workers are un/under-employed. Investing in and revitalizing agribusiness enterprises is therefore critical to the modernization of the agricultural sector and overall economic development. Although the agricultural subsector faces severe constraints, there are also many strengths upon which to build. This study is a first step in a series of coordinated efforts by the public and private sectors to remove many of these constraints, thereby clearing the way for the agricultural sector to redevelop, modernize and provide economic empowerment to a broader segment of the rural population. It presents an overview of the agribusiness subsector in Haiti before and after the embargo. Analyses are made of the sectoral, regulatory, institutional and financial constraints which currently impede the recovery and growth of the agribusiness subsector. More importantly, the study provides specific recommendations and an action plan for permanent employment creation through reactivating the subsector.

It is in this context that USAID on May 12, 1995 authorized the Program for the Recovery of the Economy in Transition (PRET). PRET is a two-year initiative which includes a loan guarantee mechanism for revitalizing the agribusiness subsector, which has been severely decapitalized in the past four years. The guarantee fund is designed to ease collateral requirements and to expand working capital loans to processors/exporters and to importers of agri-supplies. By strengthening the agricultural input supply network, PRET activities will also lead to increased farm incomes due to improved productive capacity of small farmers through increased availability of agricultural inputs and production support services.

H. Abdul Wahab
Chief, Economic Growth Office, USAID/Haiti

INTRODUCTION

The Haiti Agribusiness Subsector Assessment was carried out for AID's Global Bureau and USAID/Haiti by a team of eight persons through the Agricultural Policy Analysis Project (Phase III), Abt Associates, prime contractor.

Members of the team, their organizational affilitations, and their areas of specialization, are as follows:

Richard D. Abbott	Abt Associates Inc.	Agroindustry (Team Leader)
Dr. David Kingsbury	Development Alternatives Inc.	Agricultural policy and planning
Ken Weiss	Chemonics/LAC TECH Project	Marketing and international trade
Lisa Matt	International Science and Technology Institute	Agricultural institutions
Catalino Yaptenco, Jr	International Fertilizer Development Center	Agricultural inputs
Barry Lennon	AID/Global Bureau	Banking and finance
Dr. Reid Whitlock	Michigan State University	Food security
E. Morgan Williams	Citizens Network	U.S. agribusiness partnerships

In summary, the terms of reference for the assessment called for the consultants to:

- identify constraints in the private agro-industry sub-sector of the Haitian economy which currently impede its recovery and growth, and
- propose specific interventions by AID or other donors, especially in the market driven export sector, to alleviate these constraints and stimulate recovery and growth in the short and longer term.

The team was in Haiti from March 13 to April 1, 1995, and while there worked closely with the Economic Growth Office of USAID/Haiti, Dr. Abdul Wahab, Chief. We gratefully acknowledge the support and cooperation we received from Dr. Wahab and his staff, especially Marc-Eddy Martin, Ron Daniels and Ralph Denize. We also coordinated our work with the Ministry of Agriculture, Natural Resources and Rural Development (MARNDR), represented by Philippe Mathieu, Technical Deputy Director, Wilson Durand, Director, Rural Development, Will Roche, and Michel Canale.

This agribusiness sector assessment was carried out in coordination with a Ministry of Agriculture/FAO mission which was in Haiti during the same period. The FAO team, headed by M. Marc Huertas, is currently preparing its report, which will include a diagnosis of the agricultural sector, an analysis of principal constraints and potential of the sector (including the production potential for key commodities), a development strategy for agriculture, and the identification of technical assistance and investment projects to be proposed to donors. Our report focuses on private sector agribusiness activities, especially those of medium and larger-scale agribusiness enterprises with an export orientation. Micro-enterprises in the agricultural sector will be covered in the FAO report.

Our contacts with the Haitian agribusiness sector were made through the Presidential Subcommittee on Agribusiness. Their assistance was key to the success of the mission since our primary contacts were with private sector agribusiness companies. We wish particularly to thank Thierry Gardere, Jean-Maurice Buteau, Tony Bouchereau, and Ann Hauge for their cooperation.

At the conclusion of its field work, on March 30, the team made a presentation of its preliminary findings to representatives of the private agribusiness sector, the Ministry of Agriculture, NGOs, and USAID/Haiti.

For AID/Washington's Global Bureau, David Schroder was extremely helpful in coordinating the entire effort. Ron Stryker, Shirley Pryor, and Tracy Atwood of the Global Bureau, and Roberta van Haeften of the Latin American/Caribbean Bureau, provided useful comments on the draft report. Others who contributed advice and comment include John Horton of the InterAmerican Development Bank, Jim Kenworthy of Nathan Associates, and Gene Grasberg, agribusiness consultant.

Volume I of the report begins with a summary of our findings and is followed by a proposed action plan to address the principal constraints we identified. The five sections of the body of the report cover in turn (1) background information on agribusiness in Haiti before and after the embargo, (2) the policy environment for agribusiness development, (3) a commodity-by-commodity review of the agribusiness activities in Haiti, (4) a description of the financial sector and some proposals to increase the availability of loan capital, and (5) institutional issues, including farmer cooperatives, government institutions, professional associations, and trade and investment promotion. Volume II contains two supplementary reports, both of which are summarized in Volume I: one on food security and a second with the full "Operation Jump Start" proposal of Citizen's Network.

NOTE ON RECENT ACTIONS BY THE GOVERNMENT OF HAITI

Following extensive consultation with the Presidential Commission, the Tripartite Commission and representatives of business associations, the Government of Haiti announced several Presidential decrees and measures which will improve the business climate.

Presidential Decrees

STATUS: All are signed. They should appear in *le Moniteur* of 26 May 1995.

- Ratify the Multilateral Investment Guarantee Agency (MIGA) of the World Bank. The MIGA encourages foreign direct investment in developing countries by providing guarantees against currency risk, expropriation, civil disturbance and other non-credit risks.

- Make transfer "stamp" taxes on bearer or registered stocks and bonds, and the annual tax of 1/4 percent of par value, payable in proportion to the number of months the stock/bond was held.

- Allow commercial banks and other legally recognized financial institutions to place credit liens on equipment, automobiles and other personal property.

- Remove the 22% interest rate ceiling.

- Abrogate laws which allow cartels to be formed.

- Change incorporation laws to:

  -- Allow newly-formed corporations to begin operations when the Notice of their incorporation is signed by the Minister of Commerce and Industry, avoiding unnecessary delays sometimes caused by tardy publication of incorporation notices in the official newspaper.
  -- Reduce the amount of money to be deposited in a blocked commercial bank account by each new corporation to Gdes 6,250, or one-quarter of the minimum nominal capital. These monies provided proof of conformity with tax requirements.

MEASURES

STATUS: Most are under discussion by the implementing ministries.

- Furnish electricity to the industrial area for at least four to six hours per day.

- Restrict the number of paid holidays to 14.

- Eliminate customs inspections for exports.

- Audit and restructure ONA and OFATMA, the government-run pension and workers' compensation funds.

- Propose new boards of directors for ONA and OFATMA, with representation by businesses, unions and the government.

- Eliminate the 2% tax on wages paid and transfer the balance to OFATMA and INFP, the National Institute for Professional Training.

- Update and remove conflicting provisions in the Labor Law following recommendations to be made by the Tripartite Commission.

- Study a new tariff law to change to a fixed amount per container the 0.13% deposit paid by exporters.

- Create incentives for existing firms in the assembly industry by extending exemption from income taxes from five to ten years.

- Provide exporters with a total exemption from port charges until the end of 1995 (being studied by the Council of Ministers).

SUMMARY OF FINDINGS

Overview of Agribusiness in Haiti

The people of Haiti depend heavily on agriculture, which employs nearly 70% of the work force yet accounts for less than 30% of GDP. Low incomes mean low domestic demand for agricultural products, placing a high priority on export-oriented agribusinesses to generate employment and income in the near term.

Agribusinesses in Haiti benefit from the country's natural advantages, such as proximity to the U.S. market, natural harbors, a variety of climatic zones for crop production, and a low-wage economy which makes Haitian products competitive in export markets. These positive factors are, however, counterbalanced by a number of negatives -- a deteriorated infrastructure (roads, electric power, telecommunications, port facilities), an ineffective legal structure, lack of clarity of land tenure, and soil degradation from intensive cultivation on the Haiti's hilly topography, which also sharply limits arable land area.

Effects of the Embargo on Haitian Agribusiness

The OAS embargo imposed on Haiti from 1991 to 1993 had a disastrous effect on the Haitian economy. GDP growth was negative throughout the period, contracting sharply in 1992 and 1994. It accelerated the deterioration of the infrastructure, led to a decline in security, and -- by restricting imports and exports -- deprived Haiti of markets for its agricultural goods and inputs needed to produce them. While some agribusiness companies survived more or less successfully by going into other lines of business, others were severely decapitalized and have ceased operating or are operating at reduced levels.

In 1989, before the embargo, there were about sixty firms exporting or processing agricultural products in Haiti. In 1995, about half of the 15 coffee exporting firms are still in business; the ten mango exporting firms are still in business but operating at an average of 70% of pre-embargo rates; the three sisal processing plants are functioning but at reduced levels; of four ornamental plant exporters, one has closed its doors and the other three are recovering slowly; the two or three firms which formerly exported off-season vegetables to the U.S. no longer function (one of which continues to export mangoes); and of the two vegetable processing plants, one is out of business and the other (a tomato processor) has begun operations on a reduced scale. Three mango exporters formerly exported processed mangoes as well as fresh; only one is still doing so. Three poultry raising and processing companies continue to supply the local market; only one is more or less healthy, while the other two are in serious financial difficulty. The number of major firms importing and distributing fertilizer, pesticides, and seeds decreased from nine to five and are operating at lower than pre-embargo levels due to reduced agricultural input demand. Processors of essential oils, especially vetiver, are recovering rapidly due to favorable market conditions and the fact that this high-value, low-bulk product can be exported by air to the U.S. and Europe and is less affected by poor roads and high port charges.

No new investments in agribusiness from the U.S. or elsewhere are expected until early 1996, after the parliamentary and presidential elections are completed. In the meantime, programs to stimulate the agribusiness sector of Haiti must focus on existing enterprises.

The Presidential Sub-Committee on Agribusiness, a unit of the Presidential Commission on Economic Growth with heavy representation from the private sector, placed the creation of new loan funds at the top of their agenda for revitalizing agribusiness in Haiti, followed by reduction of port charges, a cadastral survey to clarify land titles, extension services to farmers on traditional and promising new crops and on use of fertilizer and pesticides, and trade and investment promotion in the EU and the U.S.

Financial Needs of the Agribusiness Sector

Haitian agribusiness need an immediate injection of capital in order to restore operations to pre-embargo levels and launch renewed growth. Needs are both short-term (over the next six to twelve months) and medium-term (one to three years).

- The ten mango exporters need a minimum of $100,000 each immediately to be able to purchase enough mangoes to meet demand. This is short-term working capital which can be rolled over three or four times during the season.

- Mango exporters need loans of longer duration to re-establish processing facilities to permit export of value-added products such as frozen mango pulp. We estimate this requirement at $300,000 over a three-year period.

- Sisal processors need $400,000 in loans to build decorticators. The term of these loans should be two to three years.

- The three producers of winter and Chinese vegetables, which ceased operations during the embargo, need roughly $500,000 to finance purchase of seeds, fertilizer, pesticides, and equipment to get started again.

- Two poultry processors need a total of $500,000 to get back into full production.

- The five agricultural input suppliers need about $1.1 million for importing and distributing inputs at the farm level, as well as for providing credit to farmers for rice and vegetable production.

Based on the above estimates, at total of $3.8 million would be needed over the next three years, of which $1 million is an immediate need of mango exports. We have not attempted to estimate the needs of other agro-industries with less immediate needs or where we have less information available. This group includes processors and exporters of coffee and cocoa, ornamental plants, essential oils, and tomato products.

U.S. Investment and Trade Interests in Haiti

U.S. direct investment in agribusiness in Haiti consists of the following ventures:

- a wholly-owned sisal processing plant, currently short of raw material due to lack of capital to finance purchase of machines to process raw fiber,
- a mango plantation, now up for sale, and
- a company importing and bagging rice for local sale at a leased state-owned facility, which continues to operate but is being undercut by rice smuggled in from abroad.

Other U.S. companies which depend heavily on Haitian agribusiness include:

- importers based in Miami and New York which import mangoes from Haiti. One Miami company we talked to reports that they have been hard hit by the interruption of supplies during the embargo and by the very high port charges incurred by refrigerated containers leaving Port-au-Prince, both of which make it difficult to compete with other Latin American suppliers.
- a New York-based air cargo company which formerly depended heavily on Haiti for its traffic, including fresh mangoes for the U.S. Northeast, and which is only now recovering a portion of its former volume.

Two other companies are interested in starting new ventures, but have found it difficult to proceed under current conditions: an Alabama company wishing to go into the poultry business for local sale, and another planning to produce a hot pepper mash for export to the U.S.

The Policy Environment for Agribusiness in Haiti

The policy environment for private business in Haiti, including foreign investment, is generally favorable. Where there are problems, steps are being taken to remedy them, though not nearly fast enough to benefit agribusiness ventures already in difficulty.

Fiscal policies. Corporate and personal income tax rates, as well as value-added taxes, are not considered excessive in comparison with other countries. Imported inputs used in processing of agro-industrial products for export are either not subject to value-added taxes or allowed in on temporary admission in the case of re-exported items (such as mango boxes). On the other hand, the near collapse of administrative capacity to collect taxes results in very low public investment in infrastructure, now badly deteriorated.

Monetary and financial policies. The central bank's highest priority is to reign in inflation, and to do so by slowing the printing of money and setting very high bank reserve

requirements. However, this is only part of the reason for the very conservative lending policies of commercial banks (see below).

Trade policies. Since September 1991 the exchange rate for the Haitian gourde has been market determined. The onerous regulation which required exporters to sell 40% of their foreign exchange earnings to the Central Bank at an artificially low exchange rate was recently rescinded. In March 1995, the Haitian government instituted a major tariff policy reform, reducing tariffs on all imported goods to between 5 and 15%. However, since market exchange rates are used in the calculation instead of the previous artificially low rate, the result is higher absolute tariff levels on imports. Recently, the government initiated efforts to streamline burdensome procedures for clearing exported and imported goods through Customs, though it may take some time for the new procedures to be fully implemented. Haiti enjoys preferential access to the U.S. market through the GSP and Caribbean Basin Initiative agreements. Virtually all agricultural exports can enter the U.S. free of duty. Most Haitian goods are allowed duty free entry into the EU under the terms of the Lome Convention, though bananas, sugar and rum are subject to some restrictions.

Legal and regulatory framework. Rules governing company formation, tax holidays for new ventures, and benefits available to foreign investors and generous and are clearly stated in the law. One hundred percent ownership of firms by foreigners is permitted and there are no restrictions on repatriation of profits or capital. One problem area is the uncertainty generated by lack of clear land title and the difficulty of resolving such issues through an ineffective legal system. A nationwide cadastral survey would help but it would still not resolve conflicts between land tenure and water rights on the same parcel of land in some areas.

Privatization of state-owned enterprises. With assistance from AID and the IFC, the GOH is conducting feasibility studies for the divestiture of state enterprises in banking, electric power generation, the Port-au-Prince port authority, the telecommunications company, and the wheat flour mill. Any improvement in operations of the port is of particular interest to exporters of agricultural products. Mismanagement of the port has led to excessively high port charges, making Port-au-Prince the most expensive port in the Americas. Typically, exporters and importers are charged for services they do not receive, forcing them to pay shipping companies again for the same service.

The Financial Environment

Seven Haitian commercial banks (two of which are state-owned) and three international banks (Bank of Boston, Citibank, and Bank of Nova Scotia) have been operating in Haiti since the 1970s. Three additional banks opened in the mid-1980s and two more received charters in 1993 and 1994. Most of these banks are highly risk averse, preferring to lend on a limited scale to their own shareholders, a process which has been referred to as "name lending", rather than to do business lending. This is illustrated by recent figures on consolidated bank assets, which show that despite a healthy growth in assets, banks maintained 55% of those assets in cash accounts and loans represented only 36% of the total.

Bank activities are heavily concentrated in Port-au-Prince and they have traditionally had a strong urban bias. Agricultural and agribusiness lending was generally considered too risky, and bank loan officers have never been trained to evaluate loans of this type. A 1987 AID-financed survey found that less than six percent of Haiti's 650,000 farm families had access to credit from banks, public development agencies, cooperatives and private firms. A new bank, UNIBANK, appears to be taking a more aggressive stance, recently announcing a pilot program to lend to micro and small-scale business lending in Port-au-Prince, and is considering opening a branch in the Artibonite Valley, a rich agricultural area mainly devoted to rice growing.

Among non-bank financial institutions, the largest is SOFIHDES, a development lending foundation established with support from AID in 1983. Generally speaking, SOFIHDES has followed conservative lending practices much like those of commercial banks, including maintaining a portion of its assets in dollar accounts abroad, but is financially sound and well managed. It could be one of the banks -- if not the lead bank -- in a special loan or loan guarantee program as proposed in this report. There are two other non-bank institutions, The Haitian Development Foundation, which makes loans to micro and small enterprises in the $200 to $3,500 range, and the Haitian Savings and Loan Society (SHEC) (established in 1993), a type of credit union which makes personal loans to members and to micro-enterprise. SHEC is a significant factor in the financial community in that it has demonstrated a capacity to mobilize personal savings.

Institutional Development Issues

In view of the great number of small land holdings in Haiti, and the almost total absence of large-scale crop production, processors and exporters of food and fiber crops have had to organize raw material collection through middlemen, or speculateurs as they are known in Haiti. Typically, these middlemen are people living in rural areas who have accumulated enough money to buy a truck, and often they are themselves farmers. Crops collected in this way include mangoes, sisal fiber, and plants and fruit for extraction of essential oils. This system works reasonably well and there is no evidence that farmers are being exploited, except possibly in remote areas where there may be limited competition for his crop.

There are unfortunately few success stories with respect to farmer cooperatives in Haiti. With outside assistance, coffee and cocoa marketing cooperatives are currently being strengthened. The IICA is implementing a USAID-funded coffee revitalization program through a federation of coffee cooperatives in Jacmel and Beaumont which promises to improve the quality and quantity of exported coffee. For cocoa, the Mennonite Economic Development Association provided an alternative to the speculateur marketing system by establishing links between a U.S. company (Hershey) and farmer cooperatives in the late 1980s. Some of these cooperatives failed to survive the embargo, but others still function. In the Artibonite Valley, an association of rice planters made up of 200 small groups totaling about 3,000 farmers jointly purchases fertilizers, tools, and seeds.

, and in cultivation of processing tomatoes for the tomato paste plant. Neither system is currently operating, the embargo having killed the vegetable farming venture, and the white fly the contract growing of tomatoes.

The institutional capacity of the Ministry of Agriculture (MARNDR) to provide research and extension services is weak. Even where there are capable personnel in the field, they often do not have sufficient financial or logistical support. The Ministry has concentrated efforts on traditional food and export crops and have little capacity to support non-traditional crops such as specialty vegetables. Although there are plans to change the structure of the Ministry, producers have a limited role at present in deciding on the services provided

Regional development organizations such as ODVA fall under the Ministry but they also are restricted by lack of funding and local decision making powers. Various NGOs and international organizations have partially filled the gap, such as IICA with respect to coffee, and ORE for corn, beans, and mangoes. Other NGOs are involved in applied research and extension for various crops, such as CARE, PADF, and ASSODLO.

Quite a number of professional trade associations exist in Haiti, many with conflicting objectives and duplication of membership. For example, there are four Chambers of Commerce and six other associations representing industry, agricultural producers, and coffee exporters. A recent development is the formation of the U.S.-Haiti Business Development Council, whose purpose is to provide a forum to enhance the private-public sector dialogue between the U.S. and Haitian governments and their private sectors.

Food Security and Public Policy Issues[1]

Government policies or actions regarding agribusiness can influence food security in Haiti. Food security is defined as sustainable access to and availability of food at the household level. Policies or actions with positive impacts are those which lead to increased incomes for the poor and to increased availability of nutritious food for the population.

Environmental degradation, an overwhelming problem in Haiti, can be slowed by promoting the cultivation on hillsides of perennial cash crops for processing and export by agribusiness firms. Policies which favor exports of value-added agricultural crops increase foreign exchange earnings and make it possible to import food grains, such as wheat, for which Haiti does not have a comparative advantage.

Government policies which affect food security include those concerning:

- trade strategy,

A detailed analysis of food security issues is contained in Volume II of this report.

- private investment in agribusiness ventures,
- public sector investment in infrastructure (and in the management of that infrastructure),
- legally secured rights to land and water,
- coordination of humanitarian food aid from abroad,
- provision of agricultural extension services,
- promotion of the growing of environmentally sustainable crops for export, and
- provision of agricultural market information.

Trade strategy. Adoption of an export-led trade strategy can enhance food security if properly designed and implemented. As a means of raising farm incomes in the near term, promotion of crops for export, especially those with value-added potential, is the best choice. Haiti's proximity to the U.S. gives it a comparative advantage with respect to the export of fresh products such as mangoes and winter vegetables. Haiti has established markets for sisal products (binder twine) and essential oils such as vetiver and lime. Everything possible should be done to retain and expand these markets. Market studies on new crops with export potential should be carried out.

Promotion of private sector investments. An investment code which offers tax and other incentives to foreign investors to establish food processing enterprises in Haiti can promote food security by providing new market outlets for farmers' crops.. Haiti already has a good investment code in place but other impediments limit its usefulness. Preeminent among these is mismanagement of the ports, which raises transaction costs for exporting and importing. Immediate action is necessary to privatize port management, or to contract for its professional management by a recognized international firm. National internal security must also be improved. An investment promotion bureau which facilitates foreign investor contact with Haitian firms is needed; further study is required to determine where best to locate it. Our preference would be to put it in the private sector, such as a chamber of commerce. In any case, the government should assist by approaching donor agencies for technical assistance in setting up such a bureau once a plan has been prepared.

Infrastructure investments. Public sector investments in physical infrastructure improvements is absolutely critical to the growth of the industrial sector of Haiti, including agro-industries. Deficiencies in roads, electric power, telecommunications, and irrigation and drainage works have been thoroughly examined by donor agencies and help is on the way. Education and training are other types of infrastructure which badly need strengthening. The government does not have the resources to deal with these problems itself and so must rely on help from bilateral and multilateral aid agencies. Hopefully, coordination of these efforts will have been facilitated by the recent Consultative Group meeting in Port-au-Prince.

Land and water rights. The lack of clear title to land and water, and the lack of a court system to adjudicate conflicting claims, discourage investment in improvements such as soil conservation and water control. Tenure problems are particularly acute on state-owned land. These realities restrict investment in large-scale agriculture ventures which, in combination with small farmer crop production through contract growing, can form the basis for vertically-

integrated agricultural enterprises. If Haiti is to be competitive in world markets for crops such as fruit and vegetables, some degree of vertical integration is necessary to reduce costs and assure regularity of supply.

Coordination of food aid. The principal food aid donors (USAID, European Union, and the World Food Program) and implementing agencies (CARE, ADRA, and Catholic Relief Services) meet regularly with Haitian government ministries, but they deal mainly with logistics issues of moving food shipments. There is a need for better forward planning and coordination of humanitarian food aid. Staggering of ship arrivals, harmonization of commodity types, and a system for setting of prices at which the commodities will be monetized which takes into account domestic market prices, are examples of issues which should be dealt with to minimize disruptions in the marketing of domestically produced goods.

Farm extension services. The Ministry of Agriculture (MARNDR) does not currently have the resources to mount a nationwide farm extension service. There is an immediate need for a service to instruct farmers in the use of improved varieties of tree crops, the proper use of fertilizer and crop protection chemicals, and soil conservation techniques. NGOs and institutes (ORE, IICA) partially fill the gap with programs on tree crops such as mangoes and coffee, and multiplication and distribution of improved corn and bean seed, and these efforts need continuing support while the Ministry builds its capability. Also, USAID's PLUS project has successfully introduced soil conservation techniques. The ministry needs to push for donor assistance to re-establish a national research and extension service initially focusing on the planting of tree crops which lend themselves to value-added processing for export. The FAO agricultural sector assessment currently in preparation is expected to deal with these issues.

Promotion of import-substituting crops. While policies to promote growing of crops which substitute for imports should not be an overriding concern in Haiti at this time, rice and sugar deserve special mention. Rice is of great importance as a source of income and food security for families in the Artibonite Valley and Les Cayes areas. Information is lacking on whether rice produced in Haiti in these two areas, assuming improvements in irrigation and drainage works, could compete with imported rice from the U.S., and rice smuggled in from the U.S. and the Dominican Republic. Officially, domestic rice is currently protected only to the extent of about 10% (3% duty plus various taxes). Proposals by the Rice Corporation of Haiti suggest that with the use of improved varieties of seed and use of fertilizer and pesticides, that Haiti could feed itself and possibly even export rice. This matter is of great importance to Haiti's food security and should receive immediate attention. The situation with regard to sugar is less clear. Haiti both exports and imports sugar. The one operating government-owned mill does not produce enough to supply the 18,000 ton quota allowed it under the International Sugar Agreement. Study is needed to determine whether revitalization of the sugar industry should be attempted or existing operations privatized or shut down entirely.

Market information services. A farmer who has information available to him on a regular basis is better able to make decisions regarding when to market his or her crops for the best price, thereby improving both his or her food security and increasing market supply. Typically,

kind daily radio of prices for a range of commodities in principal regions of the country. The capacity of the Ministry of Agriculture to institute such a service is questionable at this time. Further study is required to determine what kinds of information are most valued by growers, where and how they now obtain information, and where best to locate a service of this kind.

ACTION PLAN

In this section we present our recommendations in the form of an action plan for consideration by USAID and other donor agencies, and for the Ministry of Agriculture of Haiti (MARNDR). It consists of the following elements:

- Actions on cross-cutting issues (general issues that are not commodity specfic) for which donor support is recommended.
- Actions related to specific commodities which donors and MARNDR should undertake.
- A summary of recommended actions by MARNDR.
- Further analyses and studies for which we recommend donor support.

CROSS-CUTTING ISSUES

1. Operating Capital Loan Program

Objectives:	Provide loans or loan guarantees through commercial banks to Haitian agribusiness firms.
Impact:	Increase working capital of existing enterprises in the short term to enable them to increase their level of activity.
Beneficiaries:	Agribusiness enterprises hurt by the embargo, their employees & suppliers
Timing of Benefits:	Short term (12 to 24 months).
Action:	Donor agencies to provide up to $5 million in grant or loan funds to establish program.

This temporary facility would target a relatively small number of experienced agro-industrial firms that had established strong credit repayment records prior to the embargo, but were decapitalized by the embargo and now need an injection of short-term operating funds. Examples are mango exporters, sisal exporters, vegetable exporters, animal feed manufacturers, ornamental plant exporters, poultry processors (for local market), and importers and distributors of agricultural inputs. The proposed program would operate with a special fund set up by a grant or loan on concessionary terms from a bilateral or multi-lateral donor and would guarantee or co-finance short-term commercial bank loans to credit-worthy borrowers, including those with currently outstanding loans at the banks. Equity investment could also be considered.

There are a number of ways this facility could be organized, depending on the resources and procedures of the donor. Several possible approaches are discussed in Part 4 of this report. The essential thing is that the funds must be available very soon if they are to be in time to help mango exporters, who would be one of the major beneficiaries of the program. The main part of the mango season is from March to August. Others with immediate needs include sisal processors, specialty vegetable growers, and poultry producers. Modalities need to be worked out between the donor and the Haitian Bankers Association and individual banks. SOFIHDES could play a key role in this process. The program should be accompanied by technical

assistance to banks (see #3 below) to increase their capacity to make loans to agribusinesses, focusing initially on the more aggressive banks and non-banking lending institutions such as SOFIHDES.

2. Trade Credit Insurance Program for Imports from the U.S.

Objective:	Increase imports of needed agricultural inputs from the U.S.
Impact:	Encourage greater use of supplier credit by U.S. exporters as a means of injecting capital into the agribusiness sector.
Beneficiaries:	Haitian farmers and agro-industries, U.S. exporters..
Timing of Benefits:	Short to medium term (6 to 24 months)
Action:	AID trade credit insurance facility through the ExIm bank.

This facility would guarantee payment to U.S. exporters of agricultural inputs such as fertilizer, agricultural chemicals, animal feed ingredients, grain storage units, machinery, and vehicles. In the absence of normal ExIm Bank operations in Haiti, AID would enter into an agreement with ExIm to guarantee a fixed percentage of the risk of non-payment by Haitian importers for U.S. goods, the exporter to carry the remainder of the risk. ExIm would act as agent for AID in executing the program, following its normal procedures for insuring trade credits. This program, similar to one already approved by AID for Ukraine, would revitalize Haitian agro-industry while stimulating U.S. exports.

3. Training and Technical Assistance to Financial Institutions in Agro-Industrial Lending

Objectives:	Increase capacity of Haitian banks to do agricultural lending.
Beneficiaries:	Commercial banks and agribusiness borrowers.
Timing of Benefits:	Short-term (6 to 12 months)
Action:	Donor agencies to provide technical assistance in agricultural lending.

Under this program, U.S. banking specialists experienced in lending to agriculture and agribusiness would provide technical assistance and training to loan officers from interested banks and non-bank financial institutions. Coupled with the loan program in #1 above, it would provide bank loan officers with on-the-job training in assessing the soundness of loans to agro-industries and in monitoring performance of these loans. The program could be carried out by consultants in banking under a contract which called for an initial intensive training period, followed by periodic follow-up visits over a 12 to 24 month period. This assistance should have long-term as well as short-term objectives, and should aim at bringing banks to the point where they play a leading role in financing Haitian businesses, and can offer a full range of services to both Haitian and foreign investors. As necessary, technical specialists in particular processing and marketing of commodities such as mangoes, sisal, essential oils, coffee, or poultry could also be called in.

4. Establishment of a Trade and Investment Promotion Unit.

Objectives:	Stimulate increased trade and investment with other countries.
Impact:	Speed economic growth by creating new trade links and injecting new capital and technology into Haiti.
Beneficiaries:	Potentially any enterprise in Haiti, and through them to employees and suppliers (farmers in the case of agribusinesses).
Timing of Benefits:	Medium and long-term.
Action:	Donor grant to cover costs of technical assistance and office equipment over a two to three-year period.

Foreign businessmen visiting Haiti need convenient access to information and contacts on Haiti agribusiness trade and investment opportunities. This is especially important for U.S. investors because of their potential to bring technology, capital, and market access to Haiti's agribusiness sector. The unit would have more modest objectives than the previous such entity which failed (PROMINEX), and should be located in an existing private sector institution, such as The Chamber of Commerce and Industry. Another possibility is the Haitian-American Chamber of Commerce, which has links to American chambers all over the world. It would receive grant funds from a donor agency for staff and facilities on a declining basis for a specified period, but no longer than three years, after which it would have to become self-supporting or cease to exist. The unit would serve as a clearinghouse for information on Haitian agribusiness enterprises and investment opportunities in Haiti, as a point of contact for foreign business persons visiting the country, and as a policy advocate on issues relevant to agribusiness development in Haiti. With enough resources, other functions of the unit could include the collection of information on U.S., European and Caribbean markets for Haitian products and on foreign suppliers of machinery, supplies, and equipment, and the dissemination of information on proposed new agribusiness investment projects in Haiti.

5. Technical and Management Assistance to Trade Associations

Objectives:	Establish or strengthen trade associations in Haiti.
Impact:	Open channels for training, information flow, technology transfer, and trade promotion from abroad; strengthen policy advocacy role.
Beneficiaries:	Members of trade associations and through them, producers.
Actions:	Donor technical assistance to help establish contacts abroad. Could be carried out in conjunction with Action #4 above.

Trade associations are not well organized in Haiti but could, as in other developing countries, serve as channels for technical and market information from comparable associations in industrialized countries. This could include collaboration in organizing trade missions and participating in trade shows, and technical assistance in management of the association -- including how the association can play an advocacy role with government agencies. Examples of two such associations in the U.S. are the Produce Marketing Association and the Florida Foliage Association. (Typically, U.S. trade associations have an interest in providing assistance

when its members import the product as a raw material for further processing or to supplement domestically produced goods in the off-season.) Associations could also organize seminars and training courses by FDA or USDA technicians on such subjects as regulations on entry into the U.S. of fresh fruit and vegetables, or certification procedures by FDA for food processing plants. Likewise, an input suppliers association could work with MARNDR to develop certification procedures for the use of agricultural chemicals, recommended types and application rates of fertilizer for specific crops, and to develop procedures for the acceptance and distribution of donated fertilizers from abroad.

6. Food Systems Development Program

Objectives:	Put U.S. agribusiness expertise to work in Haiti
Impact:	Help develop linkages between U.S. and Haitian agribusinesses, and to improve and expand the Haitian food system.
Beneficiaries:	Farmers, food processors and exporters, U.S. investors.
Action:	An AID grant program which accompanies direct U.S. investment.

This program, basically similar to one now operated by Citizens Network for AID in Russia, would promote the formation of U.S-Haitian partnerships in agribusiness ventures. It would effectively leverage AID funds by providing grants to U.S. investors in Haiti at the rate of $1 in grant funds for $2 in direct investment. Grant funds could not be used for investment in a core business of a U.S.- Haitian joint venture, but could cover costs not normally part of an investment, such as introduction of improved seed and cultural practices for a specific crop, improving collection, assembly and delivery to processors of crops produced by small farmers, organization of a credit system for retailers of agricultural inputs, or assistance in setting up contract farming arrangements. Grants would likely be in the range of $100,000 to $500,000 and applicants would have to demonstrate a long-term commitment to Haitian agribusiness. The advantage of the grant program is that it would encourage investors to come to Haiti who might otherwise be discouraged by the cost of overcoming constraints, such as the lack of an assured supply of raw materials for a processing plant..

7. Strengthening the Agricultural Input Supply Network

Objectives:	Strengthen the technical and financial capacity of the input dealers network.
Impact:	Dealers are able to assist farmers with credit for purchase of inputs, combined with extension services on crop cultivation techniques.
Beneficiaries:	Input dealers and farmers using agricultural inputs.
Timing of Benefits:	Medium term (one to three years).
~~**Action:**~~	~~Financial assistance through Actions #1 and #2 above.~~ Technical support could also come directly from U.S. suppliers of inputs without donor help.

In the absence of an effective public sector farm extension service, the distribution network operated in Haiti by the four main dealers in fertilizer, seeds, and agricultural chemicals is the best channel for reaching farmers with credit and extension services in the near term. While these services could not replace an effective nationwide extension program, the capacity of the existing network to partially fill this need could be enhanced by; (1) supplier credits on more liberal terms if program #2 above is implemented, as well as access to the loan guarantee program (#1 above), and (2) technical assistance and training materials from fertilizer, chemical and seed suppliers abroad in proper use of inputs which can be passed on to farmers. This assistance, which might be obtained at no cost from suppliers abroad, could include the development and dissemination of audio-visual extension materials describing procedures for safe and effective use of inputs, sponsorship of radio programs on how to use inputs correctly, and advice on cultivation practices to maximize the benefits of inputs, especially fertilizer. Initial efforts would center on the Artibonite Valley and the area around Port au Prince -- currently the areas of most concentrated use of inputs, primarily on rice and vegetables.

Note: Appendix B to this volume of the report consists of remarks on ways in which the impact of the above action plan can be assessed.

COMMODITY-SPECIFIC ACTIONS

1. Coffee

Coffee, a small farmer crop, is Haiti's most important agricultural export. Export volumes have declined in recent years under the influence of low world market prices and the embargo--which led to neglect of coffee trees and failure to replant with new improved varieties.

- **Replant rust-resistant varieties.** The MARNDR should progressively take over this function from the IICA, distributing seedlings of improved varieties and advising farmers on better cultivation practices.

- **Increase investment in coffee washing facilities and train users in proper washing techniques** in order to increase production of higher-value washed coffees. Farmer cooperatives, associations and exporters need to have access to credit for building these facilities. Technical assistance should eventually come through MARNDR extension services, but pending expansion of this activity, IICA could train other NGOs to carry out these programs.

- **Promote the production of specialty, organic coffees** for the U.S. market. It is understood that this is one of the activities under the IICS Coffee Revitalization Project, but it is recommended that this become a priority item, calling on technical assistance from coffee experts as necessary.

- **Hold a national meeting on the coffee situation.** The idea, which was put forward by a coffee exporter, would be to bring together producers, processors, and exporters to discuss and agree upon joint actions to upgrade and expand coffee exports. Coffee experts from abroad should be invited to attend and offer help in formulating an action plan.

2. Cocoa

Cocoa production and exports are down due to low producer prices, effects of the embargo, and failure to re-plant higher yielding improved varieties. No extension services are available to help the small farmers who grow this crop to improve the situation. Sales to Hershey in the U.S., which at one time paid a premium price for Haitian cocoa, have ceased. Some of the cocoa cooperatives which formerly exported the sun-dried product have gone out of business; those that remain now sell to exporting companies.

- Replant improved varieties with help from MARNDR. Teach farmers improved practices, including pruning.

- Investigate possibility of restoring marketing link with Hershey. Determine what product quality standards of Hershey must be met and devise crop improvement program to meet these standards.

- Consider including cocoa in the national coffee meeting proposed above, as many coffee exporters also handle cocoa.

3. Mangoes

Mangoes are an important source of cash income for Haitian farmers. However, Haitian exporters of mangoes, who sell their production in the U.S., were badly hurt by the embargo and need access to short-term working capital loans to restore full operations. Production of value-added processed mangoes also virtually ceased during the embargo.

- Provide mango exporters with access to short-term loans to increase purchases from farmers.

- Provide access to medium-term credits to finance purchase of equipment for production of mango puree, mango chutney, mango nectar, etc.

- Increase distribution of seedlings of grafted mangoes developed by ORE. MARNDR should develop the capacity to do this.

- Teach farmers pruning techniques for mango trees to reduce losses due to fungus attack. In the long term this should be a MARNDR function; in the meantime the mango exporters association should prepare material for printing or radio broadcast on this subject.

- Investigate feasibility of introducing bins or other types of containers to move harvested mangoes from farm to packing houses, thus reducing the high rate of loss that occurs from the current bulk handling methods. The newly-formed mango exporters association could take responsibility for developing a design and introducing it through middlemen who buy mangoes from farmers.

- Haiti should promote a quality image for "organic mangoes" in order to achieve higher market prices. This should be a function of the mango exporters association, in cooperation with U.S. importers, who would share the cost of in-store promotions. The association should also develop links with U.S. groups such as the Produce Marketing Association, which could assist with Haitian participation at the annual PMA trade show.

- The cost of exporting Haitian fresh mangoes is higher than it should be due to elevated port handling and shipping costs for refrigerated containers. Privatization of the port (see cross-cutting actions section) will help, as will an increased volume of exports. The mango exporters association should represent the industry in negotiating more advantageous freight rates with shipping companies.

4. Sisal

Sisal fiber is harvested from a type of cactus plant by farmers and middlemen and delivered to one of three processing plants -- which clean the fiber and convert it into baling twine for export and into sacks for use by coffee and cocoa exporters. Export markets remain good even though natural fiber is slowly being replaced by synthetics. However, production is now down to 50 to 60% of pre-embargo levels. During the embargo, fields have become overgrown with weeds, increasing the cost of harvesting and making Haitian fiber less competitive with Brazilian fiber. Additional mechanical decorticators are needed to increase production of fiber.

- Sisal processors need access to medium-term credit (3 to 5 years) to fabricate up to 200 mechanical decorticators (at $2000 each) over the next two years.

- Medium-term credit is also needed for the purchase of trucks to haul fiber from farm to processing plants. Trucks have a short useful life in Haiti due to the bad condition of roads.

- The high cost of self-generated power adds substantially to production costs, making Haitian fiber products less competitive in world markets. (See comments on electric power generation elsewhere in this report.)

5. Essential Oils

Haiti has a comparative advantage in the production of such essential oils as vetiver, used in perfume making, and in lime and lemon oils used as flavorings. The industry was hurt by restrictions on exports during the embargo, but is recovering rapidly at present. However, many citrus trees were cut during the embargo and replanting is needed.

- Soil erosion control techniques need to be introduced to growers of vetiver, which because they are uprooted at harvest , can contribute to erosion on the steep slopes where much of the crop is grown. This is a proper role for MARNDR.

- Replanting of lime trees is needed to restore the citrus oil industry to health. While this should ultimately be the responsibility of the MARNDR, in the interim planting of citrus trees should be part of the tree planting scheme planned by the Peace Corps.

- Haiti should capitalize on its reputation as an essential oil supplier to world markets by investigating the feasibility of introducing other types of oil-bearing plants. A market study should be carried out by consultants to identify the most promising crops.

6. Winter and Specialty Vegetables

Before the embargo, at least six firms had begun to export winter and specialty crops such as Chinese vegetables to the United States. Since the embargo, all these firms have ceased operations. Most retain the land and equipment necessary to get back into production but lack working capital to get started again. Market opportunities exist in the U.S. and for the local tourist trade. Our recommendations are summarized below.

- Credit to finance start-up costs should be made available, including support to contract farmers.

- An association of horticultural producers should be formed as a channel for the transfer of cultural and post-harvest technology and market information from U.S. horticultural experts. Some degree of joint action is necessary to assure that there is sufficient volume to attract the interest of U.S. importers and to be able to negotiate reasonable freight rates.

- The association should form linkages with U.S. groups such as the Produce Marketing Association, some of whose members are importers of specialty vegetables. The PMA could also assist with Haitian participation in their annual trade show.

- The association should review the results of one previous venture into contract farming of vegetables to see what lessons can be learned which would help re-launch a system of growing by small farmers under contract to large growers.

7. Rice

Production of rice, a staple in the Haitian diet, has declined in recent years due to deterioration of the irrigation and drainage systems in the main producing areas of the Artibonite Valley and the vicinity of Les Cayes, and low yields caused by the re-use of genetically depleted seed and limited use of fertilizer and pesticides. It is estimated that as much as two-thirds of Haiti's demand for rice is currently met by official and unofficial imports. While the question of whether Haitian rice can truly compete with imported rice may not have been adequately

answered, we believe that increasing rice production in Haiti should be a firm government policy on both farm income and food security grounds. The Rice Corporation of Haiti, a subsidiary of American Rice Inc., has proposed to install rice drying and milling equipment in a government-owned structure in the Artibonite Valley, and to purchase rice on contract from farmers who would also be supplied with seed and other inputs on credit by RCH.

- The rehabilitation of irrigation and drainage works in the two main producing areas should be a matter of the highest priority within the donor community.

- The existing structure in the Artibonite, which formerly housed rice milling equipment, should be offered for sale by the government for use as a rice mill.

- The RCH proposal should immediately be given serious consideration by the government. Rice specialists should be retained as consultants by a donor agency and given responsibility for reviewing the RCH proposal, with special attention to the role of farmers and farmer organizations and how they would relate to the RCH operation.

MARNDR AGRIBUSINESS SUPPORT STRATEGY

The Ministry should adopt a strategy of strong support to the private agribusiness sector as a means of increasing income for farmers throughout Haiti. Recognizing that the Ministry does not yet have all the resources it needs to carry out the tasks discussed in this report, we have indicated wherever possible actions which can best be undertaken initially in cooperation with on-going operations of NGOs and private sector organizations. We have also indicated areas crucial to the growth of the agribusiness sector which are beyond the competence of the Ministry but for which it can play a policy advocacy role vis-a-vis the government of Haiti generally.

Because of its impact on the rural sector and on small farmers, the GOH should adopt a stratey of promoting the growth of agribusiness in Haiti by direct and indirect support to private sector agribusiness enterprises and trade associations, and by helping strengthen the links between these entities and the farmers who produce the raw materials used by these enterprises. To take advantage of established market outlets for several important products, and to have the maximum impact in the near term, the emphasis should be on export crops.

Recommended actions by the MARNDR in support of this export-led agribusiness strategy include the following:

(1) Promoting increased production of tree crops which lend themselves to value-added processing for export,

(2) Establishment of a nationwide agricultural research and extension service, to include propagation and distribution of tree seedlings.

(3) Sponsorship of training activities which help exporters of agricultural products increase access to markets abroad.

(4) Advocacy of actions by other elements of the GOH in support of agribusiness.

Promotion of Tree Crops

- *Coffee*: Provide seedlings of rust-resistant coffee tree varieties and instruct farmers on planting and care of trees. Provide technical assistance on coffee washing techniques to increase production of the higher-value washed coffee.

- *Cocoa:* Provide seedlings of improved cocoa varieties and instruct farmers on planting and care of trees.

- *Mangoes:* Distribute seedlings of grafted mango varieties, such as those developed by ORE, and instruct farmers on planting and care of trees.

- *Citrus (for essential oil production)*: Provide seedlings of citrus trees to farmers, especially limes used in essential oil manufacture, in cooperation with processing companies.

- *Other tree crops:* The feasibility of promoting other tree crops, such as avocadoes, should be examined following study of the market for this product.

Research and Extension Services

The need for agricultural research and extension services is recognized by MARNDR but the necessary resources have not been available. This assessment does not go into detail on the structure and functions of this service since the FAO agricultural sector assessment is expected to deal with the issue. The need is particularly acute with respect to the promotion of tree crops, discussed above.

Training

The expansion of agribusiness in Haiti will increasingly depend on the availability of qualified agricultural technicians and business managers. While it would take some time for the effects of this type of program to be felt, it is to be hoped that conditions in Haiti will be such that Haitian exiles in the U.S. will return to fill the gap, bringing with them both experience and investment capital.

- *University level education:* While recommendations on the university-level education is beyond the scope of our study, it is clear that Haiti would benefit from programs which, for

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example, provided scholarships for Haitian students at U.S. universities and required them on return to teach at a Haitian institution and/or work for MARNDR. Another measure worthy of consideration is to pair a Haitian university with a U.S. university and exchange professors and students. Students graduating in agriculture could form the core of a much-needed agricultural extension service operated by MARNDR.

- *Training of agricultural technicians:* MARNDR should be given the resources and assistance to recruit and train agricultural technicians to staff an expanded research and extension service. In the short term, these resources should be concentrated on implementing the tree-planting schemes recommended above. These technicians would operate nurseries where tree seedlings would be propagated and would hold field demonstrations for farmers on how and where to plant trees and care for them. Initially, MARNDR should work with NGOs and institutes already experienced in this work, such as ORE for mangoes and IICA for coffee, to assist in setting up these facilities. A donor-supported plan to provide this training should be devised, taking into account recommendations that may be made in the forthcoming FAO report.

- *Training of exporters of fresh and processed products:* The ministry could also play an important role in training exporters of crops destined for U.S. markets by providing a forum for training courses offered (1) by USDA on regulations and procedures affecting imports of produce items such as vegetables into the U.S., and (2) by FDA on certification of processing plants for U.S. entry of low acid processed fruit and vegetables. USAID Missions have successfully carried out such programs, most recently in Morocco, so procedures have already been worked out for this type of program. We recommend that this type of training be a three-way effort, with the private sector (trade associations or chamber of commerce) assuming primary responsibility, MARNDR providing the facilities, and USAID/Haiti making the necessary contacts with USDA and FDA.

Policy Advocacy

MARNDR should be a strong advocate for GOH policies which favor the development of agribusiness in Haiti, especially:

- improvement of highways, electric power generation, telecommunications, and water control installations in rice-growing areas,

- improvements in university-level agricultural and business education, and vocational training in agriculture,

- establishment of a legal system which is equipped to adjudicate land title disputes, isn't biased against commercial litigants, and provides for liens on equipment to secure loans,

- privatization of the management of port facilities, and

- increased availability of credit to small and medium-sized agro-industries.

RECOMMENDED ANALYSES AND STUDIES

During the field work for this assessment, a number of issues surfaced which we were not able to deal with adequately in the time available, but which merit detailed study because of their importance to agribusiness development in Haiti.

(1) **The feasibility of revitalizing rice growing in the Artibonite Valley**. The RCH proposal to put up a rice mill in an existing building and to assist farmers to increase yields by giving them improved seed and agricultural chemicals on credit, deserves review at the earliest opportunity. The situation is clouded by the apparent fear on the part of the government of giving one company such a strong position in the industry, and there is also a suspicion that those involved in the profitable business of smuggling rice may be opposing any change in the system. In the meantime, no other viable alternatives have been put forward and there is apparently no government policy at all on rice. A related matter is the lack of action by the GOH on privatizing the rice mill building, which could give a stimulus to modernizing rice milling in the Artibonite. A study by consultants which verified RCH production cost figures under the proposed scheme, compared them with current export prices from producing countries to determine Haiti's competitivity, determined the attitude of farmers in the Artibonite toward the scheme and its possible impact on existing small rice mills, could clear the air and help establish a much-needed statement of government policy on rice.

(2) **Policy study on sugar production.** Serious questions remain to be answered about the viability of Haiti's sugar industry. Haiti's 18,000 ton quota is not being met, and in fact we understand that in some cases smuggled sugar has been re-exported to earn foreign exchange under the quota arrangements. The one operating sugar mill does not produce enough sugar even to meet domestic requirements. A study of the economics of sugar production in Haiti is needed to establish whether or not it makes sense to increase production to meet the 18,000 ton quota plus domestic requirements, whether the existing mill can profitably produce quality refined sugar to compete with imported sugar, or if it would be better to shut down the mill, import sugar, and use the land made available for other more profitable crops. A related issue is the availability and current use of land on which sugar cane was formerly grown, and whether returning it to sugar cane would displace too many small farmers.

(3) **Feasibility of marketing increased volumes of high-quality coffee.** The Coffee Revitalization Project managed by IICA has had some success in introducing improved rust-resistant coffee varieties and washing techniques through farmer associations. Efforts to market better quality coffee in world markets by these associations is only now beginning. In our view, somebody outside IICA should take a hard look at this process and determine what is really needed to make export of quality coffees a viable proposition. One possibility is to involve a U.S. gourmet coffee company such as Starbucks directly in

the improvement and export marketing of Haitian coffee. The time to do this is now, while Haiti is still "on everybody's screen".

(4) **Trade credit insurance program.** The apparent complexity of this proposal put forward in our report by Citizen's Network should not dissuade the Mission from pursuing it. The fact that there is a precedent for it in Ukraine should make it easier to implement. With a modest expenditure, Citizens Network, or somebody suggested by them, could be retained as a consultant under PRET to flesh out the procedures already suggested and help in implementing them.

(5) **Trade and investment promotion unit.** We recommend that a consultant experienced in these matters talk to chambers of commerce and other institutions in Port-au-Prince to determine where best to locate the unit, and to define exactly what its functions and staffing should be and what support it should receive from USAID or other donors. The unit should be up and running later this year in order to begin promotion activities as soon as elections are completed. This will be the time to begin actively courting foreign investors, and linking them with local entrepreneurs. Haitian exiles returning to Haiti with funds to invest will have their own local contacts, but could also benefit from a one-stop shop with information on current investment regulations and incentives.

(6) **Assistance to trade associations.** Implementation of this recommendation in our action plan could be facilitated by a brief study of groups in the process of formation, such as the mango exporters and the sisal processors, to determine more precisely what kinds of assistance is needed and desired. A successful mango exporters association could serve as a model for a future vegetable exporters association. While these are and should be private sector initiatives, these nascent groups need support and encouragement. The potential role of an agricultural input suppliers association in cooperation with MARNDR in organizing seminars and field demonstrations on the proper use of agricultural chemicals needs firming up. This could be done by the same consultant responsible for #5 above.

(7) **Market information service.** As noted elsewhere in our report, a market information service is needed in Haiti but we feel that the matter deserves further study before specific recommendations could be made. We need to know more about what kinds of information would most benefit small farmers, what crops should be covered, how farmers now get market data, where best to locate such a service (possibly a semi-autonomous agency of the government), and what lessons can be learned from past attempts to set one up.

(8) **Export market studies.** Finally, it would be helpful to have more detailed information on export markets for new crops than was possible in our study. Examples are horticultural products include flowers and ornamental plants, avocados, bananas, strawberries and hot peppers. The potential for value-added processed products, such as frozen mangoes, vegetables, and strawberries, and hot pepper mash (combined with fresh export operations), new types of essential oils, pickling cucumbers, should be studies. Without going into exhaustive detail, such studies could be made available to investors through the investment promotion unit discussed above.

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1. AGRICULTURE AND AGRIBUSINESS IN HAITI

1.1 Overview of the Agricultural Sector

1.1.1 Introduction

Haiti's population of 6.7 million, with a per capita income of approximately $250, is the poorest in the Western Hemisphere. The country has few natural resources in a land area of roughly 10,700 square miles, or about the size of Maryland, and is further handicapped by mountainous and severely eroded terrain.[2]

About 75 percent of Haiti's population lives in severe poverty. Estimates of current unemployment in Haiti range from 50% to 75%. The majority of Haitians do not have access to safe drinking water, adequate medical care or sufficient food. Few social assistance programs exist, and the lack of employment opportunities and deteriorating physical infrastructure remain critical problems facing the economy.

The military coup of September 1991 and subsequent trade embargo declared by the Organization of American States (OAS), including the United States, aggravated Haiti's already precarious economic situation. Over the past four years, Haiti's Gross Domestic Product (GDP) has declined in real terms by 25 percent, according to the U.S. Department of Commerce.[3] Currently, the Aristide government is working closely with international donors and foreign governments to develop an emergency recovery program.

Table 1.1 provides an overview of general resource and infrastructure endowments of Haiti and an approximate indication of how easily they could be improved in the medium (2-5 years) and long-term (more than five years). Proximity to the huge US market is a major advantage that would make agribusiness investment in Haiti very attractive to potential local and US investors if other constraints could be alleviated. A series of good natural harbors (Port-au-Prince, Cap Haitien, and several others) exist, but historical mismanagement has transformed them into a liability, rather than an asset. Yet this could easily be remedied if the GOH decided to either completely privatize port facilities (at Port-au-Prince) or, at a minimum, let out a management contract to a reputable private firm.

Scenic beauty, rich history, and a thriving and imaginative arts and handicraft industry make Haiti potentially an important magnet for tourism. However, this remains largely unexploited due to security concerns and the deterioration of major Haitian cites and historic sites. Tourism development would spur demand for locally-produced fruits, vegetables and meats.

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[2] *Haiti Investors' Guide 1994*, Haiti Investment Desk, Ministry of Finance, December 1994, p. 4.

[3] U.S. Department of Commerce International Trade Administration, Office of Latin America and the Caribbean. *Haiti: Country Profile*, October 17, 1994.

Table 1.1: Resource and Infrastructure Endowments Affecting Haitian Agribusiness Development Potential

	Improvable in the Medium Term: Easier to Change	Improvable in the Long Term: Harder to Change	Fixed Resources: Not Possible to Change
Positive Factors	• Attractiveness to Tourists	• Unskilled Labor Force	• Proximity to US Market • Natural Harbors • Climate (Seasonal Windows of Opportunity) • Scenic Beauty
Negative Factors	• Deteriorated Port Infrastructure • Deteriorated Transport Infrastructure • High Energy Costs & Frequent Power Failures • Poor Communications Infrastructure • Political Instability	• Lack of Rule of Law • Weak Domestic Effective Demand • Limited Skilled Labor Force • Weak Farmer Organization Capacity • Lack of Clarity of Land Tenure	• Limited Arable Land Availability

Climate is also a potential advantage to the extent that Haiti can exploit seasonal windows of opportunity when prices are high in the US. There is already evidence that this happens for off-season mangoes and some winter vegetables. That said, productive farm land is generally in short supply in Haiti, and investment schemes that require opening up substantial tracts of new land are probably not feasible in Haiti.

Another major advantage to potential investors is Haiti's pool of unskilled and semi-skilled labor -- the least expensive in the Caribbean, but with a reputation for hard work and adaptability. This is the single most important factor for the dramatic growth of the Haitian assembly industry in the 1970s and 1980s. Yet, over time, it will be necessary to upgrade skills and graduate more workers into semi-skilled and skilled positions. This will require greater investment in vocational training, in primary and secondary education, and in improved quality of instruction. These are difficult to substantially improve in the short-run.

Most of Haiti's biggest disadvantages in the eyes of any investor can be remedied if the GOH furnishes the vision to do something about them. Transport, port, and utilities infrastructure are relatively easy to improve and expand in the medium-run provided that donor assistance is available. Privatization, or restructuring of major public enterprises, must go hand-in-hand with the upgrading of seriously mismanaged and depreciated infrastructure. ~~This, of course, abstracts~~

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from the political sensitivity that always revolves around privatization. Nevertheless, if the political will is there, these can be turned around fairly quickly.[4]

The biggest challenge for Haiti at this moment in its history is to establish a politically stable climate within which economic recovery can take place. The fact that 1995 is essentially a transition year and a time of uncertainty about the future -- with legislative elections coming in June and presidential elections in December -- will sharply limit new investment in Haiti in the short-run. However, business recovery has already begun, and with well-planned donor assistance the prospects are reasonably good that Haiti can soon return to previous levels of economic activity. Yet for investment to expand beyond historical levels, a stable environment for business, accompanied by a greater respect for the rule of law, will have to be developed in Haiti. This is perhaps the nation's most fundamental challenge, and it will take time to achieve.

1.1.2 Constraints in the Agriculture Sector

Haiti is heavily dependent on agriculture, which employs nearly 70 percent of the work force, but normally accounts for only 25 percent of total export value and less than thirty percent of GDP.[5] (Currently, agricultural exports are a much higher percentage of the total since industrial exports have just begun to recover.) Small-scale subsistence farming dominates, with small landholdings of under four hectares accounting for nearly 75 percent of all cultivated land.[6] However, individual landholdings, or farms, are further sub-divided into several parcels. The result is exceptionally small parcels, averaging under 0.8 ha.

Roughly 1 million of Haiti's 2.7 million ha were cultivated in 1990. Half a million ha were devoted to pasture and 100,000 ha remained as forests. Approximately 7% of cultivated land is irrigated. About 1 million ha of land have been eroded and can no longer support any agricultural use.[7]

Moreover, though land titles exist, there are often conflicting ownership claims. In addition, recourse is difficult if land is seized or otherwise used, since there is no reliable adjudication process in the courts. Land tenure is typically based on "adverse possession," or squatter's rights.[8] This has created serious disincentives to investment by small farmers in improving land or minimizing erosion. Farmers continue to rely on traditional farming practices

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[4] Although designing and implementing strategies for sustainable road maintenance and rehabilitation is substantially more challenging than improving and maintaining other types of physical infrastructure.

[5] U.S. Department of Commerce International Trade Administration, Office of Latin America and the Caribbean. *Haiti: Country Profile*, October 17, 1994.

[6] World Bank, *Haiti Agricultural Sector Review*, April 30, 1991, p. 2.

[7] Yaptenco, p. 4.

[8] *Haiti: Analysis of Legal and Regulatory Framework for Trade and Investment*, February 27, 1995, pp. 4-5.

and resort to producing charcoal when agricultural product prices are low, exacerbating Haiti's badly eroded soil and rapid deforestation.

Between 1985 and 1989, agriculture's average annual growth rate was minus 0.5%, continuing the negative trend that began in 1980. Agricultural value-added has been decreasing even though land and labor resources allocated to agricultural production have been increasing. Land and labor productivity losses have mainly resulted from the deterioration in the quality of the country's capital stock (soil, irrigation systems and roads), reflecting a political and economic environment not conducive to investment in infrastructure.

Agricultural productivity has declined sharply over the last few years due to a number of factors, including:

- high cost or unavailability of agricultural inputs, particularly fertilizer and quality seeds,
- trade sanctions,
- insecure land tenure,
- deteriorated irrigation and drainage works,
- inadequate soil conservation practices,
- highly variable rainfall patterns,
- competition from contraband imports,
- fluctuations in world prices of principal exports, and
- low investment in technology development and transfer.

Crop production makes up about 85 percent of agricultural output, with the balance consisting mainly of livestock production for the domestic market. Key crops are fruits and vegetables, maize, sorghum, rice, sugarcane and coffee.

Production of major crops has been in general decline over the last several years, as seen in Table 1.2, and is likely to continue to fall if the government of Haiti does not take appropriate action. Despite the fact that agriculture has traditionally been the country's most important source of foreign exchange, due to the sharp fall in agricultural production Haiti has become a net importer of agricultural commodities, especially rice.

1.1.3 Crop Production

Major crops in Haiti are fruit (mainly mangoes and bananas), beans, corn, rice, sorghum and coffee. As the data in Table 1.1 shows, a general downward trend from 1985 to 1992 was reversed by 1993 for some crops and for some as early as 1992. The embargo did not have a

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Table 1.2: Production of Major Crops, 1985-1994

Crop	Production, 000 of metric tons					
	1985	1990	1991	1992	1993	1994
Fruits	58	50	50	47	52	56
Beans	62	44	46	52	46	48
Corn	176	140	140	151	171	169
Rice	115	103	103	77	109	101
Sorghum	173	183	120	161	140	155
Coffee	36	32	33	37	35	38

Note: Figures for fruit, beans, rice and sorghum are in corn calorie equivalents, not actual tonnages.
Sources: Economic Growth Office, USAID/Haiti

major impact on crops for domestic consumption. Coffee appears to have maintained pre-embargo production levels but there has been no growth for the past nine years.

Any major increases in crop production are unlikely in the immediate future until the constraints enumerated in the preceding section begin to be corrected. Some parts of the country, such as western Haiti, will remain relatively isolated due to the poor state of the roads. Increased charcoal production as a result of high unemployment and growing population pressures leads to cutting of mango trees, damaging future export potential of this crop and leading to increased soil erosion. Fertilizer prices have nearly tripled over the past four years and continue to be a significant constraint to rice production.

1.1.4 Foreign Trade

The effect of the embargo on Haiti's foreign trade may be seen in Table 1.3. After a rapid buildup of exports from 1989 to 1991, there was a precipitous drop in 1992, a small increase in 1993 (when the embargo was suspended for a brief period), and another drop in 1994 when exports were lower than they had been in 1989. The effect on imports was less drastic, as the figures include humanitarian food shipments.

The U.S. is by far Haiti's most important trading partner. During the six year period shown in Table 1.3, 75% to 80% of total world exports went to the U.S., while 50% to 60% of imports came from the U.S. Most of Haiti's exports to the U.S. are articles of clothing and sports equipment assembled in plants in and around Port-au-Prince. Agricultural products account for only 5 to 10% of exports to the U.S. but have an important impact on rural incomes.

Table 1.3: Haiti Foreign Trade, 1989-1994
(millions of US$)

	Exports			Imports		
	U.S.	Total World	% U.S.	U.S.	Total World	% U.S.
1989	106	144	74	152	291	52
1990	198	247	80	304	524	58
1991	270	316	85	431	700	62
1992	101	133	76	238	440	54
1993	147	175	84	243	476	51
1994	98	122	80	169	395	43

Source: International Monetary Fund, Direction of Trade Statistics.

Haiti's principal agricultural export is coffee. Other important agricultural export products are fresh and processed fruit (mostly mangoes) and vegetables, cocoa, sisal, and essential oils. As indicated in Table 1.4, agricultural products accounted for over 50 percent of total exports by value in 1980. By 1990 agriculture's contribution to total exports had declined to 21% as the low value-added assembly industry blossomed. During the embargo, both overall exports and agricultural exports fell to one third of immediate pre-embargo levels in absolute terms, totalling only $57 million and $12 million, respectively.

Table 1.4: Agricultural Product Exports Compared to Total Exports, 1980-1994

	1980	1985	1990	1991	1994
			(in $ millions)		
Total Exports	195	168	158	158	57
Total Ag. Exports	112	69	33	33	12
			(in percents)		
Ag. Exports/Total Exports	**57.4**	**41.1**	**20.9**	**20.9**	**21.1**

Source: For 1980-90, World Agriculture: Trends and Indicators, 1970-1991, USDA
For 1991 and 1994, IMF (1995)

The effect of the embargo on exports to the U.S. is vividly illustrated in Table 1.5.

- Exports of fresh mangoes were the hardest hit. The embargo, which took effect in October 1991, had a minor effect on exports in that year, but a devastating effect on 1992 shipments. There was a recovery in 1993 as restrictions were suspended for a six-week period late that year and mango exporters were able to take advantage of availability during the "short season" in the fall. However, full restrictions were in effect for most of 1994, until the embargo was suspended in October, and mango exports again dropped.

Table 1.5: U.S. Imports of Haitian Agricultural Products, 1990-1994
(000 US$)

Commodity	1990	1991	1992	1993	1994
Sisal Twine	4,350	3,497	2,038	1,790	1,786
Fresh mangoes	5,369	6,819	120	3,869	1,623
Processed mangoes	0	100	0	1,255	1,153
Essential Oils	4,061	2,091	0	1,597	854
Leather	2,559	2,601	2,348	3,226	1,235

Source: U.S. Dept. of Commerce

This time mango exporters had been largely decapitalized and were unable to take advantage of fall availability of mangoes. (By the spring of 1995, most exporters were back in business on a reduced scale.)

- **Processed mangoes,** such as frozen pulp, frozen "cheeks", and fresh slices, are new products for Haiti and were just beginning to be produced when the embargo was instituted. Several mango exporters had installed the necessary equipment and were able to make some shipments of this value-added product during 1993 and 1994.

- **Essential oil** exports were very hard hit by the embargo; 1994 shipments were only 1/5 of 1990 levels. (The higher 1993 exports were probably due to shipments of stored material which couldn't be moved during 1992.) By the time this assessment was being prepared, producers of *vetiver* oil were rapidly getting back into production and even expanding their capacity, so that 1995 exports should be much higher.

- **Sisal product** exports during the embargo were about half what they had been before. Changes in embargo rules allowed some binder twine to be imported into the U.S. during this period.

- There was no effect on exports of **leather** products, which apparently also benefitted from relaxation of restrictions.

Foodstuffs -- mainly grains, but also meat and poultry and general consumer items -- constitute a major portion of the Haitian import bill (see Table 1.6). Prior to the embargo, food imports constituted one quarter to one third of total commodity imports; during the embargo this swelled to more than half. Oil imports also grew, and all of this was primarily at the expense of capital goods and other inputs into generation of local economic activity. In order to get the economy back on its feet, reorienting imports toward investment items and out of consumables should be a major priority of the new government over the next few years.

Table 1.6: Composition of Haitian Imports, 1990-94

	1990	1991	1992	1993	1994
			(in millions of US dollars		
Total	505.5	527.8	278.1	346.2	183.2
Food and Others 1/	134.4	190.8	183.6	196.6	99.4
Of which: food	63.2	83.5	131.6	196.6	99.4
Fuel and Lubricants	70.8	61.3	61.1	70.7	46.2
Of which: petroleum and derivative	68.2	54.8	58.6	58.8	43.2
Machines and Transportation	48.6	63.8	24.3	21.5	7.7
Raw Materials	8	6.4	2.1	4	2.5
Manufactured Goods	19.4	16.1	6.8	8.3	7.6
Other Imports	224.3	189.4	0.2	45.1	19.8
	(In Percent of Total)				
Foods and Others	26.6%	36.2%	66.0%	20.4%	25.2%
Fuel and Lubricants	14.0%	11.6%	22.0%	20.4%	25.2%
Machines and Transportation	9.6%	12.1%	0.8%	6.2%	4.2%
Raw Materials	1.6%	1.2%	0.8%	1.2%	1.4%
Manufactured Goods	3.8%	3.1%	2.4%	2.4%	4.1%
Other Imports	44.4%	35.9%	0.1%	13.0%	10.8%

Source: IMF

1/ Includes beverages, oils and fats, and pharmaceutical products

1.1.5 Marketing Channels

Table 1.7 presents the different types of domestic marketing channels that exist for Haitian agricultural commodities. As mentioned above, highly diversified small farmers account for the bulk of production. Large-scale plantation agriculture and contract farming are minimal and only concern sugar and specialty vegetables for export. Because production is highly dispersed, a large number of middlemen (generically referred to in Haiti as *spéculateurs* and labelled "private intermediaries" here) of various size assemble products on the account of exporters or wholesalers (for domestic consumption). The intermediaries tend not be specialized in any one commodity; today they may be transporting mangoes, tomorrow consumer goods or cement, and so on. Exporters (or wholesalers) advance marketing credit to intermediaries who then purchase from farmers, perform minimal sorting and grading, and deliver the produce to exporter warehouses. This is the traditional model used for dry coffee, cocoa, mangoes, essential oils, rice, and other

Table 1.7: Agricultural Commodity Marketing Channels and Functions in Haiti

Commodity Examples	Marketing Agent Functions			
	Farmers	Cooperatives	Private Intermediaries	Exporters/Final Processors
Dry Coffee, Cocoa	• Plants, maintains, and harvests • Initial drying	• None	• Initial and secondary assembly • Transports to exporter warehouse	• Advances credit to speculateur • Final grading, sorting, bagging • Exports
Washed Coffee	• Plants, maintains, and harvests • Initial drying • Brings produce to cooperative	• Purchases (using exporter credit) and processes	• None	• Advances credit to cooperative • Transports processed coffee to warehouse • Final grading, sorting, bagging • Exports
Sisal, Vetiver	• Gathers raw product • Transports to processing plant	• None	• Purchases and transports to processing plant	• Final grading and sorting • Processing • Export
Mangoes, Limes	• Plants and maintains trees	• None	• "Contracts" with farmer for tree output (prior to harvest) • Picks fruit • Purchases (using exporter credit) • Transport to packing plant	• Final grading and sorting • Washing and processing • Export
Rice	• Plants and harvests paddy • Hand maintenance of dikes and canals • Transports to first assembly point • Processing by hand for home consumption	• Purchases and mills paddy OR • Processes farmer paddy for a fee • Sells to speculateurs	• Purchases paddy directly from farmers (most common) or milled rice from cooperatives • Transports to consuming centers • Sells to wholesalers	• None

Commodity Examples	Marketing Agent Functions			
	Farmers	Cooperatives	Private Intermediaries	Exporters/Final Processors
Other Food Crops	• Plants and harvests • Transports to first assembly point • Processing by hand for home consumption	• None	• Purchases directly from farmers • Transports to consuming centers • Sells to wholesalers	• None
Winter Vegetables (for Export)	• Plants and harvests according to exporter specifications	• None	• None	• Provides inputs and extension to farmers • Contracts with farmers for direct purchase of output
Sugar Plantations (for distilling)	• Serves as plantation laborer	• None	• Collects and purchases cane from satellite farms • Transports to factory	• Processes • Bottles and markets distilled clairin directly OR • Transport tanks to bottler

food crops. Mangoes are a special case at the farm-level because farmers often contract with intermediaries to come into their fields and pick the fruit themselves. Sisal and vetiver are also a bit different at the farm-level because farmers are more typically "gatherers" of plant material that grows wild, rather than cultivators.

Farmer organizations such as cooperative and pre-cooperatives are underdeveloped in Haiti. While Haiti has a long tradition of NGO-sponsored grassroots organizations, most of these tend to have social rather than economic or business objectives. Farmer organizations were systematically formed in the Artibonite Valley, but the impetus came from government, and as such most of these are discredited. The only functioning farmer organizations are in rice and washed coffee, but there are just a few of them.

1.2 Agribusiness in Haiti

1.2.1 Importance of Agribusiness

The term "agribusiness" as used in this report refers to the business activities of enterprises which add value to agricultural products through: delivery of inputs to producers or processors; collection, transport and transformation (processing or post-harvest handling) of the product; and trading activities such as exporting or domestic wholesaling. Farming operations are considered agribusiness if they are part of a vertically integrated production and processing operation.

The scope of agribusiness activity in Haiti is broad, encompassing post-harvest handling/processing and export of: mangoes, coffee, cocoa, sisal (for twine), essential oils (from limes and vetiver), fresh vegetables, processed vegetables (tomato products), ornamental plants, and leather (goat and bovine), as well as the supply of fertilizer, pesticides and herbicides, and machinery. Rice importing is carried out by an agribusiness firm and supplements domestically-produced rice.

The Haitian agribusiness community has always been important but has never come close to achieving its full potential. In mid-1991, when the AGLINK project was being designed for USAID/Haiti, agribusiness activity appeared to be at a take-off stage. Unfortunately, the *coup d'etat* and subsequent events had a severe negative effect. The sub-sector must now be rebuilt before it can start again to move forward.

1.2.2 Effects of the Embargo

An exhaustive list of "*Industries Alimentaires et Agro-Industries*" available in Haiti names 449 firms including processors of grains and other products for the local market. A much more restrictive list, taken from the 1989 brochure, "*Qui est qui dans l'Agribusiness en Haiti*," lists 60 exporters and processors of agricultural products (see Table 1.8). Some important firms, such as those producing chickens for the local market, were not included.

Table 1.8: Haiti Agribusiness Exporting Firms
(Source: "Qui est qui dans l'Agribusiness en Haiti, November 1989)

Enterprise Name	Location	Contact	Products
Coffee and Cacao:			
Coop. Cafeieres d'Haiti	Port-au-Prince	Yves Champagne	Coffee
Denrees Haitienne	Delmas	Hubert Dufort	Coffee and cocoa
Ets. Novella	Cap Haitien	Nonce Zephir	Coffee, cocoa, orange peel export
Ets. J.B. Vital	PaP	Raymond Vital	Coffee export
Fabre Import-Export	Chancerelles	Jean Paul Fabre	Coffee/cocoa export
Fred Eyssallenne	PaP	Fred Eyssallenne	Coffee export
Geo. Wiener & Co.	PaP	Frederic Wiener	Coffee, cocoa export
Habitiation Schutt	Cap Haitien	Carl Otto Schutt	Coffee growing, export
Kersaint	PaP	Michel Kersaint	Coffee processing, export
Les Ets. Comcl. Baptiste	PaP	Leon O. Baptiste	Coffee, orange peel, turmeric export
Madsen Export Import	PaP	Einar Madsen	Coffee and cocoa export
Usine a Manteque	PaP	Oswald Brant	Coffee export (+veg oil, local mkt)
Vieux Fils et Co.	Cap Haitien	Georges Vieux	Coffee and cocoa export
Cacao only:			
Mennonite Ec Dev Assoc	PaP	Lynden Krause	Cocoa export only
Plantation Desglareaux	Cap Haitien	Serge Lucchesi	Cocoa production, export
Mango, Tropical Fruit and Vegetables:			
BRIMPEX	Delmas	Jean Reimers	Mango export
ENERCO	Damien	Rodney Goings	Melon export
Germain Paul Export	PaP	Germain Paul	Mango export
Haitian Tropical Mngmt.	PaP	Eric Heraux	Mango (Tommy Atkins) export
Jean Jacques et Sons	PaP	J. J. Sylvain	Mango, quenepes, banana export
JMB Export	Delmas	Jean Maurice Buteau	Mango, lemon, breadfruit export
M&M Agro	PaP	Michel Marcel	Mango, breadfruit export
PYRAMID	Petionville	Wilhelm Reimers	Mango, papaya, green pepper export
Ralph Perry Imp-Exp.	PaP	Ralph Perry	Mango (fresh, processed, chips) export
TROPI FRUIT	PaP	Frank Heimcke	Mango export
Essential Oils:			
Agri-Supply Co.	PaP, Cayes	Pierre Leger	Vetiver oil export, ag input sales
Blanchard et Co.	PaP, Damien	Philippe Blanchard	Vetiver oil
Chamblain	Les Cayes	Vital Chamblain	Vetiver oil
Ets. Jeune	Les Cayes	Marc Jeune	Vetiver oil, clairin (local mkt.)
~~Marnier Lapostolle~~	~~Cap Haitien~~	~~Serge Lucchesi~~	~~Orange oil (for Grand Marnier)~~
Hans Broder Schutt	Cap Haitien	Hans Broder Schutt	Dried orange peel, citronella
Les Essences Aromatique	PaP	Louis Auguste	Oil of amyris, vetiver oil
Port-au P. Essential Oil	PaP	Pierre Hecdivert	Lemon oil
Prod. Agricole Guacimal	Cap Haitien	Jacques Novella	Lemon/orange oil production, export
Reddy Flavors	PaP, Sarthe	Ann Hauge	Lemon oil/ juice, dried lemon peel
UNAROM	PaP, Pet. Riv.	Emanuel Pressoir	Lemon oil

Table 1.8: Haiti Agribusiness Exporting Firms (continued)

Sisal:			
Circle Mfg. Co.	PaP	Jean Bernard Vital	Sisal products
SAFICO	PaP	Anthony Drouin	Sisal products
TWINCORD	PaP	Pierre Roumain	Sisal products
Flowers and Ornamental Plants:			
Caribbean Exotic	Delmas	J. P. de St. christo	Anthuriums, ornamentals
Costa Nursery Farms	Petionville	Jean Claude Hollant	Ornamentals
Golden Orchids	PaP	Toni Assali	Orchids
Ornemantales d'Haiti	PaP	Claude Martin	Ornamentales
Vegetables:			
Operation Double Harv.	PaP	Tim Verduyn	Vegetables for export,flowers
COPRAGSA	PaP	Anthony Bouchereau	Vegetables for export
Processing plants:			
Conserverie Nationale	Cap Haitien	Rolant Acra	Mango/guava puree, mango slices
Enmarcolda	PaP	Lionel d'Adesky	Cucumber pickles(cornichons)

FOOD PROCESSORS FOR LOCAL MARKET

SHAISA	PaP	Nasim Mourra	Tomato paste, fruit juice
Arlequin Food Prod.	PaP	Guy Riviere	Pasta products, snack foods
The Bs Farms	PaP	Daniel Bouchereau	Meat products
Ets. Gesner Valles	Damien	Gesner Valles	Clairin, vinegar
Haitian-Am. Meat Co.	PaP	William Kentor	Meat products
Laiterie Nationale	PaP	Diggan d'Adesky	Milk products
Minoterie d'Haiti	PaP	Yves Jose	Flour from imported wheat
Pork Shop	Cap Haitien	Starley Willis	Pork products
Prolait	Delmas	Philippe Bayard	Yoghurt
Haitian Am. Sugar	Chancerelles	Fritz Mevs	Brown sugar, alcohol

OTHER AGRIBUSINESS ENTERPRISES
(Source: 1987 report by Mooney and Mock)

La Chapelle	Cap Haitien		Snap beans, snow peas for export
Ets. George			Dried orange peel
Tabacs Comme Il Faut	PaP	Norman Moore	Cigarettes

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Persons with whom we have reviewed this list believe that most of the 60 firms still exist although their levels of activity have been sharply reduced, as follows:

- Of 15 firms that exported coffee and/or cocoa, only about half remain. This is, however, due less to the embargo than to mergers that resulted from continual decreases in the volumes of produce available for sale.

- Of 10 firms that exported mangos, most are still in business. The volume of exports this year is generally expected to be about 1.5 million boxes, roughly 70% of the volume before the *coup d'etat.* One firm, Haitian Tropical Management (the only one with foreign capital and the only one to have its own plantation), is reportedly for sale.

- Of 11 firms that exported essential oils, we did not hear of any that are no longer in business. These firms were hurt less than others by the embargo, partly because their products are not highly perishable and they normally ship by air.

- The three firms that produced sisal cord for export are still in business; however, they lost production and sales, in part because high fuel costs made inbound transportation and processing very expensive and because for several months they could not ship to the U.S. market.

- The tropical flower and plant industry was only beginning when Haiti was embargoed and lacked both depth or the resources needed to endure. Of the 4 firms that were exporting, at least 1 (Ornamentales d'Haiti) is thought to be out of business and the others have lost both money and momentum. Costa Farms had no income for two years, but it is beginning to recover.

- There were two firms listed as producing vegetables for export, and two as processing fruits and vegetables for export. We understand that one of these (Conserverie Nationale) is closed. A tomato processing enterprise, SHAISA, recently began operating again to supply the local markets (and possibly producing some products for export to the U.S.).

- There were 10 firms listed as processors of meats and other products for the local market. Since none of them depended heavily on imported inputs, most or all are still in business. As the local market recovers, they should recover as well.

The status of these companies before and after the embargo is summarized in Table 1.9.

Table 1.9
Agribusiness Enterprises in Haiti by Type

Number of firms Product	Number of Firms Before Embargo	After Embargo	Comments
Coffee and cocoa	15	7	Volume down
Mangoes	10	9	70% of best yr
Essential oils	11	11	Survived
Sisal products	3	3	Struggling
Plants and flowers	4	1?	Restarting
Export processing of oils	2	1	One company restarting
Processing for local market	10		Most still in bus.

A "List of Agribusinesses in Haiti," prepared recently by Ralph Denize of the USAID mission, lists 33 persons who are now in business. More than half of these are **not** listed in the 1989 brochure. They are processors and/or exporters of frozen shrimp and lobster, shellfish, poultry and eggs, cereals, sugar, dairy products, coffee for the local market, alcohol and rum, cigarettes, and leather.

There were also a number of minor products being harvested for export, or at least experimented with, before the embargo. These include avocadoes, hot peppers and pepper mash, aloe vera, neem seeds, powdered avocado seed, vanilla extract, cattle tail hair, and others. Most of these were of direct benefit to poor people in rural areas, and taken together they produced substantial foreign exchange earnings.

1.2.3 Backward and Forward Linkages

Haitian agribusiness firms and their suppliers of agricultural produce have historically had very poor linkages. Agribusiness owners visit farming areas only rarely, and most farmers (including leaders of farmers' associations) respect the social distance between themselves and the better educated businessmen in Port-au-Prince. Thus, communication is very poor and is done mainly through buying agents or independent middlemen who provide little accurate information and who take little interest in helping increase production or productivity.

There are also backward linkages to input suppliers, transportation companies, and others. In general, there were not many of these firms before the embargo, but most of those that existed

have survived. The main importers of fertilizer have benefitted from good management; they will be discussed in a later section.

Linkages to buyers in the U.S. were severed by the embargo, especially with regard to fruits, vegetables, and flowers. U.S. importers of mangoes found other suppliers when Haitian firms could not ship and production was increasing elsewhere. U.S. importers of vegetables and flowers were only beginning to think of Haiti as a supplier, and thus were able to simply write it off. The firms that have established offices in Miami (JMB Export, Rainbow Agro-Industries, and perhaps others) should be in the best position to recover their markets. Other firms, however, must begin again to select importers and persuade them that Haiti is a reliable source of high quality produce at competitive prices.

Agribusiness opportunities and constraints are discussed in Chapter 3 of this report.

1.3 U.S. Agribusiness Company Investment and Trade Interests in Haiti

As the following sections will show, only three American companies have operations in agribusiness in Haiti, though a number of companies import Haitian agricultural products. Those that are in Haiti have suffered from the embargo just as Haitian companies have, which is likely to discourage new U.S. investment in the immediate future. Yet Haiti badly needs direct U.S. investment -- and the technology and market access American firms can bring with them--when they form partnerships with local firms or investors.

Elsewhere in this report we recommend creation by AID of a Food System Development Program which would make grants to U.S. companies for costs external to the core investment project, such as working with producers to improve the quantity and quality of raw material, and helping farmers organize marketing and collection of crops. This kind of assistance, already available through AID in the NIS, could have a major impact on Haiti by encouraging U.S. investment.

1.3.1 Sisal Processing

Sisal fiber, used in the manufacture of baler twine, sacking, and felted mattress pads, is recovered from a type of cactus plant by hand cutting the spears (leaves) of the plant and scraping away the fleshy part to recover the fiber. (See Section 3.2.4.) This process can be done by hand by machete but the work is very onerous and many farmers are unwilling to do it, especially as it necessary to clear undergrowth to get at the plant itself. However, it is only necessary to do this clearing once, after which normal harvesting can be done, so there is a high initial cost to get these fields back into production.

Middlemen working closely with sisal processors contract with farmers to recover the fiber. Within the last few years, mechanical decorticators ("raspadors") have made it possible to produce fiber quickly and more efficiently than the hand process, but not enough of them are available. Typically they are loaned to middlemen by plant operators, sometimes along with

trucks to transport the machine and transport the fiber to the plant. Most of the fiber in Haiti is processed into binder twine for export to the U.S., where it is purchased by farm cooperatives and farm supply companies for use in hay baling. Some is also woven into sacks for Haiti's exported coffee and cocoa, as well as for imported rice, and a small amount is felted for local sale as mattress pads. Brazil, by far the largest supplier of binder twine to the U.S., is Haiti's competitor in this market.

One of the three sisal processing firms in Haiti -- Circle Manufacturing S.A. (CIMA) -- is majority owned by Kane International of Rye, New York. CIMA established its processing plant in 1965, and currently accounts for about 60% of the binder twine manufactured in Haiti, all of which is exported to the U.S. Like the other two sisal processors, the CIMA plant is located near Port-au-Prince and gets its raw material from the Cote de Fer area in the southern part of the country. During the embargo all three processors suffered from restrictions on exports. Not wanting to shut down their processing plants, processors continued to operate and accumulated large inventories of twine, tieing up working capital. Although inventories are down since the embargo was lifted, manufacturers must re-establish contacts with buyers, who were readily able to replace Haitian twine with Brazilian twine during the embargo. Furthermore, processors are all short of raw material because sisal fields have been gradually abandoned and are overgrown with weeds.

Recently CIMA and the other two processors recognized the need to build more decorticators rapidly in order to get production up again and regain markets in the U.S. Due to the difficulty in controlling which firm is offered the fiber by middlemen once it is produced in the field, the individual firms have been reluctant to build more machines. CIMA was the first to build decorticators in volume and has been the leader in putting machines in the field. During the team's visit to Haiti, CIMA took the lead in getting the three processors together to agree to share the cost of fabricating up to 200 decorticators over the next two years so that all three would, in principal, benefit from the increased supply. The machines cost about $2000 to build. The sisal companies, decapitalized by the embargo, have difficulty qualifying for bank loans, particularly as banks cannot legally accept chattel mortgages (mortgages on movable equipment). Additional capital is needed to purchase trucks to haul sisal to the processing plant, since it has proven difficult to hire truckers willing to risk their vehicles on the bad roads.

CIMA's (and the other processors') current need is for capital to build decorticators. If fully financed by bank loans, the companies would jointly require $400,000 over the next two years. The need for capital on these terms is urgent, not only because it will lead to increased employment at the plants, but because it will provide additional income to farmers in an area where there are few alternative sources of income. The Assessment Team strongly urges that a loan guarantee fund be created which could assure that bank loans could be available to finance the fabrication of these decorticators and assure the continued presence of U.S. investment in this industry in Haiti.

1.3.2 Mango Importing into the U.S.

There are ten Haitian companies exporting fresh mangoes to the U.S. Although badly hurt by their inability to export during the embargo, most of them are slowly recovering. They would likely be the largest users of the working capital loan guarantee loan recommended in this report, allowing them to increase their purchases of fruit from farmers (through middlemen) to pre-embargo levels. After sorting, treatment, and packing, all of the mangoes are exported to buyers in Miami and the U.S. Northeast. Several exporters also have their own importing firms in Miami, which may deal in other imported produce from the Caribbean and Latin America in addition to handling their own mangoes.

The interruption by the embargo of mango shipments to the U.S. has also had serious effects on U.S. importers specializing in Haitian mangoes. The experience of one Miami importer, Lincoln Diversified Services, illustrates the difficulty that importers faced. For many years, Lincoln has purchased mangoes from two Haitian exporters on an FOB Port-au-Prince basis. Lincoln also supplied the cardboard boxes in which the fruit is packed and shipped to stores. This close relationship worked well for both parties. When Haitian mangoes, Lincoln's specialty, were not available, the company lost much of its business to other mango exporting countries, such as Mexico. Lincoln must now offer supermarket buyers in the U.S. special price concessions in order to regain lost market share. Furthermore, mango shipments are down due to the lack of working capital in the hands of mango exporters in Haiti.

Another problem faced by Lincoln and other importers is the very high port charges at Port-au-Prince, which make it difficult to compete with mangoes from countries such as Venezuela. The Assessment Team investigated this problem and found that indeed port charges were excessively high, especially for the refrigerated containers used by mango exporters. (See Chapter 2). A 50% reduction in port charges would reduce the landed cost of a box of mangoes by 25 cents, according to Lincoln, bringing costs into line with those in Venezuela. One of the team's recommendations is for the immediate privatization of port management, something we understand the IFC will be investigating. This is an urgent matter since it impedes Haiti's chances to recover lost export markets.

Economic conditions in Haiti have also seriously impacted an American investor who operates a mango plantation company in Haiti under the name Haiti Tropical Management S.A. Unable to operate effectively under present conditions, the company is reportedly up for sale.

We recommend immediate action through special loan programs to make working capital available to mango exporters to increase the supply of mangoes, and immediate action by the government to privatize port management and institute a fair and equitable system of port charges.

1.3.3 Rice Importing

The Rice Corporation of Haiti (RCH), a wholly-owned subsidiary of American Rice Corporation (ARI) of Houston, Texas, imports bulk rice and processes and packages it in Haiti, thereby adding locally about 15% to the value of the rice. RCH also buys substantial quantities of bags produced by local sisal processors. Under an agreement negotiated with the Haitian government in 1991 but not implemented until September 1992, RCH utilizes port facilities at Laffiteau (23 km from Port-au-Prince), as well as facilities at a nearby state-owned former vegetable oil mill. The plant has 150 full-time employees and an additional 200 part-time workers. RCH currently imports 40 to 50% of the rice consumed in Haiti. The rest is made up of local production plus substantial quantities smuggled into the country. The company continued to import rice during the embargo under humanitarian exceptions to the OAS embargo.

The agreement with the Haitian government requires RCH to buy up to 10% of the rice it sells from Haitian producers. The company reports that it has purchased rice in the Artibonite Valley in the past but currently has difficulty finding any because rice grown locally and milled in small mills does not even meet demand in the area. Production is down due to deterioration of the irrigation system, and yields are low due to the use of genetically depleted seed stock. The rice that is available contains too high a percentage of brokens to be usable in blending with imported rice.

Company representatives state that their operations have been hurt by low-cost smuggled rice on which no duty is paid. Recent revisions in the import tariff code reduced official duties from 10% to 3%, but the company says that other taxes which were added brought the effective rate for their imports back up to 9%.

RCH has proposed to invest in the installation of paddy rice drying and milling equipment at a state-owned building in the Artibonite Valley -- a building which formerly housed a rice mill but which has since been stripped of machinery -- and to accompany this with a package of inputs on credit to farmers who would contract to deliver rice to the facility. RCH has experimentally produced rice in the Artibonite with improved Texas varieties and obtained much higher yields than farmers get at present. Under its proposed project, RCH would operate its own rice seed production facility. The company is convinced that an integrated operation such as they propose could greatly increase the supply of rice in Haiti and increase incomes of farmers who participate. Improvement in irrigation infrastructure in the region is urgently needed, but the company is prepared to go ahead with the project in the interim.

The International Finance Corporation has recommended to the GOH that the building be offered for sale to the private sector, but no action has yet been taken. In the meantime, RCH is negotiating for a loan to finance a portion of the approximate $1 million cost of a new mill. In addition to requesting the government to take action on selling the existing facility in the Artibonite to private interests, RCH urges actions to halt the smuggling of rice and other commodities into Haiti.

Chapter 3 of this report contains a commodity-by-commodity discussion of current agribusiness activities in Haiti.

2. THE POLICY ENVIRONMENT FOR AGRIBUSINESS DEVELOPMENT

2.1 Overview of Policies

This chapter considers the incentive structure resulting from current macroeconomic policies and the legal and regulatory framework. The general areas considered include fiscal, monetary and financial sector, trade, and legal and regulatory policies. Table 2.1 provides a snapshot of the major policies that have either a favorable or unfavorable influence over agribusiness investment and development in Haiti. These ratings are of course highly subjective. Ratings of +2 indicate policies that are highly favorable to agribusiness development in Haiti, while ratings of -2 are for policies that are highly unfavorable. Plus/minus 1 ratings indicate moderately favorable/unfavorable policies, while zero indicates policies which are neutral toward agribusiness.

Table 2.1
Policies Favorable and Unfavorable to Agribusiness Development in Haiti

	Fiscal Policies	Monetary and Financial Policies	Trade Policies	Legal and Regulatory Framework
+2 (Favorable)	Overall Level of Taxation Temporary Admissions		Exchange Rate Policy Foreign Exchange Restrictions Access to Foreign Markets through Multilateral & Bilateral Agreements	Minimum Wage Law Hiring and Firing Policies for Workers Restrictions on Foreign Investors
+1	Investment Incentives		Tariff Policy	
0	Turnover Tax (TCA)			Laws and Procedures for Company Formation
-1		Interest Rate Caps Reserve Requirements	Efficiency of Administrative Procedures for Import & Export	Land Tenure Policy and Collateral Law Grades & Standards for Product Quality & Safety
-2 (Unfavorable)	Levels of Public Investment in Infrastructure			Public Ownership of Port, Energy, & Telecommunications Companies Enforcement of Contracts

In a general sense, the policies and laws on the books in Haiti are conducive to business development; translating these into everyday reality is often a problem, however. Most subjects receiving negative ratings are currently the subject of dialogue between the GOH and the donor community, and as will be discussed below, hopefully on their way towards resolution.

2.2 Fiscal Policies

During the 1990-94 period, the Haitian economy severely contracted due to political instability, the trade embargo, and to a lesser extent, the continued slump in prices for Haiti's traditional agricultural exports such as coffee and sisal. Agriculture sector growth was also negative during these years, because of a slump in exports and higher input prices combined with lower availability. As Table 2.2 shows, overall GDP growth was negative throughout the period, contracting disastrously in 1992 and 1994. Especially dramatic was the fall in industrial sector output as assemblers relocated to other countries during the embargo and export markets dried up for agro-industrial products. Extremely high petroleum prices and deterioration of public utilities harmed the industrial sector on the cost side.

Table 2.2: Selected Macroeconomic Indicators for Haiti, 1990-1994

	1990	1991	1992	1993	Prel. 1994
	(Annual percentage change)				
GDP Growth Rate 1/	-0.1	-3.0	-14.8	-2.6	-10.6
Sectoral GDP Growth Rate					
Agriculture	-3.2	-0.2	-2.0	-3.0	-2.0
Manufacturing	2.5	-17.7	-21.5	-0.8	-33.3
Inflation Rate 2/	20.4	18.2	17.9	18.9	36.1
	(In millions of gourdes)				
Government Revenue	1155.5	1332.4	973.7	1105.1	816.4
Government Expenditure					
Current	1310.4	1391.2	1409.6	1785.1	2007.1
Capital 3/	637.6	649.8	28.3	118.4	84.2
Overall Balance (after grants)	-195.9	-86.6	-464.2	-742.2	-1274.9
Exchange Rate (G per US$)/4	7.5	8.5	10.0	13.0	13.0

Source: IMF (1995) for all figures except 1990-93 exchange rates; 1990-93 end-of-year exchange rates from USAID Monitoring Report, March 1994.

1/ For all GDP growth figures. 1993 data are preliminary.
2/ Average annual percentage change in the consumer price index.
3/ Includes expenditures financed with concessional assistance.
4/ Exchange rate at end of year.

There was also a steady deterioration in the public accounts with the overall public deficit (after grants) growing by a multiple of six (in nominal terms) between 1990 and 1994. Two factors are responsible for this. First, there has been a near total collapse in administrative capacity to collect revenue. In real terms, 1994 public revenue collections were only 31 percent of their 1990 levels. These were already low in 1990 -- only 7.3 percent of GDP. This fell to 3.3 percent of GDP in 1994. While current expenditures (mainly salaries) kept pace in nominal terms, capital outlays have plummeted, primarily because of the cut-off of nearly all development assistance to Haiti, other than aid for humanitarian purposes.

The effects on the agri-business sector of lack of public investment manifest themselves primarily through decaying infrastructure -- namely roads, ports, markets, electrical power generation, communications, and irrigation installations. Unless provided through a donor project, agricultural research, extension, education, and credit have become non-existent.

The deficit during this period was financed exclusively through money creation. The Central Bank of Haiti has historically enjoyed little or no independence from political authority (Hogan et al, 1995). One result was steady double-digit inflation, further eroding purchasing power for consumers in the nation that was already the poorest in the Western Hemisphere prior to the 1990s.

As is the case in many developing countries, Haitian authorities collect taxes from a very narrow base of overall economic activity, primarily where collection is administratively easiest. The bulk of revenues are collected at Customs, either in the form of import duties or turnover tax (taxe sur les chiffres d'affaires -- TCA). In 1990, these amounted to one third of total public revenues (see Table 2.3). The next most important source of revenue is the excise tax on

Table 2.3: Central Government Revenues for Haiti, 1990-94

	1990	1991	1992	1993	1994
Customs	210.0	283.1	153.6	179.2	104.7
Turnover Tax: Collected Internally	67.9	76.9	69.0	101.4	64.7
Turnover Tax: Collected at Customs	143.7	208.2	121.3	139.9	95.7
Taxes on Income and Profits	164.7	210.5	175.8	169.7	142.4
Corporate	84.1	96.0	64.4	67.3	81.7
Individual	80.6	114.5	111.4	102.4	60.7
Property Taxes	2.4	0.1	0.0	.3	1.3
Excise	259.5	286.8	241.7	310.5	196.1
Flour	0.2	0.1	0.1	0.1	0.0
Sugar	2.5	0.1	0.2	0.1	20.6
Petroleum	158.2	192.3	149.2	194.0	111.4
Cigarettes	83.8	79.6	82.8	92.5	44.1
Other Excise	14.8	14.7	9.4	23.8	20.0
Other Internal Taxes	233.5	221.4	165.1	167.6	188.9
Total Current Revenue	1,081.7	1,287.0	926.5	1,068.6	793.8
Current Revenue as Percent of GDP	7.3	7.6	5.5	.5	3.3

Source: IMF (1995).

petroleum -- over G 150 million in 1990. Far behind these in importance are corporate and individual income taxes and excise taxes on cigarettes.

Few of the businesses interviewed for this report cited excessive taxation as a major problem. Corporate and individual income tax rates, as well as the TCA, are not excessive in

comparison with rates in other countries.[9] Probably another reason that firms do not complain too much has to do with widespread tax evasion, contraband trading, and pervasive under-invoicing of official trade -- a major historical tendency that only worsened under the de facto government when all fiscal discipline within the country and border controls broke down.

The Haitian TCA is conceptually the same as a value added tax (VAT). The theoretical benefit of a VAT is that it is a general tax on consumption, and if uniformly applied across an economy, does not distort incentives. Theoretically, it is the most efficient of taxes in the economic sense. However, the reality in Haiti and elsewhere is that many sectors and categories of transactions are legally exempt from VAT/TCA (Harberger, 1993). In Haiti, among the entities, commodities, and services exonerated from TCA are: businesses with revenues below G100,000; traders in staple food commodities; agricultural products and inputs; bank fees and interest; and the assembly industry. Petroleum products are also exempt, but taxed through an excise tax instead.[10]

Currently nearly all inputs into agro-processing for export are either not subject to TCA (agricultural raw materials which are exempt) or imported inputs which are granted temporary admissions by the Ministry of Economy and Finance if the final product is destined for export. For example, imported packaging boxes, which constitute the most important single expense for fresh mango exports other than ocean freight (even more expensive than the mangoes themselves) are allowed into the country under temporary admissions. As mentioned above, gasoline is subject to an excise tax -- not TCA. Finally, under the Commercial Code, exporting firms are able to negotiate reductions or exemptions from duties for a specified volume of imported capital goods (trucks and equipment) on regular intervals.

In other countries, if a commodity is covered in a VAT regime, exporters of that commodity are entitled to rebates for their exports, with the rebate being equal to the amount of VAT that was passed on to them by suppliers subject to VAT. Because agriculture, and thus agricultural exports such as mangoes, coffee, sisal, and essential oils are exempt from VAT,they forego the benefits of VAT rebates.[11] However, at this point in time, it does not appear that

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[9] Corporate and individual income tax rates are calculated on a cascading scale, with a maximum 35% rate for corporate taxable income over G750,000, and a maximum 30% rate for individual income over G 750,000 (Décrêt du 27 septembre 1988, Impôt sur le Revenu, Article 150, published in Le Moniteur #86-B).

[10] To give a graphic indication of how minimal TCA coverage is, one can compare theoretical TCA revenue with actual revenue collected. If TCA were truly a general tax on consumption, covering 100% of domestic transactions, revenues would be equal to GDP times the tax rate. 1990 GDP equalled G 14.9 billion, so with a tax rate of 10%, collections from a general tax would have been approximately G 1.49 billion. Instead, widespread exemptions combined with tax evasion resulted in collection of only G 211.6 million, an effective tax rate of only 1.4% of GDP.

[11] Consequently, two biases are introduced. First, a bias against agricultural exports relative to selling domestically where implicit VAT costs can be passed on to consumers. When exporting, these costs can not be systematically passed on to buyers in foreign countries (hence the logic for giving them rebates). Except in the case where an exporter is large enough to have an influence over world price because they are dominant exporters (say Brazil for coffee or Côte d'Ivoire for cocoa), exporters are price-takers. For this reason, a VAT rebate should not be viewed as an export subsidy (Harberger, 1993). Secondly, among exportable agricultural products, a bias is introduced against products that are relatively more intensive in local value-added.

bringing agricultural export products into the TCA system is justified. Benefits would be minimal and would probably not justify the additional accounting costs that firms would have to expend in order to justify tax rebates to the authorities. Yet this may change because one objective of the IMF program with the GOH is to broaden the tax base by bringing more products into the TCA, and reducing the number of tax exemptions granted to businesses and individuals.

2.3 Monetary and Financial Sector Policies

The policy instruments at the disposal of the Haitian central bank for influencing monetary expansion are severely limited. Only two instruments -- setting reserve requirements and printing money -- are available. Because of Haiti's extremely poor credit rating, issuing bonds is not an option.

At this point in time, the central bank's highest priority is to reign in inflation and the only way to do this is to slow the printing of money and set extraordinarily high reserve requirements. The IMF Standby Agreement sets a goal of 15 percent inflation in 1995, growth of currency in circulation to 19.5 percent, and expansion of bank credit of up to 25 percent (IMF, 1995).

Regarding reserve requirements, banks are required to keep 43 percent of funds at the central bank and these funds are unremunerated. Stiff fines for violations theoretically aid in enforcement. Despite this, the banking system remains liquid essentially for two reasons[12] -- one short-term and the other long-term in nature. In the short-term, the level of economic activity in the country is so low and bankers therefore have little confidence in financing new projects.

The more profound reason is that the Haitian banking system has never been aggressive in collecting deposits and seeking new investment opportunities. Major shareholders of the local banks are the handful of wealthy families who control most large and medium-scale enterprises in Haiti. Having cheap funds available to invest in their own enterprises is the most important objective of bank shareholders; expanding lending beyond these immediate needs is only a secondary objective. The result has been what is labelled "name lending" where credit is only readily available to the old families who happen to be shareholders in the banks. In addition, interest rates on deposits are extremely low -- 2-3 percent -- in a country where inflation has generally been in the 20-40 percent range over the last several years.

When asked how the banks could get away with such low rates on interest-bearing deposits, one banker cited the overriding preoccupation of Haitian depositors for security (i.e. putting money in the bank is safer than putting it under a pillow) and that, on average, deposits are very small so administrative costs are high.[13] When then asked what would happen if bank managers desired to raise interest rates to attract more deposits, he said that the shareholders

[12] In December 1994, actual reserves stood at 47.9 percent, while the reserve requirement was only 43.2 percent, resulting in excess liquidity of approximately G 325 million (IMF, 1995).

[13] Another factor that makes the spread so wide between interest rates on deposits and interest rates on loans is the high unremunerated reserve requirement.

would not allow it -- their first priority being to keep the cost of funds low so they could borrow at low rates for their own investments.

All of this may be changing as two apparently more aggressive new banks -- PROMOBANK and UNIBANK -- have been recently created. However, it is too early to tell. In any event, no responsible bank is going to be too aggressive until the political situation becomes clearer.

Once the political environment improves, the high level of the reserve requirement may become a binding constraint on expanding lending. In light of this, the IMF will be providing technical assistance to the central bank on developing market-based monetary mechanisms so that reliance on the blunt instrument of the reserve requirement can be lessened and its level gradually lowered.

One policy that may soon change pertains to interest rate ceilings. Haiti's usury law sets a 22 percent cap on commercial lending rates and a 9 percent cap on lending to agriculture (essentially production loans for small farmers). Legislation for eliminating the ceilings went to Parliament in January 1995, but they failed to pass it before adjourning. When the new Parliament convenes later this year, it will again come up for consideration.

As is the case with the reserve requirement, this is not currently a constraint on commercial lending as interest rates hover in the 14-18 percent range. For agriculture, the 9 percent interest rate has resulted in virtually no lending for production credit for agriculture. However, lifting the cap will not immediately result in a flood of new lending to small farmers because financial institutions are averse to such lending due to high risk and excessive administrative costs. Nevertheless, granting financial institutions greater flexibility to charge interest commensurate with risk may be especially important for non-bank financial institutions such as FHD and SHEC (more on them below) whose portfolios are dominated by small and microenterprise loans.

2.4 Trade Policies

2.4.1 Exchange Rate Policy and Foreign Exchange Controls

Since September 1991, the exchange rate has been market-determined. Prior to this, an artificially low rate of G5 per US$ existed and by 1991 the spread between the official and black market rates had reached 53 percent. Market determination of the exchange rate will continue under the IMF ESAF program, with central bank interventions only for maintaining agreed-upon levels of foreign exchange reserves and short-run smoothing operations. During the de facto government, the exchange rate depreciated strongly, falling from G8.5 per $US in 1991 to G13 per $US upon relinquishing power in late 1994. Since the return of President Aristide the exchange rate has stabilized in the G 13-15 per US$ range.

Until very recently, the GOH had an onerous foreign exchange retention scheme, requiring exporters to sell 40 percent of their foreign exchange earnings to the Central Bank at the artificially low rate of G6.5 per USD. With the exchange rate depreciation that began in the mid 1980s and accelerated dramatically in the early 1990s and during the embargo, this resulted

in a substantial implicit tax on exporters -- and ultimately upon the small farmers to whom exporters passed on the cost in the form of lower producer prices. The World Bank estimated this implicit tax at 13 percent in 1991, but with further exchange rate depreciation during the embargo, this tax stood at 20-25 percent in early 1995.[14]

All exporters were very positive about the abolition of this requirement which had just come into effect while the team was engaged in fieldwork.

2.4.2 Tariff Restructuring

Since the return of President Aristide, the GOH has been committed to the reduction of tariff levels and their dispersion, and to the conversion of non-tariff barriers (NTBs) to tariffs. Historically, tariff policy was geared towards heavy protection of import substitutes and thus implicitly discriminated against exports. Incentives in the food and agricultural sector became especially skewed as a result of the 1986 trade liberalization process. Tariffs in other sectors were generally reduced to an average of 20% (from a previous average level of 40%). However, the agricultural sector was insulated from this process, and tariffs for imported food staples have been on the order of 50 percent ever since. Licenses were also granted for the exclusive import of foodstuffs and, according to the World Bank, were a source of favoritism and corruption between government and influential elites.[15]

Table 2.4 presents nominal protection coefficients (NPCs) for an array of export commodities and import substitutes.[16] As can be seen, official tariff policy provided incentives to produce import substitutes rather than export crops.[17] While the abundance of contraband imports through Haiti's porous borders and ports certainly lessened the impact of tariff policies, contraband had other deleterious and very real effects. Smuggling resulted in higher risk, smaller non-bulk and non-containerized shipments, and thus high import costs. Also barriers to entry were high and cartels dominated by elites displayed oligopolistic behavior that also

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[14] Assuming an average market exchange rate of G12 per USD in early 1995, the implicit tax would be 23.3 percent. For every $US100 of imports (fob):

Free market fob price (G)	= G 1,200
40% at G5/$	= G 200
60% at G12/$	= G 720
Total G received	= G 920
Percent tax	= 23.3%

[15] Because of widespread smuggling, import licensing was ineffective as a protection measure. Rather, gaining a license was only attractive if combined with tax evasion accomplished through under-invoicing or flat-out failure to pay tariffs; otherwise it would be impossible to compete with contraband goods (World Bank, 1991).

[16] The Nominal Protection Coefficient (NPC) is defined as the ratio of the official producer price over the economic farm-gate price at the official exchange rate. A value greater than unity indicates positive protection of producers (i.e the farmer is subsidized), while a coefficient less than unity denotes negative protection or taxation (Tsakok, 1990).

[17] This was further weakened by the foreign exchange retention ("remise obligatoire") policy discussed in the previous section.

raised prices. In addition, tax evasion resulted in a transfer of potential tariff revenue from treasury coffers to two groups: private sector operators who could exert influence to avoid full payment of taxes; and customs officers, police, and other government officials able to take advantage of their positions to collect bribes. Perhaps most serious, but least tangible, overwhelming incentives to smuggle contributed to the breakdown of rule of law and civil society -- Haiti's most fundamental political, social, and economic problem. During the embargo, the de facto government actively encouraged contraband and changing this mentality will not be easy.

Table 2.4: Nominal Protection Coefficients of Selected Agricultural Commodities for Haiti, 1982 and 1990

	1982	1990
Coffee	0.74	n/a
Cocoa	0.71	n/a
Maize	1.25	1.50
Rice	1.20	1.34
Sorghum	1.35	1.45
Wheat Flour	1.25	1.49
Sugar (raw)	2.40	1.49

Source: World Bank (1991).

Very recently (March 1995), the GOH instituted major tariff policy reform, with all goods -- including agricultural and food commodities -- subject to tariffs in the 5 to 15 percent range.[18] Yet while tariff levels have been reduced, the exchange rate upon which they are calculated has been radically altered. Previously, this base had been G6.5 per USD; an exchange rate that was no longer realistic. Now the market rate (currently in the range of G14-15 per USD) will be employed and this will result in higher absolute tariff levels. This should, however, reduce smuggling (although full payment of tariffs and taxes is still in doubt due to weak administrative capacity to collect taxes) because the spread between contraband and fully-taxed official import prices will be lower and the cost reduction benefits of containerization, bulk shipping, and risk reduction (including access to freight insurance) may outweigh the money saved from tax evasion. While beyond the scope of this study to re-estimate NPCs, the major tariff reductions of earlier this year have certainly resulted in NPCs much closer to unity for those commodities in Table 2.4.

These tariff reforms have the potential for substantial positive impact on agribusiness sector development in Haiti. First, they will reverse the anti-export bias alluded to above whereby import substitutes received high levels of protection. Second, by substantially narrowing the spread between the maximum and minimum tariff rates to only 10% (or 15% if one includes exonerations), this will reduce the negative effects of cascading tariff rates that can result in very high levels of protection for local industries -- which can have disastrous consequences on the competitiveness of agro-processing industries.

Several issues remain outstanding that will need to be resolved if the benefits of tariff policy reform are to be fully realized:

[18] These tariff revisions are currently enforced under a temporary presidential decree. They have to be formally approved by Parliament and put into law before they become permanent. They will consider the tariff revisions after parliamentary elections in June.

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- Administrative capacity to collect taxes in a fair, predictable, and transparent manner must be improved to ensure that the treasury receives the revenue due to it;

- The new tariff schedule and periodic exchange rate revisions must be clearly communicated to the customs offices around the country; and

- Sanctions for tax and tariff evasion need to be imposed upon formal sector operators. This is part of the larger "rule of law" issue. Given that Haiti currently lacks the most rudimentary police force and has historically had an ineffective court system, this will remain a major problem for some time.

2.4.3 Administrative Procedures for Import/Export

Administrative procedures for clearing imported goods from Customs and for expediting exports are unnecessarily burdensome. Fortunately, the new government has initiated efforts to streamline these. In the past, imported goods could only be inspected and cleared at the port. This has recently been changed to allow importers to transfer merchandise to their warehouses outside the port, thus alleviating a great deal of port congestion. However, some private sector operators still complain that it takes an inordinate amount of time for customs inspectors to come to their facilities. In the meantime, these operators can theoretically not open their containers and discharge goods. The reality is that they probably go ahead and open them anyway, which begs the question as to whether customs inspectors, as they currently perform, carry out any useful function.

To further facilitate the expedition of paperwork, the GOH is planning to establish one-stop shops at the Port au Prince airport, and soon thereafter, at the harbor in Port-au-Prince. This would enable importers/exporters to complete all paperwork required by the Ministries of Commerce and Industry, Economy and Finance, and Agriculture and Rural Development (in the case of agricultural and food commodities) in one place. All private firms interviewed were very positive about this development, yet some were skeptical about how long it would take to get the one-stop shop functioning.

One source of frustration is the short hours worked by government personnel at the port: they work the same hours as other government workers, going home promptly at 2 PM. An obvious immediate solution is to authorize port personnel to work longer hours and collect overtime pay. In addition, introducing a second shift would seem logical. A more permanent solution is privatization of most, if not all, of the functions currently handled at the port. Port functionaries would then regard shippers as clients to be served, rather than simply sources of economic rents.

2.4.4 Port Management

Another constraint to Haitian competitiveness is mismanagement of the port at Port-au-Prince -- commonly considered the most expensive port in the Americas. In addition to reducing export competitiveness, inflated port charges also unnecessarily raise the costs of imports to firms for intermediate inputs and consumers for retail goods. However, while port charges are unnecessarily high, there is a lack of clarity as to how high they are and why, with some

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businessmen complaining lividly about them while others claim the problem is exaggerated. This confusion seems to exist because of differences for importers, exporters and a mixing up of port charges and freight rates. In short, port charges for imports are very expensive, but considerably less so for exports.

Regarding imports, as Table 2.5 shows, freight costs for importing consumer goods (in this case groceries) is comparable or cheaper than for the Dominican Republic. But port charges drive up the cost considerably resulting in costs ex-port that are more than 40 percent higher than in the Dominican Republic. Of these port charges, more than half ($US370 for a 20 ft container and $US 740 for a 40 ft container) go to the port authority for handling that they are theoretically supposed to do. Yet it was the overwhelming consensus of business people interviewed for this study that port services were non-existent and shippers depended on private shipping companies for actual services.

Table 2.5: Comparison of Freight and Port Charges for Imported Goods, Haiti and the Dominican Republic, 1995

	20 ft		40 ft	
	Haiti	DR	Haiti	DR
Ocean Freight	$650.00	$650.00	$1.100.00	$1.400.00
Bunker Surcharge	$75.00	$75.00	$75.00	$75.00
Consular Legation	n/a	$169.75	n/a	$169.75
Port Charges*	$735.00	$120.65	$1.215.00	$152.40
US Handling	$250.00	$250.00	$250.00	$250.00
B/L Processing	$20.00	$20.00	$20.00	$20.00
Container Usage	$175.00	n/a	$250.00	n/a
Total	$1.905.00	$1.285.40	$2.910.00	$2.067.15

Port charges in the Dominican Republic vary by weight ($6.35 per 2.000 lb). Maximum allowable weights are 48.000 lb for a 40 ft container and 38.000 lb for a 20 ft container.

Source: Antillean Marine Shipping Corp. 1995.

A breakdown of recent export shipping costs for a 40 foot refrigerated container of mangoes from Haiti to Miami are compared to costs from Venezuela to Miami in Table 2.6. It was difficult to deduce from the data at our disposal what exactly constitutes port charges in Haiti. It appears that they include those billed by the shipper/agent (reefer maintenance, wharfage and handling), plus those billed by the Haitian port authority. We understand that these port authority charges in Haiti amount to $220 for a 40 foot container (5% of the total shipping cost), meaning that the balance of $340 would be costs changed by the shipper/agent. The one set of figures we have for Venezuela, which did not break out the charges separately, indicates it costs about $1000 less to ship from Caracas to Miami than it does from Port-au-Prince to Miami.

It would be difficult to conclude from the above that official port charges in Haiti are responsible for the high overall shipping costs for mangoes. Our view is that it is the ocean freight charges which account for the much higher cost of shipping from Haiti as compared to Venezuela. Most likely this reflects the smaller volume of freight moving out of Port-au-Prince as compared to Caracas, and the resulting lack of competition.

Table 2.6: Shipping Costs for Mangoes in 40ft Reefer*
(US$)

	Agent	Ocean Freight	Port Charges*	U.S. Handling	Documentation	Total
Haiti/Miami	Seaboard	3,050	705	590	35	4,380
Haiti/Miami	Marine Cargo	3,785	560	310	25	4,680
Haiti/Miami	Tecmarine	3,785	560	310	25	4,680
Venezuela/Miami	CONAVEN	incl.	incl.	incl.	incl.	3,600

*Includes reefer maintenance, wharfage and handling charges by shipper/agent, plus port authority changes.
NOTE: Charges do not include drayage charges in Miami.

While port charges are not large, users of the port complain that they receive no services in exchange. In the highly competitive and volatile U.S. fruit and vegetable markets, profit margins are often small and such sums may make the difference between being competitive and over-priced.

As mentioned above, the GOH intends to privatize port services. This may be politically difficult due to the economic rents that accrue to port officials and the fact that privatization would be accompanied by lay-offs of some of the 1,200 public employees currently drawing salaries there. Port revenues amounted to about G 100 million in 1991 -- a lucrative amount given that only minimal services are rendered and only G1.6 million has been invested in port facilities since 1991 while less than G20 million have been allocated for repair and maintenance during the same time period (IMF, 1995).

2.4.5 International Trade Agreements

Haiti has excellent access to international markets through bilateral agreements with the US and multi-lateral agreements such as the ACP Convention. Haiti enjoys preferential access to the US market through the General System of Preferences (GSM), Article 807 ad 807A agreements, and the second Caribbean Basin Initiative agreement (CBI II). Articles 807 and 807A are responsible for the rapid growth of apparel assembly that took place in Haiti up to the 1991 coup. Under these initiatives, virtually all agricultural exports that Haiti typically produces can enter the US duty-free. Sugar imports to the US were allowed under a quota of 7,500 MT. Even at a preferential price, the uncompetitive Haitian sugar industry required a subsidy.

Under the Lome IV ACP/EU Convention, most Haitian goods are also allowed duty free into the nations of the European Union. Yet a number of agricultural products (bananas, sugar, and rum) are subject to restrictions of the Common Agricultural Policy (CAP). Some exports (in the past coffee) are eligible for STABEX guarantees -- the EU price insurance fund that provides balance of payments support for losses from world market price fluctuations. Approximately 27 million ECU are outstanding to Haiti at present and the EU will be programming these funds later this year.

Haiti has not yet signed the GATT agreement; it will be on the agenda when the new Parliament convenes later this year. However, accession to GATT should not result in any problems because non-tariff barriers in Haiti are minimal and tariffs already being revised are well under maximum levels required by GATT. One possible area of difficulty could be imported frozen chicken parts from the United States. Because American consumers prefer white meat, dark meat, gizzards, and wing "by-products" undercut local poultry prices. Local poultry producers have been very vocal in their opposition to these imports. However, slapping a prohibition or variable levy on chicken parts would be a violation of GATT because it is technically not dumping (which is defined as selling below cost). These parts are essentially by-products on the US market, and as such have "zero costs" for the US exporters. Raising a tariff or imposing a new (high) one where there was no previous non-tariff barrier runs counter to GATT and would put Haiti outside of compliance.

According to a 1991 study, the combination of US bilateral preference with the Lome accord results in Haiti enjoying better access to developed country markets than any of the "Asian tigers", though the same access as most of Central America and the Andean countries.

2.5 Legal and Regulatory Framework

2.5.1 Investment Regulations

For the most part, rules governing company formation, tax holidays for new businesses, and rights available to foreign investors are generous and clearly laid out in the law (see Haiti Investors Guide: 1994, for details). There are some restrictions on land ownership by foreigners; no individual can own more than three acres of land in an urban zone or more than fifteen acres in rural areas. In addition, retailing is limited to Haitian citizens.

In the absence of any prohibitions to the contrary, foreign investors are permitted to own 100 percent of a Haitian company. While the above land ownership restrictions are placed on foreign individuals, Haitian firms with foreign shareholders (even majority control) have no land ownership restrictions other than those placed on Haitians. Nor are foreign investors limited in any way in their access to funds from local financial institutions. Finally, the GOH imposes no restrictions on repatriation of capital and profits on foreign investors.

While businessmen often complain of bureaucratic delays in obtaining approval for investment code privileges and for company formation, these problems do not appear any better or worse than in other developing countries. Perhaps the only unique problem is that new companies do not become full legal entities until they are gazetted and the Moniteur is notoriously slow in getting published. However, the Ministry of Commerce and Industry recently approved a new system whereby, once approved, new companies would only have to place an announcement in a local newspaper to begin operation.

2.5.2 Land Tenure Policy and Collateral Law

The one area where major problems exist for potential investors -- especially those in the agricultural sector -- is the uncertainty generated by land tenure practices and real property law. The most complicated case is perhaps the Artibonite Valley where parcels of irrigated land have

multiple claimants. This is because of the historical tendency to reallocate land based on who is in political good graces under the regime in power at the time. In addition, it is not uncommon for one party to have use rights for a parcel of land while another party has water rights for the same piece of land. This confusion, plus ever-increasing demographic pressure, has often resulted in conflict and violence.

Currently, there is no operating cadastral system, and even if there were one, it would not resolve the types of problems described in the previous paragraph. While titles are issued, banks and insurers are hampered in assessing risk because the legitimacy of titles are open to question.

An easier problem to remedy, and one that appears to seriously reduce access to bank loans, is collateral law. Under the rural code, it is forbidden to use land as collateral (although structures on land can be used). Nor are liens on equipment allowed as collateral for commercial banks, although exceptions are made for development finance institutions such as SOFIHDES, FDI, or the defunct parastatal development banks. Finally, carrying out foreclosure proceedings through the legal system is time-consuming and rarely successful.[19]

2.5.3 State-Owned Enterprises and Privatization

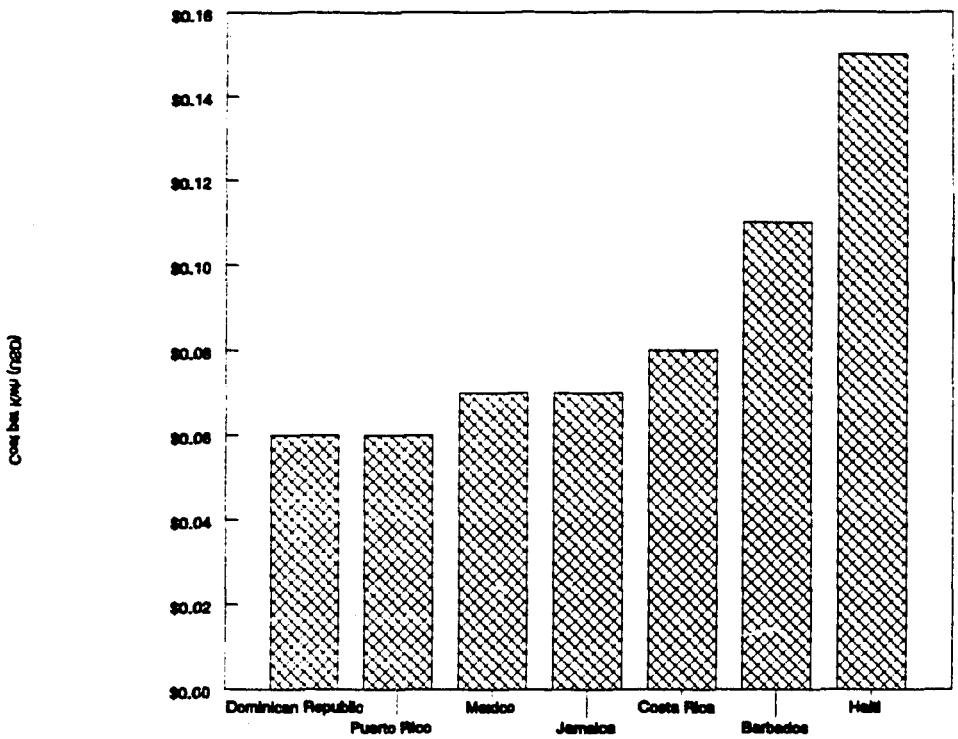
With USAID financing and IFC technical assistance, the GOH is currently conducting feasibility studies for the divestiture of nine state-owned enterprises in banking and services, utilities, transportation, and food processing. Of greatest relevance for the agro-industrial sector are: the *Port Autonome de Port au Prince*; *Electricité d'Haiti* (EDH); *Télécommunications d'Haiti* (TELECO); and *La Minoterie* (the wheat flour mill). The problems of these various enterprises have been discussed extensively by others, and will not be repeated here. It is clear that public mismanagement of EDH, the Port, and TELECO are major constraints to expanding agribusiness investment in Haiti.

The electricity situation is especially critical, with negative consequences manifesting themselves in several ways. The near total lack of electrical power in secondary and tertiary cities is probably the single most important factor explaining the severe under-development of agro-industries outside of Port-au-Prince. Of the 350 GWh generated by EDH annually, it is estimated that 85% of it is consumed on the Port-au-Prince grid. Frequent power ruptures and resulting over-dependance on generators lowers the competitiveness of existing agro-industries in comparison to other Caribbean exporters. As Figure 2.1 clearly demonstrates, costs per kilowatt/hour are exorbitant in Haiti, and any potential foreign investor would factor this into the decision-making process on where to invest money in industrial development.

Finally, the high cost of power when generators have to be used makes some otherwise profitable investments unattractive. (Self-generated power costs about three times what EDF charges.) For example, one mango processor had ceased making frozen puree because this requires continuous refrigeration. To avoid the risk of loss in case of failure of the company's

[19] There is a widespread perception that judges are biased against commercial and financial litigation, in favor of individuals, and are extremely averse to allowing property foreclosures (Kenworthy, 1995).

Figure 2.1: Cost of Electricity Comparison for Haiti and Competitor Latin American and Caribbean Nations, 1991



Source: SRI International (1991).

generator, a back-up unit would be needed. This additional cost would be prohibitive so the mango processor was forced to cease this operation and lay off workers.

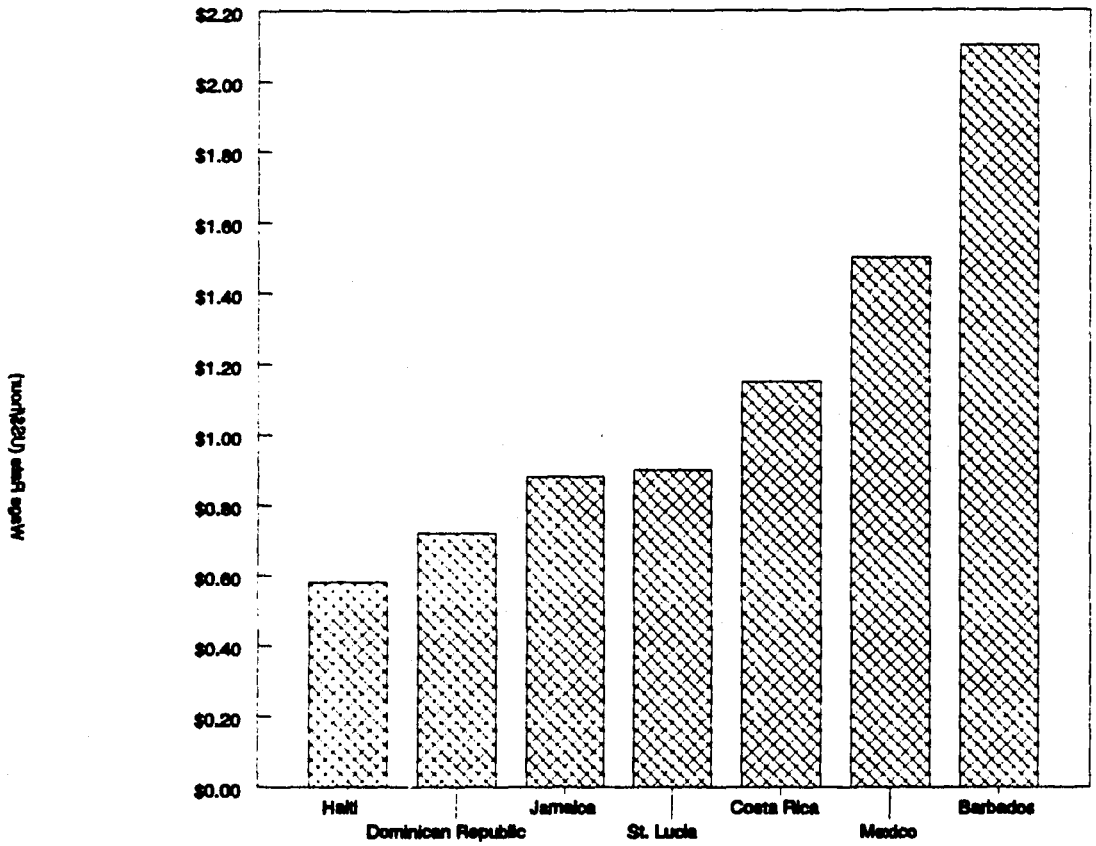
Since 1991, La Minoterie has almost completely ceased operations. It used to depend heavily on PL 480 for wheat imports, and due to the de facto government's failure to restructure La Minoterie, a condition for continued PL 480 wheat shipments, the PL 480 program switched to flour imports. While machinery, port, and storage facilities are still in place, deterioration of the machinery will presumably lower the attractiveness to potential investors when the mill is privatized.

Finally, telecommunications services in Haiti are poor, although TELECO is considered one of the more attractive companies up for privatization. There are only 85,000 telephones in the entire country, and most of these are in Port-au-Prince.

2.5.4 Labor Policies

Traditionally, low wages and a reputation for industrious workers has perhaps been the biggest advantage of Haiti in comparison to other Caribbean nations competing for foreign investment. In early 1991, one study[20] estimated that the light manufacturing adjusted wage (including fringe benefits) of US$0.58 per day equivalent was easily the lowest in the Caribbean (see Figure 2.2).

Figure 2.2: Wage Rate Comparisons Among Selected Caribbean Nations, 1991 (US$ Per Hour Including Fringe Benefits)



Source: SRI International (1991).

GOH minimum wage legislation applies only to the formal industrial and service sector, including not only salaried workers, but also day laborers and piece workers for whom remuneration calculations can not fall below the legal daily minimum. In 1991, the minimum

[20] SRI International (1991), page 11.

wage was set at 15G/day. Just prior to the coup that year that brought in the de facto government, Parliament approved an increase to 26G/day. However, the new minimum wage was never published in the Moniteur (the official gazette).

At present, businesses in Port au Prince generally claim that the minimum wage of 15G/day is no longer relevant. Rather, 20G seems to be about the minimum that unskilled entry level workers will accept. It is unclear whether the minimum reservation wage is lower in secondary cities, where the cost of living is generally less expensive than in the capital. Although more recent figures are unavailable, it almost certainly remains the case that current Haitian unskilled and semi-skilled wages are the lowest in the Caribbean Basin. Currently, there are political rumblings about raising the minimum wage to near 30G/day, which when accompanied by the ratcheting-up effect that usually occurs on semi-skilled labor, could reduce the attractiveness of Haitian labor to investors looking to either return to Haiti (a major issue in the apparel assembly sector), or invest for the first time. With extremely high rates of urban unemployment and under-employment, the GOH should carefully weigh the pros and cons of any substantial increase in the minimum wage at this time.

Unlike in many other developing countries, highly inflexible and costly rules and grievance procedures for hiring and firing workers do not seriously impede business growth and employment in Haiti. While employers are required to provide severance pay for fired and laid-off workers, procedures and charges are minimal and rarely cited by employers as a major problem.[21]

Labor unions exist in Haiti and striking is legal. During the de facto period and under the Duvaliers, both legal and extra-legal means were used to keep them weak. While the new government is more receptive to the development of union activity, high rates of unemployment lessen their bargaining leverage.

2.5.5 Grades and Standards for Product Quality and Safety

There are currently no existing product quality and safety grades and standards in the country, other than those that must be adhered to under the rules and regulations of importing countries for Haitian exports (such as USDA inspection procedures). Safety standards and norms for application are needed for agro-chemicals. These are required for worker and consumer safety, as well as to prevent abuses and violations that could lead to the USDA prohibiting entry of goods in the United States. MARNDR and input importers and distributors should work together to establish these norms and ensure that they are properly disseminated throughout the country.

We understand that the Ministry of Commerce plans to set up a product testing laboratory for domestic and imported products, including food products, but has not yet obtained approval.

[21] Although as is the case with taxes, lack of adherence to the law may also be a reason for failure to complain.

3. STATUS OF THE AGRIBUSINESS SECTOR OF HAITI

3.1 Summary of the Commodity Situation and Outlook for Haiti

Table 3.1 provides an overview of key characteristics of major agricultural commodity sub-sectors in Haiti, as well as some crop-specific recommendations for future market development. For each commodity, the matrix reviews a number of topics.

Comparative advantage. The study team did not undertake any quantitative border pricing analyses during this study, nor has anybody else recently undertaken such exercises. Rather we relied on discussions with key informants on past and likely future performance, farmer interest in continued cultivation, etc. for broadly gauging whether Haiti appears to be a low-cost producer. With the notable exception of sugar, agricultural markets in Haiti are not distorted by arrays of tax and subsidy schemes: for the most part, Haitian production patterns and farmer decision-making are largely governed by comparative advantage already. Even in the case of the artificially propped-up sugar industry (by attractive US quota prices and a GOH subsidy), farmers have been reducing area for a number of years now because returns are better for other crops.

Recent Production and Marketing Trends. Although accurate statistics are hard to come by in Haiti, few would dispute that production has fallen drastically in recent years due to civil unrest, the embargo, and deterioration of infrastructure. For perennial tree crops such as coffee and cocoa, falling world prices, lack of maintenance, and maturing of the tree stock with insufficient replacement are also major factors.

Market Prospects. In general, Haitian agribusiness exporters should have little problem finding buyers. Over time, Haitian exporters have developed a strong network of overseas customers in the United States and Europe. The fact that many Haitian businessmen straddle the Caribbean -- with one foot in Port au Prince and the other in Miami -- also helps in building client bases. Most firms that developed trading relationships prior to the embargo will be able to restore them in time. However, some non-traditional exporters (such as those of winter and Chinese vegetables) -- who were just beginning to build these relationships when the embargo hit -- may have trouble reestablishing these links. US buyers of fresh produce place a premium on having a steady and reliable source of supply. Consequently, they may have little interest in high-risk Haiti, especially if they feel they were "burnt" in the past. With regard to food crops which substitute for imports, market saturation does not appear to be a problem for most crops. Yet in the case of rice and poultry, stiff competition from US imports will limit expansion of local production.

Contributions to Employment and Food Security. Many of the crops covered in this report are farmed primarily by smallholders. Assistance in credit, technology transfer, and market information higher up the marketing chain can be demonstrated to have strong backward linkages in the form of increased income, employment, and ultimately, improved.

Table 3.1: Summary of Commodity Situation and Outlook for Haiti

Commodity Sub-Sector	Comparative Advantage	Recent Production & Marketing Trends	Market Prospects	Contribution to Employment & Food Security	Environmental Impact	Role of Farmer Organizations	Recommended Measures
Coffee	Good, but poor quality and very low volumes (@35,000 MT/yr total production) result in price deductions on world markets	Down; low world prices, aged tree stock, minimal maintenance, and disease (rust) have lowered yields; export houses have consolidated (two firm control the bulk of the export market) due to lower volumes	Steady for traditional European market; possibly growing for specialty and high-quality US organic market	Important source of cash for approximately 250,000 farmers; also provides employment (mainly to women) at exporter warehouses for sorting	Positive, tree crop often planted on hillsides, aiding erosion prevention; provides shade for other crops and often shaded by banana plants	Minimal, except for a small number of cooperatives that process washed coffee and sell directly to exporters; coops associated with IICA plan to export directly	Replantings needed as well as new rust-resistant varieties; increase investment in washing facilities and training in proper washing procedures; promotion of specialty coffee in US
Cocoa	Fair, but poor quality and very low volumes (@5,000 MT/yr total production) limit importer interest	Down; low world prices, aged tree stock, minimal maintenance, and disease have lowered yields	Potential to reopen US market: US importer (Hershey) used to provide better prices than current European importers	Important source of income for farmers & intermediaries in Grand Anse & northern Haiti (mainly same farmers who have coffee)	Positive, tree crop often planted on hillsides, aiding erosion prevention	MEDA-sponsored coops played significant role in the past -- 6 coops currently operating and selling to exporters	Replantings needed; promote pruning to increase yields
Mango	High, proximity to US market, excellent quality of the Francis variety, and long growing season are key factors	Rapid expansion of processing and export in the 1980s made Haiti #2 exporter to the US, interrupted during embargo, rapidly restarted in last few months	Excellent with growing US demand for mango products (12%/yr growth); prior to embargo, 2 million cases shipped to US (and 1995 exports may reach 70% of these levels); potential to significantly expand on East Coast; if export volumes can be expanded, high reefer charges may be reduced	Increasingly important source of cash income as farmers shift out of other crops, 9 packers (pre-embargo number was 12) employ several thousand workers (most are women); low quality mangoes are important as feed for pigs (another source of liquidity for farmers)	Positive, tree crop used for shade, but considered best wood for charcoal which leads to deforestation (anecdotal evidence that many were cut during the embargo due to slump in mango prices)	Non-existent	Distribute more grafted seedlings; research on new varieties; restructured EDH (electricity utility) would lower processing costs which currently restrict growth & expansion into processed mango products; privatize port facilities to lower shipping costs

Table 3.1: Summary of Commodity Situation and Outlook for Haiti

Commodity Sub-Sector	Comparative Advantage	Recent Production & Marketing Trends	Market Prospects	Contribution to Employment & Food Security	Environmental Impact	Role of Farmer Organizations	Recommended Measures
Sugar	Low, despite attractive US quota prices, high production costs and lack of adequate land for large-scale plantation agriculture limit profitability	Down; farmers have been converting land to more profitable crops; milling operations have closed down; small plants for *clairin* production remain	Poor international prospects due to high costs; a modest local market for fresh cane and *clairin* will remain; one company (Barbancourt) successfully exporting high quality rum	Low, relatively more land and capital intensive (for processing) than other crops	Negative, relative to other crops, sugar is very land-intensive -- a crop that makes less and less sense due to demographic pressure	Non-existent	No public investment or subsidies should be granted due to poor prospects
Sisal	Market for twine gradually declining, but Haiti is cost-competitive	Down; low prices, arduous & time-consuming harvesting make sisal economic activity of last resort, and this has led to raw material shortages for processors; aging plant & equipment lower processing productivity	Poor long-term prospects due to development of synthetics	Contributes to rural employment in poor areas where other crops do not grow well	Positive, grown on poor arid soils and provides ground cover for erosion prevention; important alternative income source to charcoal production	Non-existent	Replantings needed; professional association of processors should form and agree to share cost of manufacturing decorticators (*raspidors*) to increase raw material supply and rural income
Essential Oils	Good, Haiti is one of the few producers of vetiver; costs very low; climate conducive to extracts from orange and lime peels -- main constraint is availability	Down; due to general deterioration of the economy and infrastructure	Good; exporters claimed that there remains strong unmet demand, primarily in Europe	Vetiver has strong potential as a *soudure* crop and a "cash-flow" crop as it can be planted on poor soils at any time & harvested at any time; citrus for oil produces some employment	Negative for vetiver due to harvesting method (tearing up roots leads to soil erosion) and usual lack of subsequent anti-erosion measures; positive for oils extracted from tree crops	Non-existent	For vetiver, extension services needed on necessary accompanying erosion control techniques; For tree crops, replanting needed

Table 3.1: Summary of Commodity Situation and Outlook for Haiti

Commodity Sub-Sector	Comparative Advantage	Recent Production & Marketing Trends	Market Prospects	Contribution to Employment & Food Security	Environmental Impact	Role of Farmer Organizations	Recommended Measures
Specialty Vegetables	Good, variety of micro-climates and proximity to US market enhance prospects, but US entry costs are an obstacle to this industry	Down, embargo halted growth and none being exported at present	Good, if growers can reestablish links with US buyers -- some of these may not be retrievable; strong market potential for oriental vegetables; potential local market growth with development of tourism ((assuming sufficient quality)	Reasonable potential for substantial income growth in areas near urban centers and tourist hotels	Use of chemical pesticides must be strictly monitored, for health and safety reasons, and to adhere to USDA regulations for imported produce	No farmer organizations existed, but promising efforts at contract farming begun prior to the embargo	Producers association should be formed and links created with US growers associations; make training materials available to facilitate efforts at contract farming
Rice	Uncertain, but with improved water control and greater input use, three crops per year are possible in the Artibonite Valley	Down, due to deterioration of irrigation facilities, lack of access to inputs, and competition from US imports	Poor in short-term, newly lowered tariffs will increase pressure on high-cost Artibonite rice; in longer term, competitiveness will depend on improved technology adoption	Provides significant employment to as many as 150,000 people in the Artibonite Valley in production and processing. Key food item for urban consumers (accounts for 11% of food expenditure) and rural producers	Potentially negative (if not carefully managed), due to use of chemical fertilizers and pesticides	There are a few strong farmer associations (all are pre-coops) for organizing input supply (not output marketing), but most are weak	Strengthen extension, particularly farmer-to-farmer training programs and work with input dealers to take on more of this role (including proper use of chemical inputs for environmental protection); rehabilitate irrigation infrastructure; promote alternative high-value irrigated crops; improve donor coordination of food aid and input donations to guard against damaging local rice and input markets; establish market information system

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Commodity Sub-Sector	Comparative Advantage	Recent Production & Marketing Trends	Market Prospects	Contribution to Employment & Food Security	Environmental Impact	Role of Farmer Organizations	Recommended Measures
Plantains, Bananas, Cocoyam, and Cassava	Strong comparative advantage for domestic market, but yields continue to be low and transport costs high; plantains, bananas and cocoyam will continue to be major staples in the Haitian diet	Unclear, probably down due to general economic deterioration	Steady growth based on population demographics; exports may be feasible to other Caribbean countries	Primary staple crops of most rural and urban Haitians	As with all crops, demographic pressure has led to shorter fallows and unsustainable mining of soil nutrients	Non-existent, virtually no purchased inputs and marketing done by individual households	Repair roads -- transport costs high for high-bulk, low-value root crops resulting in high costs to consumers and low prices for farmers; Explore export potential of plantains to other Caribbean countries and US; improve donor coordination of food aid to guard against damaging local food markets; establish market information system
Poultry	Low, costs are high, and most inputs are imported	Down, embargo severely constrained availability of imported feed supplements and veterinary drugs, and financially hurt medium-sized entrepreneurs who were not diversified into non-agricultural activities	Weak potential due to imports of chicken parts from US and live birds from Dominican Republic	Minimal employment generation (for modern processing facilities) -- most inputs -- chicks, feed, drugs are imported; important for urban food security (6% of total food expenditure spent on chicken)	Potentially negative if processing waste is not properly disposed of	Non-existent	Study effects on competitiveness and food security of protecting local producers against imports of US chicken parts -- an important source of low-cost animal protein for the urban poor

food security. Food security in this report is defined in terms not only of increased food availability, but also improved access to food, with access being a function of income and market linkages -- be they for food or cash crops. To the greatest extent possible, assistance should focus on those commodity sub-sectors where linkages to small farmers are greatest, and where generation of local value-added is most substantial.

Environmental Impact. Given Haiti's current severe environmental and demographic problems, keying on commodities with positive environmental impacts is very important. Fortunately Haiti has a comparative advantage in a number of tree crops (coffee, cocoa, citrus) which stabilize soil as well as contribute to income and employment growth. Some crops (such as vetiver) are currently harvested in an environmentally destructive manner, but with extension on improved cultivation practices, could significantly add to income with less harm to the environment. Other crops, such as sugar, require lots of land to realize economies of scale and thus international competitiveness and therefore hold little promise for expansion.

Role of Farmer Organizations. One way to enhance market linkages to farmers, as well as to improve product quality, is to work through farmer associations for input provision and output marketing. However, this is a long-term challenge and farmer organizations are generally weak in Haiti. For a number of commodities (mangoes, sugar, sisal, and essential oils) they are non-existent. This makes quality control and volume management especially difficult, lowering incomes to farmers and slowing sectoral growth. There are, however, a number of opportunities for improving farmer organization, especially in coffee and cocoa, sisal, specialty vegetables, and rice.

Recommended Measures.

- There is a major need for replanting tree crops with improved disease-resistant varieties. Tree stock replacement has been inadequate over the last decade, although USAID/Haiti's PLUS project has fostered tree planting as a means of erosion control.

- Professional associations also need strengthening in the forms of establishment of information clearinghouses and forging linkages with associations in other countries, especially the United States.

- Credit availability for working capital and medium-term investment also needs to be widened, with the private financial sector taking the lead on exploiting new lending opportunities in agribusiness. Donors can provide assistance -- lines of credit, technical assistance, and support of policy reform -- to facilitate the banking sector assuming a more dynamic role in agribusiness development.

The remainder of this chapter reviews each commodity sub-sector in detail, presenting an overview of sub-sector market structure, recent performance, and constraints. Commodity-specific recommendations are also presented.

3.2 Agribusiness Activities by Commodity

3.2.1 Coffee

Crop Production. In Haiti, coffee is a small farmer crop. The peasant producer is a hillside farmer who most often owns the land on which the coffee is planted. Coffee is the peasant's major cash crop and is an important part of the typical small farmer cropping system, which also includes bananas, cocoa, yams, plantain, corn and beans. Coffee is often referred to as the peasant's savings bank because it provides a reliable source of cash each year without investments for seeds and inputs. While there are few reliable statistics on coffee production there is general agreement that coffee production is declining. The 1991 World Bank Agricultural Sector Review places production at about 35,000 tons/year, produced from an area of approximately 135,000, on roughly 250,000 farms.

Coffee production is declining for several reasons. First, depending on the relative prices of food crops and coffee, farmers will favor the crop of highest income. In years of low coffee prices, farmers will not uproot their coffee, but will tend to ignore it in favor of food crops. Second, there are many production problems. Most coffee stems are very old, cannot be easily revitalized and are prone to the coffee rust disease. Other problems include deteriorated soils, overcrowding of plants and little overall care (such as pruning) of coffee. With limited use of inputs, little or no care, and reliance on self-seeding for new trees, diminishing yields are the inevitable result.

A notable exception to the traditional system are some isolated coffee farmers in a large production zone, Thiotte, and groups in Beaumont and Jacmel that are working with the USAID financed Coffee Revitalization Pilot Project with the assistance of IICA. The IICA project is introducing new rust-resistant high yielding coffee varieties to these two areas, but since this concerns a very small percentage of areas in coffee, the project is being considered a demonstration. Certainly the project should result in increased production but will hardly make up for decreased production in other areas.

Processing and Marketing. The structure of internal coffee marketing differs depending on the type of coffee processing. There are two major coffee processes[22]. The first and most prevalent is the traditional method of processing coffee and results in what is referred to as *cafe naturel.* This process involves harvesting ripe coffee cherries and placing them out to dry on a concrete slab, a mat, or at times the bare ground. The concrete slab is clearly the preferred drying space since the coffee dries faster and does not absorb the earth flavors of the ground. The dried coffee (know as *cafe coque*) is then pounded using a mortar and pestle or machine hulled to remove the dry outer shell. This coffee is known as *cafe pile* or *cafe naturel. Cafe naturel* is mostly sold to marketing agents known as a *speculateurs.* The *speculateur* may

[22] For a more complete discussion of cafe naturel processing see Gardella, *Cafe Naturel vs. Cafe Lave: Advantages and Disadvantages in the Context of Traditional Coffee Production and the PPK Project*, March 1994.

purchase a farmer's coffee at the farmer's house, at his own shop in a town, or at the local market. He may also purchase the coffee before harvest. Most *speculateurs* have long-term relationships with producers that involve the extension of credit prior to coffee harvest. Coffee sold to the *speculateur* is most often destined for the export market, whereas coffee sold in the local market via the "Madam Sara" network is most often for local consumption. Coffee may pass through several layers and sizes of *speculateur* before it actually reaches the hands of the exporter.

The second method of coffee processing is washing, which requires some equipment, infrastructure and a reliable supply of water. In this process, ripe coffee cherries must be delivered to a washing facility within 24 hours of harvest. Washing facilities therefore must be close to coffee production. Cherries are placed in water for fermentation for specific period of time, then pulped and again placed in vats of water. After this final washing, the resulting parchment coffee is placed on cement slabs for drying. The parchment (a thin dried skin remaining on the outside of the coffee bean) must eventually be removed, but this is usually done just before exporting the coffee since the parchment helps preserve the appearance of the coffee when stored. The *speculateur* is usually not involved in the marketing of washed coffee; washing facilities are operated by exporters or cooperatives. Washed coffee represents approximately 10% of Haiti's exports.

Cooperatives formerly played an important role in coffee marketing, particularly for *cafe naturel*. Coffee purchased from members was delivered to the national coffee cooperative federation (CCH)[23] which sold it on the international market. Cooperatives still play a role, particularly in the preparation of washed coffee. There are a number of cooperatives with washing facilities who prepare their coffee and sell to exporters where final hulling, grading and sorting is done before export. A more recent development is the formation of coffee associations with the assistance of the IICA Coffee Revitalization Project. There are currently 11 small washing facilities in the Beaumont and Jacmel areas that prepare washed coffee. Final hulling, grading and sorting is currently contracted to a processing plant operated by COHAN. (See Chapter 5 for a discussion of this organization.) Although not yet accomplished, the associations intend to export their coffee themselves.

The number of coffee exporters has been reduced substantially in the last several years. This has less to do with the embargo and more to do with the shrinking volumes of coffee available for export. Exporters have merged, presumably to assemble sufficient quantities of coffee to fulfill minimum contract and shipping requirements. Whereas there were over 25 exporters in 1984, there are currently only nine. In 1984 the top four exporters captured 66% of the market. Currently one exporter is handling well over half of the volume marketed.

Coffee Exporting. Coffee is Haiti's primary export crop. According to the most recent World Bank figures, it is estimated that coffee represents 70-80% of the country's agricultural

[23] Cooperatives Cafeieres d'Haiti. See Chapter 5 on farmer and farmer organization linkages.

exports. Since 1987, coffee exports have steadily declined. In 1987, close to 300,000 bags were exported, whereas only 120,000 bags are expected to be exported in 1995. Reduction in exports can be attributed to a long period of low world market prices, unofficial sales of coffee to the Dominican Republic, increased domestic consumption due to population growth and the general decline in productivity.

Table 3.2: Coffee Production and Export, 1987/88 to 1993/94

	FY87-88	FY88-89	FY89-90	FY90-91	FY91-92	FY92-93	FY93-94
Production, 000 of 60 kg. bags	630	600	N/A	——	——	——	——
Exports, 000 of 60 kg bags	294	225	189	182	151	170	93
Value, millions of US$	40,130	29,904	18,455	N/A	——	——	——

Source: Ministere du Commerce et de l'Industrie-Service des Statistiques and World Bank 1991.

Washed coffee and *cafe naturel* have different markets. Italy is the top ranking importer of Haitian *cafe naturel*, purchasing a third of Haiti's annual exports, followed by Belgium and France. Washed coffee markets are primarily Japan, the United States and Germany.

Although Haiti's *cafe naturel* is considered by some buyers to be of inferior quality, there is a niche market in Europe for it which Haiti has not been able to satisfy. This market, however, does not pay any sort of premium for this type of coffee, and in fact severely discounts Haitian coffee in relation to New York "C" prices.

Washed coffee constitutes a very small proportion of Haiti's coffee exports. Although there is most certainly the potential to develop a Haitian speciality coffee for sale in the U.S., in Europe or Japan, most exporters have not pursued this path. The Coffee Revitalization Project implemented through IICA is pursuing this possibility and has developed an integrated system of improved production, new varieties, and small producer processing and direct linkages to the international specialty market. To further pursue similar markets, efforts in other part of the country must be made to increase production and improve coffee quality.

Growth in the specialty and gourmet coffee markets has had a huge impact on coffee sales in the United States and has helped bring up prices for coffee in general. Naturally and organically grown coffees are a kind of specialty coffee, and market demand for them is increasing steadily. Related information is available from the Specialty Coffee Association of America, Long Beach CA.

Issues Facing the Coffee Industry. The major constraints facing the coffee industry are declining production and a decrease in coffee quality due to poor production and processing techniques. These problems threaten eventually to eliminate coffee exports from Haiti. One

exporter expressed the belief that, because Haiti is a large consumer of coffee, the country will be a net importer of coffee by the year 2000. This problem has threatened Haiti for years, but has never been adequately addressed. Since coffee exporters have highly diversified portfolios of business activities, the possible disappearance of coffee exports does not represent a severe threat to them. This is also the reason that they have no interest in investing in coffee production. Small farmers, on the other hand, may or may not see the need to renew their coffee plantings and improve their processing, but the fact is that most simply do not have the means to do so. Lack of access to production credit and technology are two of the major impediments to increased coffee production and improved yields on small farms in Haiti.

Recommendations.

- Follow the IICA model of improved production and processing for other areas of the country, particularly in the North and Thiotte. This might be done by IICA training other organizations (NGOs) to carry out a similar program in small well defined areas. MARNDR should ultimately assume this role.

- Hold a national meeting on the coffee crisis. This is the suggestion of an exporter. The meeting would have to include representatives of all parts of the marketing chain as well as coffee producers. The purpose of the meeting would be to place all of the players in one room and see whether specific actions for each player in the industry can be agreed on.

- Provide training to cooperatives that already have coffee washing facilities to improve processing and possible establish new more lucrative marketing channels.

- Provide training to marketing agents of *cafe naturel* so that the presentation of the coffee will be improved.

- Support the systematic development of credit unions so that peasants have a means of savings other than in the form of *cafe naturel*.

3.2.2 Cocoa

Crop Production and Processing. Like coffee, cocoa is one of many crops that peasants grow in their gardens. 1987 figures show 10,400 hectares in cocoa with an average yield of 200 kg per hectare. Low production is due to the general neglect of the cocoa trees, low producing varieties, the lack of research and extension activities for the crop, and lack of production incentives, especially low producer prices. Cocoa production is concentrated in the North and the Grande Anse.

There is little processing of cocoa. Cocoa is sun-dried by farmers which produces an unflavored product. There is no further processing done by intermediaries or the exporter.

Marketing and Exporting. Cocoa is marketed through a number of *speculateurs* and two major exporters (Weiner and Nouvella). *Speculateurs* operate in the same way as those in coffee marketing -- many buy and sell both crops. They purchase from the farmer in the field, at the house or in the market. In addition, the *speculateur* plays an important credit role for cocoa producers.

Cocoa exports have been in decline. Despite the very low export figures for 1991 to 1993 shown in the table below, cocoa exporters estimate that 1995 exports will be close to 60,000 bags. Although exporters provided no explanation for the increase, we believe that the increase is due in part to disposal of stocks held by farmers during the embargo.

Table 3.3: Cocoa Exports, 1991 to 1993

	1991	1992	1993
Exports, 000 of 60 kg bags	40	44	32
Value, 000 US$	2,358	1,642	1,896

Source: Ministere du Commerce et de l'Industrie

Because cocoa cooperatives were not able to export coffee to the United States or Canada during the embargo, some of the cooperatives went out of business. Those that remain sell their cocoa to exporters. The reestablishment of an exporter relationship was difficult for some cooperatives since cocoa cooperatives were formerly exporting their coffee directly to the US with the help of MEDA. The U.S. market with Hershey has not been reestablished. (See discussion of this link in Chapter 5.) MEDA indicates that they will not become involved in cocoa marketing, but that cocoa cooperative's interest's would be better served by improving cooperative-exporter linkages. Haiti's cocoa is exported primarily to Germany and Switzerland.

Recommendations. As the primary constraint to cocoa marketing is the lack of supply, incentives to farmers need to be improved. Cocoa growers no longer enjoy the premium price that they once received from Hershey. Furthermore, production assistance that used to be provided by MEDA and Hershey has ceased. It is recommended that the connection with Hershey be re-established to see if the company could help with technical assistance, seedlings, and access to markets.

3.2.3 Mangoes

Crop Production. The mango variety known as *Francis* is native to Haiti and grows in most parts of the island. There are estimates that at least 200,000 farmers each have one or more mango trees and that a good tree can produce about 1,000 pounds of fruit per year. That makes a conservative production estimate of 200 million pounds, or 90,000 metric tons. There is one plantation owned by an American firm, Haitian Tropical Management (a US$2.5 million investment), that produces the Tommy Atkins (red flesh) variety. (However, we understand the

enterprise is up for sale.) Total exports from Haiti in the best year were about 2.5 million 12 pound cartons, or 30 million pounds of mangoes.

Marketing Structure. Small farmers sell mostly to pickers, who may be independent businessmen or agents of the exporters. These marketing agents or middlemen deliver to packing houses operated by one of the nine exporting firms. Mangoes arriving at the plants are sorted to eliminate those that are too green, overripe or have blemishes; the marketing agent take back the rejected mangoes for sale on the local market. Mangoes are then passed through a hot water dip tank, as required for entry into the U.S., size graded and packed ten or twelve to a carton, then shipped in refrigerated containers to Miami (though some go by air and sea to New York). Importers in turn ship to produce wholesalers and to supermarket buying offices.

There are nine companies shipping at present. They are as follows (in order of volume shipped in the last two months of the year 1994): Paul Germain, Haitian Tropical Management, Rainbow Agro-Industries, Brimpex S.A., Pyramid S.A., R. Perry Import/Export, M & M Agro, JMB Export, and H. Bussenius.

Market Opportunities. The U.S. market for fresh mangoes is still fairly new, but it is expanding rapidly. A study done by the LAC TECH project showed total U.S. imports of 165 million pounds in 1992, increasing at about 12% per year. Although several countries are increasing production of mangoes, and the market window for Haiti is shrinking, Haitian production is early (usually beginning in early March) and has a long season. Also it has a monopoly on the *Francis* variety which is disease resistant, low in fibre and high in flavor, and its production costs are relatively low. Haiti should be able to sell all of its good quality mangoes in the U.S. market.

There is also a growing market for mango products such as fresh pre-cut slices, dried slices, pulp in aseptic packages, and frozen pulp in slabs. It should be possible to develop one or more of these products for export. There is one company (Perry) exporting brined slices to England for the chutney industry, and before the embargo JMB Export was beginning to sell frozen mango "cheeks."

Constraints Facing Entrepreneurs. Some of the constraints facing mango exporters are the following:

- The shortage of working capital in the hands of most mango importers due to their inability to operate for most of the three years during the embargo. The shortage of funds, and the high cost of borrowing, is restricting the ability of exporters to advance funds to marketing agents who buy from farmers.

- Poor post-harvest handling, which lessens the quality of mangoes delivered to the exporters.

- The high cost of generating electricity to provide power to the packing plants and to heat the water in the treatment tanks because of the intermittent and unreliable public power system.

- Increasing supplies from other countries, such as Venezuela and Peru, which have adopted the hot water dip treatment developed in Haiti and have entered the U.S market, partly in response to the embargo which made it hard or impossible for Haitian suppliers to ship.

- High shipping costs due to high port charges and the lack of competition in shipment of refrigerated containers from Haiti to the U.S., which makes Haitian mangoes less competitive than those from other Latin American countries and/or reduces margins available to exporters..

Recommendations to Overcome Constraints.

- The mango exporters' association, which is now being formed, should communicate directly with the farmers, via radio announcements, to describe the characteristics they seek in mangoes for export. These broadcasts should explain, for example, that if the farmer prunes mango trees they will bear more fruit with less incidence of fungus, and the farmer will make more money.

- Exporters should supply middlemen with inexpensive boxes for transporting mangoes, such as the wirebound lettuce crates sometimes used in the U.S. This will reduce bruising in transit and increase the percent of fruit that can be exported.

- The exporters' association should create a "Haitian Quality" seal and encourage shippers to affix it to each piece of fruit that is exported. Also, Haitian mangoes can legitimately be marketed as "organic". This can be done easily, by machine or by hand, and it will gradually develop a quality image of the Haiti mango in the minds of consumers. The association should also consider producing in-store promotional materials, such as shelf-talkers, to make available to stores that stock mangoes from Haiti.

- The exporters' association should establish links with a comparable association in the U.S., such as the Produce Marketing Association, which could provide advice in formation and administration of the association, assist in setting up a Haitian pavilion at the next PMA show, and also heighten awareness of Haitian mangoes by arranging wholesaler and retailer trips to Haiti to view production and processing plants.

3.2.4 Sisal

Crop Production. Sisal, a kind of cactus, produces a fiber which has traditionally been an important export crop for Haiti in the form of twine used for hay baling in the U.S., sacks for exported coffee, and matress pads. At one time sisal was grown on plantations, the largest

of which was known as "Dauphine", and production was said to be about 40,000 tons of fiber per year. Estimates of current production of fiber range from 10,000 to 12,000 tons, and involve about 5,000 small farmers in the harvesting and transport of the fiber. Buyers of fiber are three processing plants located in the Port-au-Prince area.

Sisal still grows on an estimated 10,000 hectares of rocky soils in the Cotes de Fer area in southwestern Haiti, as well as in the northwest part of the country. However, the fields have long been neglected and are heavily overgrown by weeds. Plants grow on land owned by small farmers and on some land so poor for agriculture that it is, in practice, unclaimed.

Processing and Marketing. The limiting factor in sisal production is in harvesting and decortication rather than in agricultural production. The three processing plants are unable to obtain enough raw materials to work at full capacity (about 15,000 tons). The sisal spears are cut by peasants and decorticated by hand, or are brought to where a middleman has set up a small decorticating machine. The machines are the property of the processor and are lent to middlemen, sometimes along with a truck, who contracts with farmers for cutting and decorticating of the sisal spears in the field. The traditional method of decorticating -- scraping away the outer pulp by hand with a machete -- is considered too onerous by most farmers. As a result, processors can obtain satisfactory quantities of the fiber only by making decorticators available.

A peasant can make about H$6.00 per day cutting sisal, and it is hard work because he must first cut away the weeds which have overgrown the sisal plants. The person who supplies the decorticator may earn about H$140 per day after paying for raw materials, but out of that must pay the costs of transportation, gasoline to run the decorticator, and a helper.

The middlemen deliver sisal to one of the three processor/exporters--Circle Manufacturing (CIMCO), SAFICO, and Twincord -- or in some cases the exporter goes to pick it up. Middlemen normally do not have much loyalty to specific exporters. However, there is usually not enough variation in price to make it worthwhile driving from one exporter to another.

Market Opportunities. Most of the sisal is exported in the form of bailer twine, packaged with the brand names of U.S. farm supply cooperatives or suppliers, such as Agway. Synthetic fiber is gradually replacing sisal because it is cheaper and easier to use. Sisal retains an advantage with many buyers in that it is bio-degradable and is not harmful if ingested by farm animals.

One exporter estimated that the U.S. was using 3 million tons per year of sisal binder twine, of which Haiti supplied only 6,000 to 8,000 tons in recent good years. Brazil is by far the largest supplier, and is large enough to control the market and set the price. One Brazilian exporter reportedly sells in the U.S. on consignment, lowering his price as the haying season progresses until his stock is entirely sold. The Haitian exporter referred to above estimated that

he would be able to continue shipping sisal twine to the U.S. for another 20 years before the market was lost to synthetics.

Constraints Facing Entrepreneurs. Some of the constraints facing sisal exporters are the following:

- The effort/price squeeze, in which the U.S. market price makes it hard for processors to pay enough to persuade peasants to make the effort to cut sisal leaves and decorticate them (or have them decorticated). However, the cost of clearing away underbrush from the sisal plants is a one-time cost, provided that harvesting is then done on a continuous basis.

- The age and physical condition of the processing plants, combined with the high cost of generating electricity to operate them when there is no reliable public power supply.

- Sisal processors have been hit hard by the embargo, even though U.S. import licenses were available to exporters at times during the embargo period. Individually, processors feel that they cannot afford to implement a partial solution to the supply problem by building more of the small decorticators (which cost about $US 2,000 each to build) and lending them to middlemen and farmer organizations. Between 100 and 200 more decorticators are needed, representing an investment of $200,000 to $400,000. Each company is reluctant to build and lend out more decorticators since the others might be the recipient of the fiber produced on them.

Recommendations to Overcome Constraints. The following recommendations might help increase employment and foreign exchange earnings in the sisal industry:

- Exporters should cooperate, possibly through a sisal exporters association, to jointly build more mechanical decorticators. In this way, all three companies would benefit from the presence of additional decorticating capacity. Credit on special terms should be available for this purpose.

- Credit should also be made available for the importation of trucks. They should consider importing used trucks and selling or leasing them to middlemen. A ten-year old Mack truck might cost about US$15,000 and would carry perhaps eight tons of decorticated sisal. One exporter said that his plant used a ton of raw material in about 3 hours, so transportation is critical to both his purchasing and his distribution. It should be noted, however, that the poor condition of roads in growing areas limits the usefulness of trucks since many truckers are uinwilling to undergo the wear and tear on the vehicles caused by roads. This is an illustration of the importance of a road improvement program in Haiti.

- Sisal processors should jointly lobby for improvements at the seaport at Port-au-Prince, as well as for the lowering of outgoing ocean freight rates.

- Explore new market opportunities for sisal, such as mats, wall coverings, and handicrafts.

3.2.5 Essential Oils

Crop Production. Essential oils in Haiti are roughly a $6 to $8 million business; however, the quantity available for export is declining.

The main essential oil is vetiver, prized by the perfume industry but declining in quantity produced -- even though a 55 gallon drum can be sold for US$50,000 to $60,000. The raw material for processing is the root of the vetiver plant, so that collectors who deliver to the processing plants must hire labor to harvest the plants with roots attached, a very onerous task. Since it takes 2000 kg of dry plants to produce 1 to 1.5 kg of vetiver oil, and because the plant is grown mostly on marginal, hilly areas, cultivation of the crop contributes to the serious problem of soil erosion in Haiti. Even if the ground is replanted immediately, erosion can occur before new root systems are developed. Contouring the hillsides can slow the erosion but cannot stop it.

Haiti also produces citrus oils, primarily lime and bitter orange. The orange oil is produced near Cap Haitien by Marnier Lapostolle, for the producers of Grand Marnier in France. Lime oil and related products are produced by Production Agricole Guacimal in Cap Haitien and by UNAROM and Reddy Flavors in Port-au-Prince. At least one processor/exporter (Reddy Flavors) gives away lime tree seedlings in order to increase the supply of raw materials.

Small quantities of amyris and other essential oils are also produced.

Marketing. Processors buy plants from collectors, who in turn harvest the crop with hired labor on small, hillside plots owned by farmers. One processor visited reported paying about H$216,000 (US$ 72,000) per month, 12 months of the year for purchases of vetiver roots, and we know of eight vetiver oil plants in the country. On a trip to Les Cayes, we saw two new plants being built (although one will replace an older operating plant). Extraction of the oil is by steam distillation. One plant reported production of four to five drums of oil per month, representing revenue of $200,000 to $250,000 per month.

Essential oil producers have marketing contacts in the U.S. and Europe, usually with brokers or end users. In some cases the oil is sent to U.S. buyers for European firms; it is valuable enough to support the cost of double transportation, and it is free of import duties in the U.S.

Market Opportunities. In general, the market situation for essential oils is quite good. World prices are strong, as growth in supply tends to lag behind growth in demand. Also, the market is diversifying, as demand rises outside the traditional market areas of the U.S. and Europe.

The U.S. Department of Agriculture reports periodically on import volumes and values of essential oils. This makes it easy for suppliers to track movements and prices of these products and to determine which are increasing in value.

Constraints Facing Entrepreneurs. Some of the constraints facing essential oil exporters are the following:

- The difficulty in organizing collection of the large amounts of raw material needed to make a specified volume of oil.
- The difficulties of transporting raw materials to the market in areas where roads are bad and trucks in short supply.
- The age and physical condition of most of the vetiver processing plants.
- The lack of international support for vetiver production because of its contribution to soil erosion.

Recommendations to Overcome Constraints. Due to the policy of USAID/Haiti and other donors of not promoting vetiver production in Haiti because of its effect on the environment, and because the industry appears to be profitable and expanding, we make no recommendations with regard to vetiver.

The situation is different for citrus oils, which is produced from citrus trees -- and tree planting is being encouraged generally because of the soil-holding properties. We recommend that MARNDR resources (funds, manpower, training capacity) be increased so that the Ministry can progressively take the lead in a citrus (lime and bitter orange) tree planting scheme, building on the work already done by essential oil processors such as Reddy Flavors. (This would be part of a larger Ministry responsibility which would also include planting of grafted mangoes and rust-resistant coffee trees.) Planting of these types of citrus could also be part of the recently-announced Peace Corps tree planting program. These programs should include both the supply of seedlings and instructions to farmers on planting and care of the trees. Nurseries currently operated by citrus oil processors could provede the initial planting material at no cost, but any substantial expansion of nurseries should receive donor aid if planting is to move ahead rapidly.

We also recommend that a U.S. or European-based consultant should be contracted by a donor agency to do a brief study of world markets for essential oils other than vetiver and citrus, and to inform Haitian agricultural development organizations of new product/market possibilities. The report should include a list of kinds of essential oils in demand, a brief analysis of volume and price trends, and a list of contacts from which more information can be obtained.

3.2.6 Vegetables

Crop Production. Vegetables are grown by thousands of small farmers throughout Haiti for local sale. There is virtually no large scale production, and at present we do not know of any vegetables that are being exported.

In a 1994 report on the vegetable business in and near Port-au-Prince done for CARE International it was estimated that more than 10,000 households in the area were producing 36,000 tons of produce annually, with a value of H$22 million. We have not found a reliable estimate of nationwide production, but considering population distribution it must be at least double the figures just cited. Most vegetable production takes place on small farms, and those considered in the CARE study were up to 1.0 *carreau* (.31 hectares) in size. Although there are larger commercial farms, it is accurate to say that vegetables are a small farmer industry in Haiti.

Before the embargo there were several fledgling operations to produce and export winter vegetables. Some of the firms involved were Famepak International (Rodney Goins), Pyramid (Wilhelm Reimers), Operation Double Harvest (Tim Verduyn), COPRAGSA (Anthony Bouchereau), JMB Export (Jean-Maurice Buteau), and La Chapelle. Although none of these firms is exporting vegetables now, most still have their land and much of their equipment, and there is still potential in the U.S. market. Unfortunately, these entrepreneurs have been discouraged and decapitalized by recent events.

Marketing. Marketing is mostly through traditional channels with producers selling to first-stage intermediaries, who sell to wholesalers, who sell to retailers and food service organizations (restaurants, etc.). There is little sorting and no grading involved. According to the CARE report, there are 25 markets for vegetables in the Port-au-Prince/Petionville area, of which Croix des Bossales is the most important.

In the previous attempts at producing vegetables for export, there was little or no involvement by intermediaries. Growers controlled both production and export. Contracting with small farmers was tried by several grower/exporters but these experiments ceased at the time of the embargo. Controlling the timliness and reliability of deliveries proved to be a problem. Training farmers in the proper use of inputs was also difficult, and exporters worried about the risk of pesticide residues which could cause rejection at the U.S. port of entry.

The only processing of vegetables which takes place in Haiti is the production of tomato catsup at the SHAISA plant (FAMOSA brand) near Port-au-Prince. This is reported on in the following section of the report.

Market Opportunities. There are clear market opportunities for vegetables produced in Haiti. One such opportunity is to increase supplies to hotels and resorts as tourists begin returning to Haiti. For example, the "Club Med" resort is scheduled to re-open in mid-1995.

Another market is for other Caribbean islands, as Haiti's relatively low production costs make vegetables competitive in markets serving both tourists and local residents.

Most important is the U.S. market. Haiti produces several vegetables which are approved for admission by the Animal and Plant Health Inspection Service of the USDA (USDA/APHIS). including asparagus, beets, carrots, and celery. To add new products to the list of approved items, either the Minister of Agriculture or a U.S. importer can file a request with APHIS. Mr. Carl Castleton of APHIS, stationed in the Dominican Republic, can advise on how to do this. Approval of a new product, if granted, usually takes from 1 to 2 years.

U.S. imports of fresh vegetables (and melons) were more than $2 billion in 1994 and are estimated to grow in value at nearly 5% per year. Other countries, such as the Dominican Republic which has agronomic conditions similar to those in Haiti, are taking advantage of these opportunities. A large portion of the vegetables imported into the U.S. comes from Mexico. However, Haiti is closer than Mexico to the southeastern part of the U.S. and should be competitive there.

Oriental vegetables for the U.S. market are a growth area that Haiti can capitalize on, and was beginning to do so before the embargo. A recent LAC TECH study gives market information for bittermelon, bok choy and baby bok choy, Chinese broccoli, daikon, Japanese eggplant, kabocha, Chinese long beans, snow peas, taro rook, yu choy, and choy sum. It states that both local production and imports are growing to supply expanding markets, especially for Asian-American consumers.

Constraints Facing Entrepreneurs. There are numerous constraints to exporting quality vegetables from Haiti. Among these are: selecting the best vegetables and varieties, learning proper cultural and post-harvest handling practices, obtaining quantities large enough to ship economically, and selecting competent, honest importers. A major advantage of producing is Haiti is the climate, which allows for an extended harvest season peaking in about May and again in September/October.

Recommendations to Overcome Constraints. Some recommendations for getting into the vegetable export business are as follows. Note that these are different from those in the report done for CARE because those focussed on the domestic market.

- A Horticultural Society should be formed, even if it has only a few members at the beginning. This society should document previous attempts to produce vegetables for export in Haiti and collect available reports on production techniques and on foreign market requirements.

- Ideally three or four growers should select a product, such as green onions, and begin to produce it for export. Together they can identify and bring in an expert to help them with cultural practices (including which chemicals can legally be used) and post-harvest handling, and together they should produce large enough quantities to ship economically.

- The growers should begin shipping to a Florida importer who is known to them and who has excellent ratings in The Red Book and The Blue Book. These books can be obtained by subscription; however, the information contained in them is becoming available on line through the Internet. Related information is available from the Organization of American States, the AgroAmericas part of C/LAA, and other organizations.

- For produce that is not of exportable quality, the growers should work with a wholesaler who has connections with the hotel and restaurant industries.

Before the embargo a few firms in Haiti were beginning to export winter fruits and vegetables. These are well known to the Mission and they should not be ignored as potential marketing agents for the produce of other growers. Technical and marketing assistance to vegetable growers could be obtained from horticultural industry consultants who know what the U.S. market requires, and make the necessary connections with importers in Florida. Some of the larger importers may be willing to work with growers at their own expense to upgrade the quality of the produce. If the Mission were to provide this kind of service to growers, it would accelerate the recovery of this nascent industry in Haiti.

3.2.7 Poultry

Production. Poultry raising for market sale, including chickens, turkeys and ducks, is a significant industry in Haiti. There is one large broiler producer (Brandt) and at least two medium sized ones (Laine and Mayard), all in the Port-au-Prince area. Local production is supplemented by imports of live chickens from the Dominican Republic and of frozen parts from the USA. We understand that the Brandt farm produces its own feed, while the Laine farm imports concentrate from the Dominican Republic and mixes it with local corn and sorghum in Port-au-Prince. The major producers have abattoirs and freezing facilities. There are no poultry breeding operations or hatcheries in Haiti. Farms are supplied with fertile eggs from the Dominican Republic.

Market Opportunities. Consumption of chickens in Haiti is said to be only about 7 million chickens, or one bird per person per year. Per capita consumption in the Dominican Republic is said to be closer to one bird per person per month. This would seem to indicate a large market potential. The purchasing power, however, is quite low so that most people can not afford to eat poultry often. Re-establishment of the tourist industry, however, would give a tremendous boost to the broiler and egg business.

Proposed new investments in poultry raising should receive careful study. Potential investors should consider that the new low import duties allow birds from the Dominican Republic and frozen parts from the USA to enter Haiti and keep market prices down. These imports are likely to continue and to take portions of the market -- the D.R. birds on the high end and the frozen parts on the low end. Potential raisers should consider also that the supply of feed is limited and that the market for eggs can quickly become saturated if production increases.

An American company, AgriEnterprise Inc. of Huntsville, Alabama, is currently considering an investment in poultry and egg raising.

Constraints Facing Entrepreneurs. Some of the constraints facing entrepreneurs in the poultry industry are the following:

- The shortage of locally produced grains for feed and the lack of locally produced feed concentrates.

- The absence of a hatchery operation in Haiti which would bring down the cost of chicks as compared to importing hatching eggs from the D.R.

- The lack of a cold chain to maintain the quality of chilled or frozen poultry products until they are cooked by individual consumers.

- The lack of disease control and veterinary services. For example, the live birds entering from the Dominican Republic are reportedly not inspected for disease.

- Crime is increasing in the country and poultry operations are subject to employee pilferage as well as theft.

- The low per capita income in Haiti, which does not permit most people to buy high quality protein products such as poultry.

- The lack of modern processing facilities, including de-boning equipment, to allow production of speciality chicken products like nuggets.

Recommendations to Overcome Constraints. The following recommendations address the constraints listed above:

- General rural development (land tenure, credit, roads, etc.) should gradually increase the supply of grains available to make feed. If Haiti's production expands, and trade with the Dominican Republic continues to be liberalized, the cost of imported feed concentrates should decrease.

- The lack of refrigeration and freezing facilities is more difficult to address. A partial solution, used in some countries, might be for producers to ship frozen poultry in refrigerated trucks to central distribution points, where they would sell to hawkers, to whom they would lease bicycles or carts equipped with insulated boxes. Consumers would carry the birds home in plastic bags, and they would be thawed and ready to cook the same day.

- Theft of live birds can perhaps be reduced by making a small group of employees responsible for each chicken house (approximately 6,000 birds) in such a way that they

would jointly share in the profits generated from that house. This system, which has been used in Haiti by at least one farmer, would create peer pressure to work honestly and to watch for theft.

3.2.8 Rice

Rice is grown, milled and marketed in Haiti by small farmers and micro-enterprises located in the Artibonite Valley in the center of Haiti, and to a lesser extent in the vicinity of Les Cayes in the west. As a subject for investigation by the team, rice was looked at mainly as the principal consumer of imported fertilizer (see following section). Its impact on food security is considered in Volume 2 of the report.

According to USDA data (see Chapter 1 of this report), Haiti produced 130,000 tons of rice in 1990. Today, production is said to be less than 100,000 tons, though no reliable data is available. The two main reasons for this are: (1) deterioration of the irrigation and drainage systems in the two main producing areas, and (2) low farm income which leads farmers to re-use seed rather than buy new seed, and to use less fertilizer, resulting in much reduced yields.

The team interviewed the Rice Corporation of Haiti (RCH), which is the principal importer of rice into Haiti, as part of its investigation of U.S. agribusiness involvement in Haiti. Our report on the operations of RCH, which is owned by American Rice Inc. (ARI) of Houston, Texas, will be found in Chapter 1, Section 1.3.3

RCH has proposed that by investing in rice production and milling in the Artibonite Valley it could eventually make Haiti self-sufficient in rice (requiring production of about 250,000 tons) and even become an exporter. The company proposes to take over a shell of a building in the Artibonite which formerly housed a rice mill owned by the state (which is scheduled to be privatized) and to install paddy rice milling and drying equipment there. Through contracts with farmers or farmer groups, RCH would provide growers with a package of inputs including new technology, improved seed, fertilizer, pesticides, sprayers, and small tractors on credit. Texas varieties of rice have been planted by RCH on an experimental basis and have given much higher yields than the genetically depleted varieties being planted by Haitian farmers. For the project to realize its full potential, however, water control would have to be improved by restoring irrigation and drainage facilities. (The IDB Emergency Economic Recovery Program includes funds for such activities.) RCH management states that the company would be prepared to put up the majority of the roughly $1 million it would cost to restore and equip the mill, and would look for the remainder from a local partner or grant from a donor agency.

The proposed project has the potential to contribute to self-sufficiency in rice while increasing income to the 150,000 people living in the Artibonite Valley, perhaps the richest agricultural area in the country, but one which is producing far below its potential. However, it is because the area is so important to Haiti that any proposal to give a major role in its development to a foreign-owned company is considered a sensitive issue.

Nevertheless, it would be folly not to give serious consideration to a proposal that could do what no other program or agency is likely to accomplish for years to come, if ever. We recommend that the RCH proposal be reviewed by qualified consultants in the context of the overall development of the Artibonite Valley. The study would examine the following issues:

- the number of farmers potentially affected by the project and the degree to which farmer organizations could or should be involved as opposed to individual farmers,

- the effect the project would have on operators of small rice mills in the area, and the extent to which they would compete with a new rice mill,

- estimates of how much rice could be obtained from areas currently benefitting from irrigation and the possible timetable for restoration of water control in other areas,

- the mechanisms for extending credit to farmers by RCH and the potential risk of default due to the presence of small rice millers in the area,

- reasonableness of cost estimates for restoring the rice mill,

  the risk of giving one company a dominant position in rice milling in the Artibonite, balanced against the resources which a highly qualified company like ARI could bring to Haiti in the near term, and finally,

- examination of viable alternatives to rice development in the Artibonite.

RCH operates in Haiti under the terms of an agreement which has been the subject of some controversy. We recommend that as part of the study proposed above, or as a prelude to it, the terms of the agreement be reviewed by an independent consultant. Without this review, and appropriate action to resolve any outstanding issues, it seems unlikely that action will be taken on the RCH proposal, or on the sale of the mill building to private interests.

3.2.9 Tomato Paste

There is one tomato processing enterprise in Haiti -- Societe Haitienne Agro-Industrielle S.A. (SHAISA), located near Port-au-Prince. The plant is equipped with evaporators to produce tomato paste and a bottling line for catsup, which is marketed locally under the FAMOSA lable. Canned chopped tomato is produced on another line. The plant is operating at about 10% capacity due to white fly infestation which began in 1989 and virtually wiped out the growing of processing tomatoes in Haiti. To keep operating, SHAISAimported tomato paste in bulk on several occasions from Chile and Israel.

Prior to the appearance of the white fly problem, the enterprise obtained its raw material from (1) production on 390 ha of owned or leased land near the factory, (2) contracted production on 20 hectares by a neighboring farm (Double Harvest), and (3) contracted small

farmer production. For the coming season, the company hopes to be back in production, and approaching its capacity of 10 tons/hour during the December to March processing season (12,000 to 15,000 tons of input during the season) using white fly-resistant tomato seed obtained from a dealer in the Dominican Republic. To further control insect infestation, a combination of neem and chemical insecticides is used. As to water for irrigation, the company is using bulldozers lent to them by the MARNDR to rebuild dikes and canals to direct water from a nearby river to their own fields and those of small farmers in the area. However, management is not hopeful that small farmers will go back to tomato growing after the losses they suffered from the white fly.

Before the embargo SHAISA bought tomatoes from the Bouchereau farm at Leogane, and would do so again if that company could recover from the effects of the embargo and get back into production.

Management appears to be aggressively marketing their products. We were told that they have an order from Campbell Soup in the U.S. for canned dice tomatoes for delivery during the coming season. They also believe that they can get orders for purchase of catsup in bottles for labling by the U.S. buyer. (If it works out, these two possible sales will be good illustrations of the competitiveness of Haitian processed products, which takes advantage of low labor costs.)

The only constraints facing the enterprise, as it recovers, is the high cost of borrowed operating capital, which it uses to buy fertilizer, seeds, chemical sprays, fuel, and spare parts. Most of the plant and farm equipment comes from the U.S., including a John Deere 4755 tractor, Gould irrigation pumps, American Can closers, and agricultural chemicals. Imports from the U.S. would be stepped up if the company can get back to full production. Fertilizer is brought in from the D.R. (about 240 tons per season) because it is cheaper than buying small quantities from the U.S.

3.2.10 New or Non-traditional Agro-industrial Crops

Haiti's numerous micro-climates allows cultivation of a wide variety of agricultural products. Before the embargo there were important experiments with such non-traditional products as plants and cut flowers, winter and oriental vegetables, and aquaculture. Of these, we believe plants and cut flowers have particular potential for Haiti. We recommend that a national symposium on this industry be held, with experts from the USA and the Dominican Republic, to discuss in depth this industry and its potential for Haiti.

The winter and oriental vegetable industries also have considerable potential. Unfortunately, the progress made earlier toward developing export production by several agribusiness ventures was reversed by the embargo, and new efforts would have to begin from near zero. Also the cost of raising these crops makes the need for capital relatively high, and the rigid U.S. condition, quality, and phytosanitary requirements make it difficult for small farmers to become involved.

There are numerous other non-traditional products with good export potential including specialty coffee, hot peppers and pepper mash, processed mangoes, oriental vegetables, avocados, and possibly strawberries. The AGLINK Project Paper listed a large number of speciality products which are potential exports.[24] Also of interest to Haiti is the list of agricultural products exported by the Dominican Republic, which has similar agricultural conditions. This list includes about 50 different agricultural products, of which the most important are yellow yams, zucchini squash, guanabana, achiote, and grapefruit. Some or all of these could be developed for export from Haiti.

There are also numerous processed products that would benefit from efforts designed to begin or increase production and sales, including the following:

Hot pepper mash, which was exported previously and will be produced soon in northern Haiti by a company from the Dominican Republic (Steve Allen).

Diced tomatoes, which are now being produced by SHAISA.

High quality, sun dried slices of organically grown mangoes to sell in gourmet, natural food, and health food stores in the USA and Europe.

Peeled mango "cheeks," aseptically packed in bulk sizes, for sale to the food service trade, primarily in the USA. Mango slices in brine for chutney are already being exported, to England, by Ralph Perry Import-Export.

A preliminary study of the U.S. market for all of the above products could be done quickly by telephone by an industry expert in the USA. Information on other markets is generally harder to obtain.

There is currently a lot of interest in what is known as "niche markets". A niche market is a segment (usually small) of the market consisting of an identifiable small body of consumers which seeks products with particular characteristics. Ethnic markets are a kind of niche market.

Some of Haiti's current export products are sold into niche markets. For example, most of its coffee is consumed by people in Italy who like the unique flavor that comes, in part, from primitive cultural practices, harvesting, and post-harvest handling. Soon sisal will go mainly to a niche market, of farmers who prefer bailer twine that is bio-degradable. Because of their small volumes, the botanical products from Haiti are sold entirely to niche markets.

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[24] These included breadfruit, breadnut, bitter orange, carambola, casarina cones, castor beans, choquette avocados, exotic fruits, fish, garlic, goats/sheep, Haitian pumpkin, herbal teas, kenep, key limes, latanier, lemongrass, malanga, mazoumbel, medicinal herbs, mesquite, neem, pickling cucumber, red or yellow bell peppers, scotch bonnet peppers, sea grape leaves, shallot, taro, watercress, and wild blackberries.

There is surely potential to develop additional products, such as neem, for niche markets. However, in a time of scarce resources, we maintain that donor aid should be concentrated on identifying and supporting development of high potential product-market combinations, leaving exploitation of special "niche" type markets to private business people with specialized knowledge and market contacts. (However, a trade and investment promotion agency as proposed in this report could collect information on markets and make them available to interested parties.) For example, there is still great potential to increase exports of mangoes, mango products, and essential oils to U.S. and other markets. As discussed elsewhere in this report, there are good markets for winter and oriental vegetables, ornamental plants, and hot peppers for expanding market segments in the U.S. and Canada.

3.3 Agricultural Inputs

3.3.1 Post-Embargo Condition of Crop Production

During the embargo, Haiti's crop production infrastructure was severely damaged and the country's capacity to produce crops continuously declined. Prices of fertilizers, pesticides, and seeds have more than tripled and continue to be one of the major constraints affecting productivity. The absence of extension services to farming communities was another cause of the decline. The reduction in crop production was especially pronounced in vegetables/industrial tomatoes (50%), sugarcane (25%), beans (22%), and paddy rice (12%).

In 1990, fertilizer use on crops was estimated at 12,800 tons, a reduction of 25% from 16,000 tons consumed in 1985. Today, fertilizer use on crops is estimated at 10,500 tons, a reduction of 20% from 1990. The fertilizer crop consumption areas of Haiti are shown in Figure 3.1. The size of the fertilizer market, as well as that for pesticides and seeds, is determined by the area cultivated and the rates of application.

3.3.2 Agricultural Input Application on Crops

Since the few large farms which formerly cultivated maize, sorghum, sugarcane, tobacco, and industrial vegetables using inputs are no longer operating, the demand for fertilizer, pesticides, and seeds today is confined primarily to rice (paddy), domestic vegetables, coffee, and small areas of miscellaneous crops. Given the importance of rice and coffee, and the potential expansion of vegetable production for export, these crops will be the main users of agricultural inputs for the forseeable future.

Haiti's consumption of rice is estimated elsewhere in this report at 250,000 tons per year, though other estimates range as high as 300,000 tons. Roughly 50% of this rice is imported at present. The available irrigated area for rice in the Artibonite Valley alone is about 25,000 ha for the rainy season and 10,000 ha for the dry season. Haiti's average yield for rice is 2.3 mt/ha, which is very low compared with what many developing countries in Asia are producing, e.g, Malaysia (3.2 mt/ha), Vietnam (3.3 mt/ha), and Indonesia (4.4 mt/ha). Improving the efficiency of rice production in Haiti to increase yields from 2.3 mt/ha to 5 mt/ha

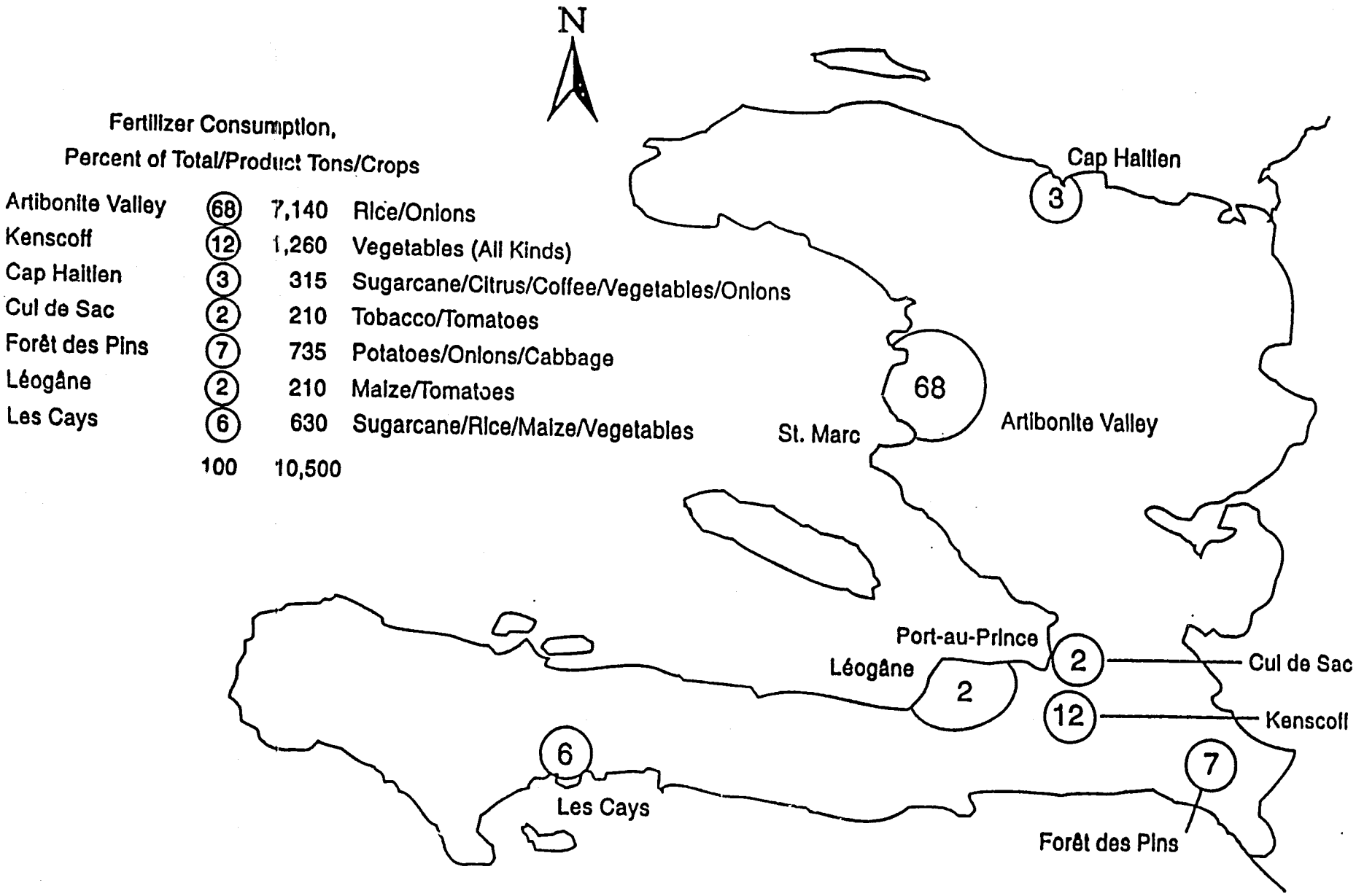

Figure 3.1 Major Fertilizer Crop Consumption Areas.

ce: Updated data from Fertilizer Blending Plant Feasibility Study-Haiti

is attainable in five years provided the required infrastructure, technology, and inputs are available. What is needed is a rice development program consisting of improved application of irrigation water, hybrid seeds, improved application of fertilizer and pesticides, adoption of improved agronomic practices, credit, and the availability of post-harvest facilities (drying, milling). The existence of a network of agricultural input dealers in the Artibonite Valley would be essential if the 5 mt/ha yield goal is to be achieved. The development of complementary crops of bulb onions and industrial tomatoes for the domestic market should also be pursued.

3.3.3 Availability, Adequacy, and Appropriateness of Inputs

All fertilizers, pesticides, and most of the agronomic seeds (except rice) and vegetables are imported from various countries. For fertilizers, the suppliers of urea (46-0-0) and ammonium sulfate (20-0-0) are the Dominican Republic, Trinidad, and Europe; the NPK complex grades are primarily supplied by the Dominican Republic in the form of blends, along with some volume of chemically mixed fertilizer from Germany, depending on whoever can offer better prices and terms to the Haitian importer/distributors. Given the needed lead time of 30 days for procurement, there should not be any problem of supply availability in the country. Fertilizer products imported are of good quality and in combination could meet the desired nutrient ratio requirements of principal crops. There is a market preference for granulated urea over prilled and for chemically mixed NPK grades from Europe over dry-blended NPKs. The chemically mixed complex grades prevent segregation of the raw materials and provide uniform granulation. Nitrogen fertilizers (urea and ammonium sulfate) normally account for 65% of consumption, while the balance of 35% is supplied by the NPK grades (20-20-10, 12-12-20, 15-15-15) having an average (composite) analysis of 14-14-20.

It is estimated that nearly one-half of the nutrient value of urea fertilizer applied on irrigated rice is lost due to improper application methods and very poor control of irrigation water. This could be the reason why some farmers apply 196-12-20 kg nutrients (400 kg urea plus 100 kg 12-12-20) when the recommended rate of application for rice is 100-60-60 kg nutrients per ha. Data supplied by farmers in Artibonite Valley and used to determine the economics of yield showed that, with an investment of H$1529/ha on rice production, the yield obtained was 4.0 mt/ha valued at H$2940. The ROI (Return on Investment) was H$1411/ha or 92%.

Pesticides and seeds are also imported from the Dominican Republic, the United States, or Europe from such suppliers as Zeneca, Rhom Haas, Monsanto, Ciba Geigy, Peto Seeds, Deseart Seeds, and Pioneer Seeds. Sprayers are sourced from Brazil (Jacto) and England (Peegler). To service its small volume market, the Darbouco company in Haiti makes use of a trader/consolidator company in Miami, Florida, for seeds imported from the United States. The ORE/USAID Seed Program has been producing high quality improved maize, sorghum, and black bean seeds to fill part of the Haiti's seed requirements. The import value of seed and sprayer equipment required by Haiti is estimated at US $ 350,000/year.

It is estimated that the demand for pesticides has decreased from US $375,000 before the embargo to $300,000 after the embargo. Of this amount, 50% is insecticides, 30% fungicides, 10% herbicides, 5% rodenticides, and 5% others. At least 75% of the total volume of pesticides is consumed on vegetables and tobacco.

3.3.4 Status of Agricultural Input Enterprises

Types of Marketing Channels. The three types of marketing channels handling agricultural inputs in Haiti are depicted in Figure 3.2. For fertilizers, 30% of total requirement is channeled through the Type A channel (from importer/distributor [wholesaler] to independent dealer [retailer] to merchants and to individual small farmers), 40% through the Type B channel (from importer/distributor [wholesaler] to owned branch stores [retailer] to merchant outlets to individual small farmers), and 30% through the Type C channel (from importer/distributor [wholesaler] directly to farmer associations).

The difference between the Type A and Type B channels is administration and control. Where the dealers are independent retailers, they have freedom to compete and become more efficient. The branch store retailers, on the other hand, are employees of the distributors who completely control them. They perform usually as storekeepers rather than entrepreneurs and do not have incentive to improve their services to farmers. Pesticides, seeds, and other agri-input products are channeled the same way to farmer end users.

Organization of the Agricultural Input Enterprises Network. The number of importers/distributors in the agricultural input business decreased from nine (pre-embargo period) to five (post-embargo period). Today, the major players in the market are the Agrisupply, Agroservice, COMAG (agricultural commerce), Darbouco, and SOPRACH companies. Their combined fertilizer, pesticide, and seed sales are at least 95% of the total market for these products. Their business survival during the embargo period was primarily due to their ability to diversify in other businesses. Enterprises that confined their business to agri-inputs did not survive the economic sanctions. The market share of these five companies is estimated in the table below.

Table 3.4: Market Shares of Agri-Input Companies

Company	Fertilizer	Pesticides/Seeds
	(%)	
Agrisupply	50	20
Agroservice	25	40
Darbouco	5	25
COMAG (Agricultural commercial)	15	10
SOPRACH/Others	5	5
Total	**100**	**100**

Source: Updated data from the Fertilizer Blending Plant Feasibility Study, Haiti UNIDO/IFDC, October 1990.

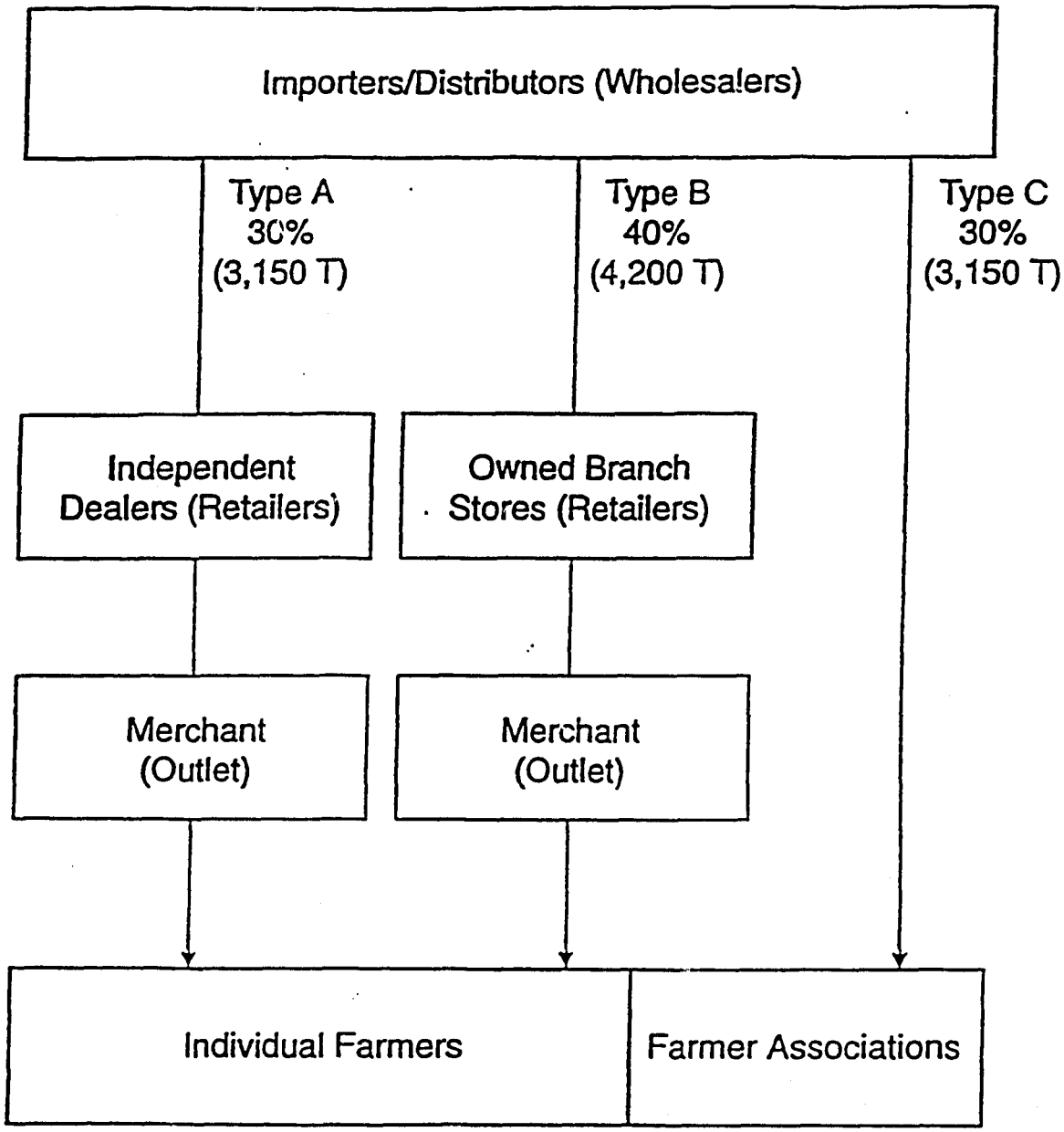

Figure 3.2 Fertilizer Marketing Channels.

Source: Data collected from importer/distributors by CC Yaptenco, Jr. March 1995

Importer/Distributor: An importer/distributor of agricultural inputs is usually in both the wholesaling and retailing business. The typical company is private, owned by a Haitian family, and is profitably managed. Aside from carrying fertilizer and agri-input products, these companies are usually involved in the marketing of farm produce. Revenue from sales of agricultural inputs would be primarily from fertilizer (60%), seeds (30%), pesticides and other (10%). Their business facilities include their own store branches located close to the crop market and/or independent dealers for retailing. They normally have storage and delivery truck facilities which are either owned or rented. Agroservice set up a fertilizer blending facility which is no longer in operation. The volume of the NPK market (4,000 mtp/year) is so small that it is not economical to import raw material for blending locally. The importers/distributors are adept at bagging imported bulk fertilizer products. Their services to customers are limited to brochures, discounts, and very selective short-term (7 days) credit, normally part of suppliers' credit extended to them. Their sources of capitalization come from their own resources or revenues generated from other businesses.

Dealer/Retailer: As discussed earlier, the bulk of the retailing business is performed by branches owned by the distributors. The product line is confined to products only handled by the parent company. The store signs and color schemes carry the logo of the parent distributor. The stores have some storage space, which is also used as display areas for products. The dealers normally do not perform field extension services except by providing farmers with brochures or advice when they come to the store to purchase inputs.

The independent, privately owned retail business, on the other hand, carries not only agricultural inputs but also many other products, such as groceries, hardware, and other commodities — something like a one-stop variety store where farmers buy their farm supplies. The agri-input products are obtained from various sources, and retailing activities are more customer-service oriented. These business facilities are normally better than the distributors' branch stores. There are about 15 dependable, independent dealers in the Artibonite Valley performing a good job of the retailing function. They are the real agri-input entrepreneurs at the farm level. There should be an effort to increase, train, and develop their number as a responsible marketing channel, not only for agri-inputs but also for services.

3.3.5 Marketing Costs and Margins

The marketing of fertilizer requires more capitalization and yields much lower margins than does the marketing of pesticides and seeds. In Haiti, the marketing costs, as percentage of total costs, for these products are shown in the following table.

Today, the average retail price of fertilizer is H$48 per 50-kg bag, compared to H$17 per 50-kg bag in 1990, an increase of 282% primarily due to the US $/H$ exchange rate change.

Table 3.5: Agricultural Input Marketing Costs
(as % of product retail price)

Costs	Fertilizer	Pesticides/Seeds
	(%)	
Products (includes 3% tariff on f.o.b. price)	75	58
Transport, storage, handling	5	2
Costs of money	5	5
Overhead	5	10
Margins	10	25
Total	**100**	**100**

Source: Data collected from Importers/Distributors by C. C. Yaptenco, Jr., March 1995.

3.3.6 Credit/Finance

The need to improve the availability of credit for distribution and crop production is very acute. Although the importer/distributor does have occasional access to suppliers' credit (30-60 days) because of a long-term relationship in the business, the distributor does not usually extend part of the credit to farmers. Transactions at the farm level are normally on a cash basis only.

3.3.7 Supplier Relationships

Importers/distributors in Haiti do have established business relationships with suppliers of agri-inputs. Large fertilizer companies, such as Fertilizantes Santo Domingo, C.A. (FERSAN) and Fertilizantes Quimicos Dominicanos, S.A. (FERQUIDO) of the Dominican Republic, and Norsk Hydro and BASF of Europe, have an interest in the Haitian fertilizer market. There was a time, before the embargo, when FERQUIDO was interested in a fertilizer blending plant project with a Haitian entrepreneur; the company offered to participate in the capital investment and to assist in establishing a laboratory for soil testing. Unfortunately, the fertilizer volume was too small, and the project was not viable.

FERQUIDO and FERSAN are two fairly large fertilizer companies in the Dominican Republic with a combined production capacity of 450,000 mt/year of various complex NPK blends. They are the most accessible suppliers. They also market complementary agricultural input products and have very capable technical staff and facilities for farm extension services for developing markets. These companies have already expressed an interest in assisting Haitian importers/distributors in developing the agricultural input market of Haiti. Their assistance in

developing a reliable dealer (retailer) network and their participation in farm extension services will be a significant contribution to the development of rice and other crop markets.

In the meantime, suppliers of seeds and pesticides from the United States are in the process of setting up market development programs for their products with their Haitian importers/distributors. The costs of such programs are normally shared.

3.3.8 Linkages With Agricultural Institutions

Agricultural input distributors (those supplying fertilizers, pesticides, seeds, feeds, veterinary products, small tools and implements, agricultural equipment/machinery, and farm services) conduct their business without enjoying the benefits of their own trade association. Such an association would help them develop and provide a forum for discussing mutual opportunities and problems and establish formal linkages with other institutions. These enterprises only act individually and informally if there is a problem in the business affecting them as, for example, when donor-subsidized seeds and donated fertilizer distorted prices in the market. There is an urgent need for them to organize into a trade association not only for the welfare of the business but also to assist the government in formulating programs and policies relating to agricultural development. The Ministry of Agriculture is in the process of organizing the Presidential Agricultural Input Committee, which will need to relate its functions those of an Agricultural Input Dealer Association once it is formed.

3.3.9 Market Information

There is no agency (private or public) monitoring, evaluating, and providing market information in Haiti. Forecasting the demand for agricultural inputs is difficult. Importers/ distributors maintain their own individual statistics which are confined to their sphere of operation. There is an equally urgent need to establish a market information system to provide information on forecasting demand and procurement. Delays and shortages in the availability of supply and the lack of sound government policy are partly caused by the absence of market information for making decisions. A proposal for a market information system for food items is contained is part of the Action Plan presented in this report; a system for forecasting demand for inputs could eventually become a part of that system.

3.3.10 Technical and Extension Services

With the acute absence of reliable agronomic information and advice at the farm level, farmers depend on dealers (retailers) for such assistance. Unfortunately, the retailers are not trained to give such technical assistance; if their technical skills are improved, they could become a major source of farm information and advice for farming. A training program on agricultural inputs should be developed for agri-input dealers, extension workers, and credit administrators, who are the prime movers of agricultural production. The program should include hands-on farm applications.

3.3.11 Constraints

The constraints to agricultural input marketing are mostly associated with policy, the marketing system, and the structure for crop production. The constraints that require priority and sustained action programs follow:

- Lack of a sustained program to develop the agricultural input market, which presently is relatively small, declining, and unstable.
- Absence of stated agricultural policy and defined role of agri-input enterprises in the country's agricultural program.
- Severe lack of credit for product distribution and crop production.
- Severe shortage of technical assistance for effective use of crop production inputs.
- Lack of trained manpower (dealers, extension workers, credit administrators, farmers) with job skills needed to carry out agricultural market development.
- Absence of linkages between the agri-input industry and the private and public institutions and organizations in agricultural development.
- Lack of market information which can provide reliable and updated data for making sound decisions.

  Lack of post-harvest and produce marketing facilities.
- Inefficient irrigation system.
- Insufficient farm-to-market roads.

3.3.12 Recommendations

- Target paddy rice, some selected export vegetables, and coffee as priority crops for improved production and focus the improvement/development and expansion of the agri-input market on these crops for at least 5 years.
- Encourage the organization of the agricultural input industry into a responsible trade association. Define its role with the government, other agricultural institutions, and commercial companies in Haiti's agricultural market development.

- Establish a market information system that will monitor, evaluate, record, and provide statistics for decisionmakers. The system should be maintained permanently.

- Formulate and implement policies that are conducive to the development of the agricultural input business in a free, competitive, and customer-oriented environment.

- Provide the necessary support services for crop production:

  -- Credit.
  -- Farm extension services.
  -- Training for required job skills.
  -- Post-harvest/marketing services.

  Organize and implement a rice production program in Artibonite Valley that will integrate the development of dealers (retailers), extension workers, and credit administrators with the provision of support services for crop production. This program should be sustained for 5 years.

  Improve the critical infrastructure needed for crop production, i.e., irrigation, farm-to-market roads, transport.

4. FINANCING HAITIAN AGRIBUSINESS

4.1 Financial Markets in Haiti

The Haitian financial system consists of the Central Bank and an autonomous rediscount and guarantee facility (*Fonds pour le Developpement Industriel/FDI*), ten commercial banks, two mortgage banks, a private development foundation (SOFIHDES), and a wide range of cooperatives, credit unions and non-government organizations. Two of the commercial banks (i.e., the *Banc Nationale de Credit* and the *Banc Populaire Haitienne*) are government-owned but targeted for privatization over the next 1-2 years. Three others are branches of international banks (i.e., CITIBANK, Bank of Boston and Bank of Nova Scotia). The distribution of deposits and loans among these banks is shown in Table 4.1.

Table 4.1
Bank System Share of Deposits and Loans
(Millions of Gourdes/December 1994)

	Deposits		Loans	
Banque Nationale de Credit (BNC)	1,142,352.8	16%	423,762.1	12%
SOGEBANK	1,647,469.9	22%	845,076.8	23%
Banque de l'Union Haitienne	774,754.6	11%	435,796.0	12%
Banque Populaire Haitienne	229,245.5	3%	174,356.5	5%
Banque Ind. et Comm. d'Haiti	3,433.9	0%	2,376.9	0%
Unibank	482,750.2	7%	240,980.1	7%
Promobank	659,048.4	9%	382,323.3	11%
Citibank	606,334.5	8%	285,701.6	8%
Banque de Boston	786,792.2	11%	329,176.8	9%
Banque de Nova Scotia	634,285.3	9%	219,176.1	6%
Banque de Credit Immobilier	167,834.1	2%	150,958.9	4%
SOGEBEL	193,685.2	3%	139,969.2	4%
TOTALS	7,327,986.5	100%	3,629,654.2	100%

Source: BRH

Seven of the Haitian and all three of the international banks have been operating in Haiti since the 1970s. Three additional banks were opened in the mid-1980s, two more received charters in 1993 and 1994, and two others are awaiting approval from the Central Bank. With few exceptions, all are characterized as highly risk averse with a tendency to limit lending to a small group of well-known, highly collaterized clients. SOGEBANK is the largest commercial bank, controlling 22% of savings and 23% of loans. There is a fairly even distribution of financial activity among the remaining banks, with the exception of the *Banque Industrielle et Commerciale d'Haiti, Banque Populaire Haitienne*, and the two mortgage banks (*Banque de Credit Immobilier and SOGEBEL*) which together possess less than 8% of deposits and 13% of loan activity. UNIBANK, the newest of the Haitian banks, has been lending to the traditional market for two years. It has been aggressively competing for market share in lending, and over the 1993-94 period its share of national loan markets increased from three to seven percent. In April 1995, UNIBANK is planning to launch a small pilot program to experiment with micro and small-scale business lending in Port-au-Prince.

The extremely risk averse character of Haiti's banks is best illustrated by the consolidated distribution of assets shown in Table 4.2. Over the period 1993-94, total assets grew by a healthy 22 percent in nominal terms, but 55 percent of those assets were maintained in cash accounts and loans represented but 36 percent of the total.

Table 4.2
Consolidated Bank System Assets
(Millions of Gourdes)

Line Item	December 1993	December 1994	Var.
Cash	4,249,563.4	5,281,789.6	+24%
Loans	2,816,988.0	3,433,477.2	+17%
Investments	91,423.9	262,253.7	+187%
Buildings	194,269.4	131,946.4	-32%
Equipment	278,008.9	291,337.8	+5%
Other Assets	231,361.0	212,264.2	-8%
TOTALS	7,861,614.7	9,613,068.9	+22%
Loans/Assets	35.8%	35.7%	
Cash/Assets	54.0%	55.0%	

Source: BRH

The BNC has the largest agency network with 14 branches, a legacy of the period when it was the commercial arm of the *Banque Nacional de la Republic de Haiti*, the Central Bank. The only other banks with agencies outside Port-au-Prince are PROMOBANK and the *Banque de l'Union Haitien*. Each has an agency in Les Cayes and Cap Haitien.

The urban bias of the Haitian commercial banks is a natural phenomena often encountered in undeveloped financial systems. Urban-based financial institutions have little understanding of rural clients, and rural lending normally requires investments in agriculture, a risky alternative under any condition. The Haitian banks are clearly unwilling to confront this risk. A four-year distribution of loans among economic activities illustrates a preference for manufacturing and commerce, with agriculture receiving an average of 1.28 percent of total lending.

Table 4.3
Loan Distribution of Haitian Commercial Banks by Sector

ACTIVITY	1991	1992	1993	1994
Agriculture	.90%	1.70%	1.24%	1.27%
Local industry	.15%	.01%	.04%	.01%
Manufacturing	31.73%	36.18%	37.54%	36.61%
Electric, gas and water	1.02%	.84%	1.14%	2.36%
Housing & public works	2.79%	1.65%	1.62%	1.23%
Wholesale & retail commerce	38.02%	34.98%	34.34%	28.97%
Transport & warehousing	2.16%	.81%	.96%	.38%
Insurance, land & services	1.82%	2.42%	3.53%	9.28%
Other Assets	21.41%	21.41%	19.59%	19.89%

Source: *Direction de la Supervision des Banques*

Port-au-Prince is the center of commerce and manufacturing in Haiti, and the concentration of loan portfolios in these activities can be partially explained by the absence of bank agency networks outside the capital. With the exception of a few areas on the northern and the southern coasts, rural economic activity is directed at subsistence farming and small business, unlikely targets for Haiti's banks.

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In addition to the small potential market, effective rural lending requires an outreach capability that is both costly to establish and often implies higher transaction costs for lenders. There is typically a lower average return on investments, a smaller transaction size, and a broader dispersion of potential clients about whom the banks know little. Most rural producers are also unfamiliar with complex loan application procedures, don't possess the same degree of collateral or guarantees found among urban borrowers, and have no credit history. As a result, banking policies, regulations and procedures tend to maintain an urban bias and restrict access to loans.

In 1987, a USAID-financed Agricultural Sector Assessment concluded that less than six percent of Haiti's 650,000 farm families had access to credit from the BCA, BNDAI, public and private regional development agencies, cooperatives and agro-industrial processors. Small farmers were totally excluded from the commercial banks and medium scale producers had but very limited access to government sponsored programs, many of which have ceased to function. The collapse of the government's Agricultural and Industrial Development Bank (BNDAI) and the closure of the Ministry of Agriculture's credit program (BCA) has virtually eliminated agricultural credit delivery in Haiti. Some very small credit programs are sponsored by NGO's and cooperatives, but these reach a very small percentage of the population.

The commercial banks are now the only significant source of credit in Haiti, but loans are highly concentrated among a small number of borrowers.

Table 4.4
Commercial Bank Loan Distribution by Size - June 1994
(Thousands of Gourdes)

Loan Size	No. of Borrowers	Total Amount	Loan Average
75,000 - 250,000	1,096	153,371.5	139.94
250,000 - 500,000	361	125,499.6	347.6
500,000 - 1,000,000	206	145,780.9	707.7
1,000,000 - 2,500,000	155	234,964.3	1,515.9
2,500,000 - 5,000,000	76	269,214.5	3,542.3
5,000,000 +	83	1,677,186.4	20,207.1
	1,977	2,605,963.2	1,318.0

Source: IDB Bank Assessment, December 1994

In June 1994, 83 borrowers received 64 percent of total outstanding loans with an average loan size of US$1.39 million. The total number of bank system borrowers (i.e., 1,977) is also extremely small for a country with an approximate population of 7 million. Interviews with local

bankers suggest they are actually competing among themselves for the same clients. This is one of the reasons the average rate of return on loans (between 14.1 and 15.5 percent in 1993) has been well below the Central Bank's interest rate ceiling of 22 percent and the 33 percent inflation rate.

The absence of competition among the commercial banks and the availability of profitable foreign exchange investments are two reasons cited for the small amount of domestic lending that occurs. However, it is likely that the interest rate ceiling and the high reserve requirements on deposits (e.g., an average of 46%) are also slowing the development of Haiti's commercial financial market. Several things typically happen when interest rates are controlled by policy makers:

- the small or "new" borrower encounters more restrictions to obtaining access to credit,
- the rate paid for deposits is usually low, as is the total volume of lending that actually occurs,
- the size of bank loan portfolios as a percentage of total assets does not increase and there is an excess demand for credit that will not be met,
- there is a greater concentration of loans among a small number of borrowers, and
- the larger, more traditional borrowers are generally the greatest beneficiaries of the controlled rates.

All these conditions characterize Haitian financial markets. The GOH is planning to remove the interest rate ceiling in late 1995, but the Director of the Central Bank has no plans to reduce the statutory reserve requirement, citing the need to control money supply to avoid fueling inflation. While perhaps a necessary macro-economic measure, maintaining extraordinarily high, unremunerated reserve requirements will not encourage more flexible nor greater commercial bank lending.

4.1.1 Savings Mobilization

Savings mobilization as a source of lending capital is not widely practiced within the Haitian banking system. Although there has been a 64 percent increase in domestic savings over the period 1991-94, this appears more driven by the need for a secure location to place one's cash rather than the rate of return. Interest rates for demand deposits range between four and five percent and those for term deposits between nine and ten percent. These are highly negative when compared to an inflation rate that is estimated somewhere between 30 and 50 percent. According to one banker, the average Haitian has no understanding of interest rates but feels more secure possessing a savings account. Furthermore, their desire to maintain deposit accounts is only "tolerated" by the banks, a likely reaction to the high legal reserve requirements and a usury law which places a ceiling on lending rates.

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Reserve requirements obligate the commercial banks to deposit a certain proportion (approximately 46 percent) of their individual deposits in gourdes and dollars with the Central Bank. These legal reserves appear to serve two purposes. First, they are the government's only effective mechanism for controlling money supply, and concomitantly, inflation rates. High reserve requirements limit the amount of money that circulates, restraining both lending and economic activity. Second, the Central Bank uses the legal reserves to extend loans to the Government to finance the fiscal deficit. Since Haitian banks receive no remuneration for the legal reserves deposited with the Central Bank, a portion of the government deficit is financed with zero cost funds.

When lending rates are controlled and legal reserve requirements are high, financial institutions not only ration credit, but they often discourage savers with low rates, poor service, excess paperwork and long lines. This is exactly what one encounters when entering a commercial bank in Port-au-Prince. There are few incentives for banks to engage in either deposit mobilization activities or an aggressive search for new loan clients. In December 1994, Haiti's commercial banks were highly liquid, however this is expected to change in 1995 as the economy opens up. If liquidity disappears, it is possible the commercial banks will become more interested in domestic deposits and savings rates may rise, but the high reserve requirements and the interest cap will slow the process considerably.

4.1.2 Lending Practices

There are three aspects to any loan: its size, the interest rate charged, and the non-interest terms of the contract (including collateral requirements, compensating balances, length of the loan period and terms of repayment). Banks normally adjust all three aspects for each potential borrower based on the perceived risks, credit history and the expected transaction costs associated with each loan. When you control the interest rate, you force the lender to change the non-interest rate terms or the size of the loan. The lender clears the market by changing the terms of the loan to eliminate certain borrowers, even if they are willing to pay a higher price. In part, this is what has happened in Haiti, but the situation is actually more complex.

In conversations with the Director of the Central Bank and representatives from the banking community, a consensus opinion suggests the banks will not increase lending even if the interest rate ceiling is eliminated. Political and economic uncertainty lead the list of reasons cited for the need to maintain tight lending practices. However, a number of other factors are likely fueling the reticence of the banks to lend.

First, Haiti's commercial banking system is relatively young, dating from the 1970s. At that time, the country was literally owned by a very small number of wealthy families who had close links to the government. Their wealth financed the start-up of all the Haitian banks and their business interests represented the only reasonable commercial investments to be had. Banking was merely another family business and there was little need to develop or use sophisticated deposit mobilization or lending methodologies. There has been little change in Haiti's banks since that period.

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Today, Haitian-owned commercial banks lack the skills to enter new, non-traditional investment markets. They have little experience with cash flow lending, internal rates of return and the wide range of other tools normally used for commercial and industrial finance in modern financial markets. Loan eligibility is determined by the amount and the type of collateral that can be pledged, with a preference for urban property and foreign exchange deposits to guarantee loan repayment. Those without such collateral are essentially eliminated from access to commercial bank financing.

During the embargo period, Haitian banks survived by investing in foreign exchange markets and making short-term, well-secured loans to known borrowers for import substitution and other activities not affected by the trade sanctions. These investments were extremely profitable when compared to the limited and less profitable investment opportunities among the broader Haitian private enterprise sector. The significant returns on foreign exchange transactions that supported the banks over the past two years are no longer available,[1] but there is little reason to expect increased lending. The perception of risk, the control of lending rates and the historical bias to limit lending to a small group of well-known clients makes it very difficult for the banks to consider other, possibly more profitable options.

Commercial bank reticence to provide financing to non-traditional clients is illustrated by the performance of the Central Bank's *Fonds pour le Developpement Industriel (FDI)*. The FDI manages a rediscount and guarantee facility to encourage commercial bank industrial investments. It also has a project preparation unit to help potential borrowers develop loan proposals for submittal to the commercial banks for financing. During the period 1981-91, the FDI co-financed 121 projects totaling 144 million gourdes. However, actual commercial bank participation in these loans was approximately 27 percent of the total amount borrowed[2], and 70 percent of that was often covered by an FDI guarantee.

Over the years, the FDI has incurred significant losses on the guarantee program, a situation which raises questions about both its analysis capability and the ability of the banks to make loans beyond their traditional risk frontier.[3] In a recent conversation, the FDI Director noted increasing difficulty obtaining commercial bank participation in new loans. This appears due to the availability of excess liquidity in the banking system and a desire for greater coverage by the FDI guarantee facility (now limited to 70 percent).

The banking system standards for collateral and/or other guarantees is particularly distressing for the small and medium scale businesses de-capitalized during the embargo period.

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[1] *Emergency Economic Recovery for Haiti, Report of the Joint Commission*, Interamerican Development Bank, ~~January 1995~~.

[2] *Le FDI Face a la Crise, Operations de Reescompte (1981-1991)*, Port au Prince, 1994.

[3] G.Kleiman, *The Haitian Financial System: 1994 Update and Critical Post Embargo Needs*, Inter-American Development Bank, December 1994.

Many are dependent on commercial financing for working capital and other investments but cannot meet existing collateral requirements. Others had mortgaged personal property and business assets to obtain commercial financing prior to the embargo, were forced to close, and are now unable to secure the new financing necessary to restart their operations. Widespread foreclosures have not yet occurred, but many viable industries will likely remain dormant until new financing and recapitalization assistance becomes available.

Finally, Haiti's legal system is outdated, dysfunctional and a serious constraint to the development of economy through risk-based trade and investment. A recent analysis of the legal and regulatory framework for trade and investment identified a policy bias against commercial litigants, insecure land tenure and an inability to secure debt with mortgages and liens as key factors inhibiting investment in the economy.[4] Haitian bankers are well aware of the high costs and the uncertainty of success in attempting to recover collateral through legal action. They sidestep legal problems by limiting lending to well-known clients who are either unlikely to default on loans or can easily pledge urban property and other liquid assets.

4.2 Non-bank Financial Intermediaries

Haiti has a variety of non-bank financial intermediaries (NBFIs) that possess a track record of successful lending to low-income borrowers. Most target micro and small-scale enterprise and have a relatively small number of beneficiaries, but the potential market is very large and NGO's can greatly increase the provision of financial services to Haiti's urban and rural population.

Haiti has one relatively large private development financing foundation (SOFIHDES), a smaller foundation designed to extend credit and technical assistance to the micro and small enterprise sectors (Haitian Development Foundation or HDF), a donor-supported credit union (Societe Haitienne d'Epargne et du Credit or SHEC), and a wide range of smaller non-government organizations (NGO's), cooperatives, credit unions and farmer associations that provide financial services to urban and rural communities around the country. Most are very small, undercapitalized and incapable of becoming effective financial intermediaries over the short-term, however, there are several which do possess programs that warrant support. This is particularly true of SOFIHDES. A review of the operations of SOFIHDES, HDF, and SHEC is included in Appendix A to this volume.

The low and middle income population of Haiti will not have easy access to the commercial banking system for a long time. Too much tradition and too many constraints must be elminated before this will occur. The situation suggests an important potential role for the NGO community for the foreseeable future. The assessment team believes the donor community should capitalize on the experience of the local NGO's and provide them assistance to expand outreach and help in becoming more financially self-sufficient.

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[4] *Haiti: Analysis of Legal and Regulatory Framework for Trade and Investment*, Nathan Associates, March 1995.

USAID/Haiti helped establish the Haitian Development Foundation (HDF) and *Societe Financiere Haitienne de Developpement* (SOFIHDES). Other non-bank financial intermediaries have received assistance from the European Union, the Canadian government, and other donor countries. The experience to date should be used to help expand and promote greater non-bank financial intermediation, but more care needs to be directed at institutional sustainability. With the exception of *Societe Haitienne d'Epargne et du Credit* (SHEC), all the NGOs visited by the assessment team have been established as foundations. They cite a high, unsatisfied demand for credit in the communities where they work and believe more donor assistance is the obvious solution. Existing Haitian legislation for the NGOs does not permit them to capture savings. Capital growth is therefore dependent on (1) NGO ability to attract donor assistance, (2) capitalizing net earnings in reserve accounts, or (3), obtaining access to commercial loans.

Over the short-term, donor capital appears to provide the only solution to shortage of capital for lending now faced by the NGOs. All currently have few earnings at year-end to capitalize in reserve accounts, and it seems unlikely they will quickly obtain access to commercial financing on reasonable terms. The donor community should consider providing new capitalization to the non-bank financial intermediaries. However, this should be closely linked to plans for reducing dependence on external funding.

4.3 Conclusions and Recommendations

There are no quick and easy solutions to promoting greater commercial bank financing of agribusiness and other small and medium-scale enterprises in Haiti. Historical political and economic problems have created a highly risk averse culture among the commercial banks. They restrict lending to a small group of well-known borrowers, base loan approvals on the amount and type of collateral that can be pledged, do not aggressively compete for market share, and ignore deposit mobilization as a potential source of capital. Haitian bankers cite the uncertain political and economic climate, the absence of a functioning legal system, and excessive government intervention (i.e., the interest rate ceiling and reserve requirements) as the primary reasons they don't pursue new clients. These are real obstacles that can only be overcome through a step-by-step process of judicial, political, economic and social reform. The Haitian government with support from the international donor community has begun this process. However, under the best of circumstances it will take many years to create an environment more conducive to increased commercial financing.

The goal of the Agribusiness Assessment was to identify immediate actions that can be taken by the donor community and the GOH to spark increased economic activity in agribusiness. The rationale is simple. In 1991, agriculture accounts for 28 percent of GDP and employed 74 percent of the work force. The three year embargo significantly reduced the importance of agriculture and related industries; however, increased employment opportunity and improved incomes in both rural and urban areas will result when labor- intensive processing and marketing businesses are again developed and expanded. Agribusiness is one economic sector that can be restarted relatively quickly if provided access to financing.

There are many viable Haitian agribusinesses that were forced to cease operation during the embargo. Owners possess the infrastructure, equipment and skills to restart but are unable to access new financing due to outstanding obligations or an inability to pledge sufficient collateral. Overcoming these obstacles will require capital and technical assistance to encourage Haiti's commercial banks to finance a recovery of the once blossoming agribusiness sector of the economy.

4.3.1 Operating or Working Capital Loans

Haiti's small and medium-scale business operators have always financed working capital and investment needs through a variety of sources, including personal savings, loans from family and friends, short-term supplier credits and very limited, commercial bank financing. The average business was thinly capitalized and commercial loans often guaranteed with personal property. The three-year embargo dried up the availability of financing from all sources, but it had a particularly devastating effect on the younger entrepreneurs who were unable to diversify their operations and were forced to close. Business assets such as processing equipment and transport vehicles were left unused or sold to meet short-term obligations, and working capital was consumed in meeting household and other day-to-day expenses. Owners no longer have the personal savings necessary to refinance their operations and need commercial financing to re-enter the marketplace.

Recent GOH and international donor efforts to encourage greater commercial bank lending for small and medium-scale enterprise have largely depended on the use of rediscount lines of credit and guarantee mechanisms. Guarantee and rediscount programs are financial mechanisms designed to increase commercial bank lending for specific economic activities or industries by insuring banks against loss of all or a portion of the resources loaned, or by permitting them to sell-off (i.e., rediscount) a portion of the loan amount.

The experience of the FDI program described in Section 4.1.2 suggests that few of the decapitalized Haitian agribusinesses will obtain commercial bank financing. The embargo reduced their ability to pledge real collateral and the banks cannot hold equipment liens nor factor receivables to guarantee loan repayment. A major restructuring of the FDI facility with World Bank support will occur over the next year, but this will not provide much assistance to the agribusiness sector over the short term.

For this reason, the Assessment team believes consideration should be given to establishing a short-term (i.e., 18-24 month), working capital loan or loan guarantee facility through a local financial institution. This is not a venture capital program for new business development. It is only intended to help reestablish existing agribusinesses that were profitable before the embargo and are now having difficulty obtaining the working capital needed to restart their operations.

All potential borrowers would need to undergo a diagnostic to illustrate the company's qualitative and quantitative history, present condition and future prospects. No significant

restructuring would be contemplated and the analysis work would be designed only to clarify the reliability of suppliers, market potential, repayment terms and the amount of short-term investment necessary to start-up operations. Collateral, including both equipment liens and receivables, should be sought to mitigate risk, and attempts should be made to leverage any donor resources with financing from participating financial institutions.

4.3.2 Debt Restructuring/Recapitalization

Some Haitian agribusiresses require both new working capital and debt relief before they can restart their operations. Owners had pledged personal and business assets to obtain commercial financing prior to embargo, and many had profitable operations before being forced to close. Having no business earnings for a three-year period, they were unable to maintain loan repayment and are now faced with unpaid obligations that obstruct their ability to obtain new financing. Debt restructuring is a complex activity and is not the solution for every Haitian agribusiness affected by the embargo. At the same time, it does offer the Haitian banks an alternative to the lengthy and costly foreclosure actions that would be required to collect delinquent accounts through legal action.

The assessment team believes consideration should be given to establishing a specialized debt restructuring and recapitalization program for those agribusiness enterprises that can demonstrate viable (i.e., profitable) operations prior to the embargo period and a significant investment of owner equity. The restructuring program could operate in parallel with the working capital loan window discussed in the preceding section, but start-up will be more time-consuming to permit completion of a series of tasks:

- An inventory of Haitian agribusiness firms is needed to identify the potential demand for debt restructuring and/or recapitalization assistance. The inventory should be accompanied by a snapshot of financial and other statistical information from each potential client outlining before and post-embargo conditions. Pertinent information may include the firm's historical performance, value and sources of liabilities, amount of owner's equity, value of various assets and the degree to which they are encumbered, competitive position and estimated market potential, and many other variables.

  The specific information required of each client can be determined once the facility is operating, but an indication of the size of the potential market is necessary to help define the scope of the financial and technical start-up costs and the demand for such a restructuring program.

- Marketing the restructuring facility to the commercial banks will be a necessary precondition to assess the potential interest in and support for such a specialized program. Many Haitian agribusinesses have outstanding obligations with several different financial institutions. To some degree, all must participate when and if efforts are made to restructure a client's obligations. Preparing a list of creditor institutions will help move the process forward and identify issues to arise once the program is initiated.

The Haitian Bankers Association may provide a good vehicle for determining the degree of support that can be expected from the banking community.

- Specialized technical assistance will be required to help develop the policies and work-out procedures to be followed, analyze each of the potential client firms, and guide the negotiations that will be required between creditors and borrowers seeking debt relief. The facility will need to complete a realistic evaluation of each company, determine whether a viable core business exists, and develop an operating plan that will assure repayment of past and new obligations without excessive risk. The object of the analyses is the formulation of a work-out plan in which both the agribusiness client and the creditor feel comfortable and willing to proceed with a refinancing program.

- Finally, some degree of financing will likely be necessary to encourage creditors to engage in negotiations. Borrowers in need of debt relief often require modification to the terms of unpaid loans (e.g., reducing interest rates and extending repayment periods) and an injection of new working capital to restart the business. More complex restructuring problems can also require a write-down of a portion of accrued interest, conversion of debt to equity, sale and lease back of assets, and other possibilities. In all cases, negotiation between creditors and borrowers is necessary. In particular, creditors must feel that their participation will not lead to increased loss. The ability to offer different guarantees, co-financing or other third party participation could help ease the negotiated settlement.

The team believes SOFIHDES offers the best possible vehicle for the debt restructuring and recapitalization program. SOFIHDES is more progressive than the commercial banks, it views itself as a development institution, has a good track record in lending, and is actively seeking new capital. SOFIHDES also has capital (albeit in foreign exchange investments) that could provide some degree of counterpart financing, it maintains close relationships with the banking community, has co-financed many different projects, and possesses the lobbying skills to encourage commercial bank participation. If offered start-up capital and the technical assistance necessary to initiate a pilot activity, SOFIHDES may find the challenge sufficiently interesting to participate.

4.3.3 Technical Assistance and Training

The two financing windows discussed in the preceding paragraphs are designed to mitigate the unsatisfied demand for short-term working capital from Haiti's agribusiness sector. Short-term credit will not finance the economic recovery of the country, but it may be sufficient to restart many viable enterprises that are now closed or operating at well below capacity. ~~Overcoming existing constraints (both real and imagined) to broader access to financial services~~ will require a long-term investment of technical and financial resources.

The assessment team believes the donor community should help Haiti's commercial banks consider new lending markets by exposing them to an array of modern techniques for risk

assessment, loan analysis and portfolio administration. Broad training and technical support should be offered to any of the commercial banks now interested in pursuing new lending opportunities. Topics could range from the basics to the more sophisticated tools, including cash flow and risk analysis, internal rates of return, budgeting and forecasting, capital structure, asset valuation, pricing and amortization scheduling, and many others. The newer banks (e.g., UNIBANK, and one being formed called METROBANK) are obvious candidates for such training, however, as Haitian financial markets become more competitive, interest may develop among the more established banks.

The most likely coordinator or administrator for such a training activity is the Haitian Bankers Association, a well-respected organization which provides a forum for open discussion of problems and possible solutions. The President of the Association confirmed member interest in obtaining technical training for bank staff, while admitting it is often difficult obtaining any consensus from the commercial banks.

Haiti is now undergoing a difficult transition to a democratic, market-oriented society. Social unrest and political instability will continue until the economy is capable of generating increased employment opportunity and improving the living standard of the population. The economic recovery of Haiti cannot depend upon the donor community alone and will require the active participation of the commercial banking system to mobilize local resources and channel investment to activities that generate a wide range of economic activity and employment.

There exists a unique opportunity to provide specialized training to commercial banks interested in pursuing new markets, including agribusiness and the micro and small business sectors of the economy. For example, one newly established bank (UNIBANK) is investigating the micro-enterprise market. It expects to sign an agreement with a local NGO *(Groupe Technologie Intermediaire d'Haiti)* during the month of April and initiate a pilot lending program for small entrepreneurs soon afterwards. UNIBANK representatives feel the program will provide them an opportunity to assess the potential for such lending as a commercial activity without incurring excessive risk. The NGO will deposit resources with the bank in an interest bearing account to guarantee 100 percent of all UNIBANK loans to the target group during the first year. The initial program will be limited to 300-500 borrowers, but if successful, UNIBANK is willing to leverage the GTIH loan guarantee and open a separate branch agency to specialize in micro and small enterprise lending.

While the interest rate cap remains, it's unlikely UNIBANK will be able to profitably lend to the Haitian microentrepreneur. However, the assessment team believes the UNIBANK example illustrates the potential for providing technical assistance and training to the commercial banks. Competition among the banks remains concentrated among a tiny group of borrowers, however, any opportunity to open the market and increase competition should be supported. Only through competition will the Haitian banks begin to develop and offer a broader range of financial services to attract new clients. UNIBANK's willingness to enter a new, very non-traditional segment of the market should be investigated and perhaps supported. It provides a

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small (albeit high risk) opportunity to break the traditional character of Haiti's commercial banks.

4.4 Proposal by Citizens Network /Agribusiness Alliance

Citizens Network was represented on the agribusiness assessment team by Mr. E. Morgan Williams. Mr. Williams has proposed that USAID establish a program to provide financial and technical assistance to Haitian agribusiness through banks which he has termed "Operation Jump-Start". His full report is reproduced in Volume II of this report. The four elements of his proposal are summarized below.

4.4.1 Working Capital Loan Guarantee Program

The working capital loan guarantee program would operate from May 1, 1995 to December 31, 1996. USAID would contract with one or more selected Haitian financial institutions to participate and perform services in the program such as loan origination, due diligence, loan approval, loan servicing, loan collection, etc. Participating institutions would receive technical assistance from USAID in agroindustrial loan making under element #4 of the Jump-Start program, the Agribusiness Volunteer Program (AVP).

In most cases, loans would be a working capital line-of-credit to small to medium agroindustrial businesses in order to finance future business operations, particularly operations that would generate business activities, employment opportunities, earning for small farmers, earnings from domestic markets, earnings from exports, earnings from increased utilization of agricultural inputs, and a positive cash flow and earnings for the agroindustrial enterprise in Haiti receiving the operating loan.

Loan criteria would be based on past business performance with complete understanding and empathy for the problems directly caused by the embargo, the reputation and business plans for future operations, especially those related to moving inputs to small farmers and buying products from them. The security would be cash flow from sales, accounts receivable, etc. that would be generated as a result of utilizing working capital line-of-credit. Other security measures could be taken if available and appropriate.

The working capital lines-of-credit for most businesses would range from $25,000 to $200,000. The precise limit USAID would want to set could be decided after discussions with potential borrowers and the participating financial institutions. USAID would issue the loan guarantee or letter of credit to the issuing bank, probably within the range of two-thirds to three-fourths of the loan total. The final percentage would be decided after further discussions with financial institutions. Payments on the operating lines-of-credit would be made as agreed upon in the loan document with all final loan payments to be made no later than December 31, 1996. The exact final date will be determined after further analysis.

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USAID would set the maximum loan total they would guarantee. If the guarantee facility from USAID was three-fourths, then USAID's exposure of $3 million could produce a total lending facility of around $4 million. USAID could guarantee the entire portfolio to a certain percentage and thus gain more leverage from the lender. Allowing the lender to be the first out should also generate more leverage. The final costs to USAID for this type of window would be in the range of $500,000 which is a significant and effective leverage of USAID funds, far beyond what USAID now attains in most programs. The program would have a "sunset" clause included. Hopefully, by December of 1996 or soon thereafter, the businesses would have recovered enough to finance themselves or to qualify for the OPIC facility or normal bank loans.

4.4.2 Trade Credit Insurance Program

This program would finance importation from the U.S. of badly needed agricultural inputs such as fertilizer, agricultural chemicals, seeds, small machinery, and animal feed ingredients. Since there is no ExIm Bank facility for Haiti which could insure U.S. exports, it is proposed that AID undertake to guarantee payment to U.S. exporters. ExIm would act as agent for AID, following its regular procedures for insuring trade credits, and would be reimbursed by AID for its administrative costs. This would be similar to a new program just inaugurated by AID in Ukraine, and to programs AID operated in Central America for many years. It is proposed that AID share the risk with exporters, covering perhaps three-quarters of the risk. It could be in operation by July 1955.

USAID also created a similar trade credit insurance program (TCIP) in 1984 in Central America which ran about eight years. The implementing agencies were USAID, contracting with USEXIM bank and Central American Central banks. Countries participating include: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. At the end of September, 1992, cumulative confirmed letters of credit had exceeded $1 billion since the program began. A $20 million reserve fund for program claims was established through a transferring agreement with EXIM, and it did not experience defaults required payments from the reserve. The USAID reserve was de-obligated. A TCIP program for Haiti would be smaller.

Risk sharing arrangements with the private sector would maximize the total amount of export financing available for appropriated U.S. government funding. The U.S. government will not be responsible for the portion of transactions which the U.S. supplier agrees to bear. In the event of default, the federal financing account would cover the exporter's losses on that portion of the transaction which would be insured under this program.

The credit risk would probably be shared two-thirds by U.S. government, and one-third by the U.S. supplier depending on further discussions with potential participants by the USAID Team. The U.S. government needs to cover enough credit risk to generate substantial participation in the program. With a two-thirds public sector/one-third private sector participation on the total value of contracts, USAID could with $5 million produce a $30 million program. The impact of the program would be to create additional export and business interconnections with the U.S. Haiti needs strong business partners in order to recover and move ahead rapidly.

Since there is no EXIM Bank in Haiti, USAID would probably contract with one or more financial institutions in Haiti to work with EXIM in application, processing, credit analysis, and due diligence on the Haiti buyer. Participating institutions in Haiti could receive technical assistance under the Agribusiness Volunteer Program described below. In the meantime, a financial institution within Haiti needs to be created to work with EXIM and establish normal trade relationships, which are absent at this present time.

The trade credit insurance program would be in operation for two years, from July 1995 to July 1997, unless additional time was approved by USAID. Trade credits would be extended from one to five years depending on the product exported.

4.4.3 Food System Development Program

Under this program, U.S. companies investing in Haiti could apply for food system development grants from AID. Grants could not be used to pay for development of the core business being undertaken by the U.S. firm and its partner, but could pay for activities beyond what would normally be undertaken, such as working with small farmers who supply the enterprise with raw material to improve quality, or helping to strengthen farmer associations and farmer-owned supply and marketing cooperatives. Grant funds could also be used to import seeds, seedlings, and other inputs. To qualify for the grant, the U.S. company would have to be investing $2 or more in Haiti for every dollar of grant funds. Grants would most likely be in the range of $100,000 to $500,000 and could be utilized over a period of three years or so, depending on the length of time established by AID for the program. The program would be administered by an AID contractor.

4.4.4 Agribusiness Volunteer Program

This program would provide technical assistance to Haitian agro-industrial enterprises who receive loans under the working capital loan program, or who benefit from the trade credit insurance program. It is proposed that AID design and contract with an Agribusiness Volunteer Program which would provide the services of 50 agribusiness volunteers per year over a three year period. Volunteers would be senior or mid-level managers, senior technical personnel, or independent farmers who would agree to spend three or four weeks in Haiti, though some would be needed for longer periods. Haitian agribusiness firm participating in "Operation Jump Start", including commercial banks and non-bank financial intermediaries, exporters and processors of food products, farmer organizations, and input suppliers, would be able to request the services of specialists. A program of this magnitude would cost AID around $1 million under contracting procedures such as those used on other programs in the past.

5. INSTITUTIONAL DEVELOPMENT ISSUES

5.1 Farmer Organizations

5.1.1 Introduction

Linkages between agribusinesses and producers are weak in Haiti. The Haitian agricultural sector is overwhelmingly represented by small peasant producers. Large tracts of land are rare. Typically, holdings are fractured into very small parcels with varying degrees of security of tenure. Total land holdings of the average farmer are between one and one and a half hectares. Because producers reduce risks by producing a wide range of products, and because production resources are limited, output from any one crop tends to be small. For this reason, it has been difficult for small producers to sell directly to agro-industries who typically require large quantities of a crop either for processing or the export market. Instead, agribusiness enterprises rely on a large number of dispersed sources of supply that are collected through various layers of marketing agents.

The situation described above applies to export crops such as coffee, mangoes, essential oils, sisal and cocoa. Some crops, such as sisal, are better explained as a "gathered" crop since there are few new plantings of sisal and buyers do not purchase from people who actually own the crop. Coffee, cocoa and mangoes, on the other hand, are often assembled by several levels of middlemen and finally delivered to the exporter. The lack of linkages between agribusiness and producers sometimes means that farmers are not given economic incentives to produce or improve quality. The lack of linkages is particularly serious when improved techniques either in growing, picking or other production-related innovations are needed to improve quality or assure quantity.

Cooperatives and associations can play an important role in agribusiness. They can help to increase interaction between buyers and producers while increasing communication in general. Cooperatives can address crop assembly and marketing problems by grouping producers to deliver quantities required by processors. Credit channeled through groups of farmers can be more effective, especially when collateral is absent. Cooperative groups can also enhance competition by providing farmers with an alternative to dealing with middlemen. Extension and training for small farmers is much more efficient when provided through groups.

In Haiti, cooperatives or associations have mostly been organized around coffee and cocoa and are aimed at forming direct marketing links between groups of producers and the international market. The current Inter-American Institute for Cooperation in Agriculture (IICA) project is relying on the direct linkages of producers and their US buyers to motivate farmers by rewarding higher quality with higher prices. Without this direct linkage, coffee producers are not rewarded for quality.

5.1.2 Coffee Cooperatives

Cooperatives have existed in one form or another since 1930, yet momentum for the operation of coffee cooperatives occurred in the mid-seventies through the eighties. Although difficult to confirm, coffee exporters allegedly divided up the country and set prices so that, in effect, there was little competition.[29] Cooperatives sought to increase their bargaining power by, in some cases, operating washed coffee facilities, marketing members' coffee to exporters, and/or selling dry processed coffee to exporters. During this period the cooperative movement received substantial support from NGOs, and donors such as the UN, USAID, and CIDA . Although not all were officially recognized by the Haitian Government, in the late eighties there were 80-100 cooperative organizations marketing coffee. Many of these cooperatives were also engaged in other businesses such as supplying inputs or the storage of grains.

Cooperatives Cafeieres d'Haiti. The coffee cooperatives eventually established a national structure, Cooperatives Cafeieres d'Haiti (CCH). Final coffee preparation and export was their main role. CCH owned and operated a coffee processing facility with substantial capacity, and while quality was rewarded with higher prices, the member cooperatives did little to encourage the production of washed coffee. With donor assistance they extended marketing credit and provided management education. The provision of market information was also an important element of their program and the cooperatives had a network of shortwave radios throughout the country. The producers' share price rose during this period due to the elimination of export taxes and an exporter's need for foreign exchange for their other business activities. However, it is probable that even though CCH captured only 3-5% of the market (6,000 to10,000 bags), cooperative activity led to an overall higher share price for the producer.

CCH, facing financial difficulties, closed their processing facilities and ceased exporting in 1991. The problem stemmed mainly from member cooperative marketing loan defaults and speculation by CCH on the international market. CCH still exists but its only activities involve recovering loans from cooperatives to repay outstanding bank loans. To date they have fully paid the BNC loan (approximately $400,000) and are paying back the cooperative loan guarantee fund, the mechanism that guaranteed part of their credit. CCH estimates that it will be two to three years before they will be in a position to start activity again.

Regional Cooperative Unions. Regional Cooperative Unions exist in the North (Cape Haitian), the Southeast (Jacmel) and the South (Chardonniere). The Union in the south existed long before the national federation (CCH), whereas the other two were organized later.

A brief examination of Union des Cooperatives de la Region Sud (UNICORS), illustrates some of the institutional weaknesses of the coffee cooperative movement in Haiti. UNICORS was at one time a thriving regional union of eight cooperatives whose primary activity was coffee marketing. The development of member cooperatives began in the early 1970's with assistance

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[29] Stephanie Seguino, *The Haitian Coffee Market: Export Tax Reduction and Other Issues of Market Competitiveness*, July 1985.

of several donors and the guidance of the Oblate Fathers. UNICORS was conceived as a service organization; profits from its business activities are not distributed to members but are used to expand services to member cooperatives. In the past, cooperative services have included the coordination of produce sales, especially coffee, group purchasing of agricultural inputs and essential household products, low interest loans (3-4%) to member cooperatives for cooperative-level grain storage, a transport service, a type of social insurance scheme to provide assistance for members with emergency financial needs, the operation of a guest house and technical assistance activities for improving cooperative accounting and coffee production. UNICORS has had a principal role as an intermediary between various donor organizations and the farmer population. They have received assistance from the United Nations (FENU and UNDP), the World Food Program, the ILO, CECI (Centre Canadien d'Etudes et de Cooperation International) and USAID.

Until the mid 1980's UNICORS was mostly successful in providing services to member cooperatives and most cooperatives were at least break-even operations. An important success of UNICORS was the higher portion of FOB price that their farmers received for coffee as compared to non-cooperative members. However, in the mid-1980's, with the falling coffee prices, UNICORS and the cooperatives started to experience severe financial problems. It is reasonable to assume that with falling international coffee prices and falling farmer income, the members viewed the cooperative as a buffer against their individual loss of coffee income. During this period the cooperatives and UNICORS purchased coffee from members and, soon after, the international market price fell dramatically. UNICORS did not sell this coffee for two years and when they did, it was at a large loss. Cooperatives who had borrowed from UNICORS could not pay their loans. Thus, although farmers received a reasonable (high) price for their coffee, the cooperatives and UNICORS lost money, making it difficult and at times, impossible to continue the cooperative marketing of coffee.

A similar phenomenon occurred during the embargo for cooperative storage activities. Typically cooperatives would borrow money from UNICORS to purchase and store food crops such as corn and beans at harvest time to be sold later during shortage periods when prices could be four to five times as much. During the embargo, cooperatives borrowed from UNICORS and purchased corn and beans from their members at prices far above the market price, even during periods directly preceding a new season. Discussions with UNICORS revealed that because the variation between purchase and sales price in the previous year was immense and indeed profits were made, farmers expected to be paid a price that included projected profits immediately. Once again because of the difficult times and farmers' shortage of cash, they looked to the cooperative to provide relief from their decreasing income. The result is the decapitalization of UNICORS.

Today UNICORS is a shell of an organization. Discussions with the President and other members of UNICORS indicated that few feel that UNICORS is capable of providing anything to its members due to its severely decapitalized state. Additional donor funds were seen as the primary answer to jump-starting UNICORS activities again. There are still nine members of UNICORS (5 cooperative and 4 pre-cooperatives). Although it has been five years since UNICORS has done any coffee marketing, UNICORS claims 10,000 individual members. Most

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grain storage loans from UNICORS have ceased because cooperatives either owe for past seasons or cooperatives have refused to pay their debts in favor of keeping the fund at the cooperative level for future use for grain storage.

Although UNICORS is not presently involved in coffee marketing, the president sees some lasting benefits from those days. In the past farmers would be obliged to sell to *speculateurs* at a very low price because of the need for cash. When UNICORS was involved in coffee marketing, it mainly marketed through its national union (CCH) and farmers eventually received almost 80% of the FOB Port-au-Prince price. Since UNICORS became relatively strong, there are few exporter representatives in the field. However, according to the president, farmers have diversified and become better at planning cash needs so that they don't have to sell coffee "on the bush" and can wait for better opportunities to sell their coffee.[30]

The collapse of coffee marketing and grain storage activities at UNICORS are two examples that represent the main institutional weaknesses of the coffee cooperatives. The lack of a sense of individual member ownership, the general absence of a business orientation and lack of sufficient management capacity all contribute to very weak cooperative institutions.

5.1.3 IICA and NGO Activities

The Inter-American Institute for Cooperation on Agriculture (IICA). The USAID funded Coffee Revitalization program which is implemented by IICA focusses on the linkages between increased coffee production, improved quality, and increased income through more advantageous market arrangements. The project responds to decreasing coffee production with the introduction of improved coffee varieties, particularly those that are rust-resistant, and promotes the processing of the higher-value washed coffee.

Washed coffee is promoted in two ways. First, small washing stations are built by the project and training for improved processing is provided. Second, the project is in the process of creating a market relationship between Haitian coffee farmers and US specialty (gourmet) coffee buyers. This price incentive should encourage greater production as well as better quality production.

A fundamental aspect of the project is the participatory approach. Since 1990, IICA has worked with the coffee farmers in their two areas of intervention (Jacmel and Beaumont), to help them in the organization of groups, associations and most recently a federation (Federation Cafeieres Natives) of the 25 existing associations. All management responsibility for washing stations, including the purchase of coffee cherries, is currently in the hands of the associations. The federation will be the farmers link to the international market through a sales agent who is in the process of locating buyers for the Federation's coffee. The project has addressed the lack

[30] During this discussion, the president pointed out that many farmers now liked to sell unhulled coffee (cafe coque) since the more processed the coffee the more exact the weight. Farmers obviously feel that they can be more successful in getting a better price when weights are less sure and they therefore have more room to bargain.

of credit access through a guarantee fund established with the Haitian Development Foundation. Associations have received credit for washing station operations, including coffee cherry purchases, and for the supply of inputs, especially fertilizer. This is the first year of this credit arrangement and it is still premature to evaluate its effectiveness.

Thus far the Coffee Revitalization Project has been quite successful in organizing farmers and training them to produce quality coffee. However, the results cannot be fully evaluated until marketing actually begins, the effects of increased prices are realized by farmer participants, and the reaction of farmers is witnessed, presumably by increased coffee plantings and increased use of washing facilities to prepare coffee. The capacity of the nascent coffee associations and their federation to manage their organization and especially international marketing is probably the most important aspect of this project. The rest of the private sector (other coffee exporters) do not seem to be interested in purchasing well prepared washed coffee that can be sold at a premium on the international market. Discussions reveal that some exporters do not feel that planters can consistently produce a quality product. These circumstances force coffee producers to go directly to the international market.

COHAN/BAGE (Comite de Cooperation Haitiano-Neerlandaise-Bureau d'Activites Generatrices d'Emplois). COHAN/BAGE, a Haitian/Dutch NGO, is engaged in a wide range of activities in rural development, health and employment generation. One of their commercial activities is the final preparation and marketing of cooperatively marketed coffee. Since 1991, COHAN/BAGE has rented facilities that belong to CCH and exports primarily washed coffee to Europe. They are an alternative marketing (not-for-profit) organization, selling some portion of cooperatives' coffee through the *Max Havelar* organization in the Netherlands, which arranges sales with buyers who are willing to pay more for coffee from developing countries. Cooperatives are able to receive up to 50% more for their coffee through this arrangement when world coffee prices are low. However, access to this sales channel is limited. On average COHAN/BAGE exports 5,000 bags of washed coffee per year. Although COHAN/BAGE is not a cooperative organization, end of year bonuses are paid to cooperatives who sell to them.

COHAN/BAGE works almost exclusively in the coffee areas surrounding Thiotte and Jacmel, providing organization and management training and technical assistance to cooperatives as well as some assistance to improve coffee quality. It also produces corn and bean seed with the participation of cooperatives. Production is contracted to these groups, and selection and treatment are done at a central warehouse. Recently, COHAN/BAGE has arranged contracts with the FAO to produce seed and will continue seed production in the areas that it works.

5.1.4 Cocoa Cooperatives

Cocoa cooperatives were revitalized with the assistance of Mennonite Economic Development Association (MEDA) in the late 1980's. MEDA was successful in offering an alternative to the traditional *speculateur* dominated cocoa marketing system by establishing direct linkages between a US importer (Hershey) and the local cooperatives. MEDA played an important coordination role in the scheme, under which Hershey provided technical assistance in

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processing and introduction of improved cocoa varieties. In addition to assistance at the local level, MEDA played the role that a national federation might by administering revolving funds for the cooperatives, which in turn on-lent to members. It made the export marketing arrangements, organized cocoa assembly and shipped the cocoa. The formation of regional and national organizations to take on these roles was in progress when MEDA, like many other NGOS, ceased activities after the 1991 *coup d'etat.*

The years of the defacto government were difficult ones for the cocoa cooperatives. Persecution from local officials made it impossible to meet, and the embargo cut the cooperatives off from their exclusive U.S. market Already fragile organizations, some cooperatives did not survive. Others, unable to market their cocoa, turned to other types of businesses, such as storing grain. Before 1991 there were eleven cocoa cooperatives. Now there are a total of six, three in the Grand Anse and three in the North. Cooperatives sell to two major exporters (Weiner in the Grand Anse and Nouvella in the North) but still benefit more when they sell to *speculateurs*.

Discussions with MEDA indicate that the cocoa cooperatives formerly marketed one-third of Haiti's production. Cooperative members received double the local price and approximately 70% of FOB Port-au-Prince price. Currently cooperative members receive less than 50% of the FOB price. Predictably, cooperatives that survived the embargo were the biggest, best managed and those that had the greatest capital base. Although MEDA will not be directly involved in assisting cocoa cooperatives in marketing, it will soon start a rural credit union program in the areas where the cocoa cooperatives operate. MEDA staff voiced concerns to us about the past marketing strategy of the cooperatives and think that developing stronger relations with exporters might be better in the long run for cocoa cooperatives.

5.1.5 Other Cooperatives and Associations

The number of cooperatives, groups, and associations throughout the country is unknown. What is certain is that they are numerous and are involved in a wide variety of activities. Groupings that have a purely economic interest do not often seem to be the link between food crop production and markets. This is most probably because the "Madame Sara" rural assembly and marketing system, historically based on the pattern of marketing food crops by women, helps to assure that products reach the market at a low cost.

A notable exception to this are groups that purchase and store staple grains just after harvest. The grain is usually kept for seed or made available for purchase to members when prices are high and the family granery has been depleted. Another area where there is significant collective commercial activity is the purchase of inputs, primarily seeds and fertilizer. This occurs throughout the country but especially for those crops that require larger quantities of inputs such as rice and vegetables.

Association des Planteurs de la Vallee de l'Artibonite. This association is made up of 200 groups and smaller associations with a total membership of about 3,000. It is one of many similar associations in the Artibonite. Most members are rice producers and off season vegetable

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producers. The association includes both larger farmers (20 carreaux and above) and smaller farmers (1 parcel)[31]. Few do cooperative marketing of their produce, preferring to sell through long standing relationships with women wholesalers known as "Madame Saras". According to members, rice is almost always sold immediately due to the need for cash, but is purchased for consumption throughout the year. Even where storage is available, immediate sale for cash is generally preferred. Members indicated that they had no desire to take on a group marketing function. Transport costs, dangers of traveling and the unknowns of Port-au-Prince are all factors contributing to this decision. Members seemed to have no market information, not even rice harvest times in other areas of the country.

This Association purchases fertilizers, tools and seeds as a group and holds meetings with agricultural technicians from time to time. There are significant savings for the farmer by purchasing inputs as a group. Fertilizer prices were quoted at $14 when purchased as a group versus $25 per bag when purchased individually.

This Association seems to show some organizational and management skills since they are able to collect funds from members to purchase and distribute their fertilizer. However, it is clear that these skills need to be reenforced substantially. It is also a positive example of smaller and larger farmers working together. The Association has a very positive response to the activities of the Agricultural Producers Association (APA) of Haiti (see Section 5.3 for discussion of this organization), and expressed the desire to continue with APA activities so that they may have greater communication with input suppliers and markets.

Groupe Haitien de Recherches et d'Actions Pedogogiques (GHRAP). GHRAP also works in the Artibonite Valley. This NGO works with 15 farmer associations with a total membership of 6,100 farmers. They assist the associations to organize and develop their management capability. GHRAP, with donor funding from the UN and the European Union, works to help groups to organize input delivery, extends credit for inputs, and markets rice. Rice serves as collateral for the credit provided in this program. GHRAP appears to follow sound management practices. Participants spend one year in training activities before credit extension actually takes place. Rice is purchased by GHRAP through a contract with a large buyer in Port-au-Prince so that for farmers it is the same as if they were dealing with "Madame Sara" to sell their produce. The program is also unique in that they have started to link input supply dealers with farmers through extension activities.

Association Haitienne pour la Maitrise des Eaux et des Sols (ASSODLO). ASSODLO is an NGO that works with groups of farmers to access inputs and produce high quality seeds. They have worked primarily in high production vegetable areas such as the Foret de Pines, Oreni and Kenscoff. The groups have access to a revolving fund that consists of funds from the village groups as well as from outside sources. ASSODLO has been especially successful in the production of high quality potato and bean seeds and will soon begin the production of yam seeds

[31] 100 parcels = 1 carreaux and 1 carreaux = 1.25 hectares

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as well. This has the potential of replacing $5 million of imported seed. Due to the monopoly situations created by transporters for vegetables in some araeas, ASSODLO intends to help groups in this area as well.

5.1.6 Contract Farming

Contract farming is another way that direct linkages between producers and agribusiness enterprises can be established. The advantage of contract farming for the farmer is that he has a sure market for his output, while for the processor or exporter it can provide access to a crop produced to specifications without having to be directly involved in the complications of crop production and access to land. Experience with contract farming in Haiti has been limited and has had mixed results. The three main crops involved include tomatoes for the SHAISA processing plant, Chinese and winter vegetables produced for export by the COPRAGSA enterprise, and corn/bean/rice seeds. .

Contracting farmers to produce seed has probably been the most successful of the three examples. This is because traditional grain crops are already part of the small farmer's repertoire of knowledge and less technology transfer was required for production of seed. There is currently no contract growing of tomatoes or vegetables, both ventures having ceased during the embargo. Growing vegetables for export present a greater challenge. The improper use of inputs, especially pesticides, may damage the crop and leave residues which make it impossible to pass U.S. entry regulations. Thus far, contractors have had difficulty in transferring this technology, but also faced the problem of diversion of the crop by farmers to local markets when prices were higher.

5.1.7 Summary and Recommendations

Farmer cooperatives in Haiti have been formed for the purpose of marketing crops and for the purchase and distribution of inputs. Other types of groups serve a variety of purposes which can include credit, consumer supply or social services. With few exceptions the major weaknesses of farmer organizations are:

- over-emphasis on social agendas,
- general absence of a clear business orientation,
- lack of a sense of individual ownership,
- weak management capacity,
- weak capital base and in some cases severe decapitalization, and
- dependency on outsiders and outside organizations particularly to start organizations and for financial resources.

The general state of poverty and consequent low opportunity costs of producers, a poor transportation system, lack of communication, cultural patterns that leave small farmers encumbered by debt -- all put farmers at a strong disadvantage vis-a-vis other market players.

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These problems create an atmosphere where cooperatives and other types of farmers groups are generally seen as a way to help level the playing field for small producers.

Years of experience with cooperatives and farmers groups have produced some success stories that can be built upon. Examples include livestock savings clubs, successful cocoa and coffee cooperatives, "Madam Sara" networks, and cooperatives that have successfully produced seeds and stored grains. The key to their success has been the overall focus on business, profits, and returns to members. There are also cooperatives such as CCH which are decapitalized but are working their way back to financial health.

Assistance should be provided on a long-term basis to farmer organizations with a common business interest, such as the purchase and distribution of inputs or the marketing of a specific commodity. This assistance could be provided in the short-term by a specialized international organization working with Haitian NGOs which would maintain the necessary long-term effort. Technical assistance and training would assist groups to become viable business enterprises that are totally self-managed. The primary emphasis of this approach is on clear group business agendas, reliance on the group itself to carry out all activities (not outside donors), and the development of the expertise of group leaders to run democratic private sector organizations.

5.2 Public Institutions

5.2.1 Research and Extension Services[32]

The institutional capacity of the Ministry of Agriculture has been weak for many years. Although there are plans to change the structure of the Ministry[33], it does not currently have the resources to deliver extension services to farmers and conduct research. It has concentrated its limited resources on traditional food and export crops and therefore has little capacity in non-traditional areas, such as vegetables or exotic products. This constrains the ability of farmers and agribusinesses to learn how to grow new and improved crops -- or even to increase the productivity of existing agricultural production. Transfer of new technology must therefore come from abroad from donor-funded technical assistance or through agribusiness joint ventures with foreign firms. In fact, this is one of the main advantages Haiti can derive from promotion of foreign investments which reach back to production through vertical integration.

Regional Development Organizations (RDOs), such ODVA fall under the leadership of the Ministry of Agriculture also. Most RDOs were established to implement multilateral bank-funded projects. Although they might be able to provide valuable extension services to farmers,

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[32] The terms "research and extension" as used here can also be referred to as "technology transfer and utilization services".

[33] The Ministry of Agriculture already has written plans for restructuring of the Ministry. The FAO is also helping to define the role and organization of the Ministry.

they too are restricted by the lack of funding and local decision making. Discussion with ODVA in the Artibonite indicates a payroll of 300 employees with few activities. One activity they undertake that is essential is the production of rice seed.

Various NGOs and international organizations attempt to fill the research and extension void. As previously mentioned IICA has a coffee revitalization program. This is the country's only concerted effort to improve coffee varieties and increase coffee plantings. Since its establishment in 1985, the Organization for the Rehabilitation of the Environment (ORE) selected products for applied research on the basis of their marketability by peasant producers.

ORE has played a large role as a supplier of trees and hedgerow materials for conservation efforts, worked with new and improved mango (grafted) varieties as well as other fruit trees, and tested and extended improved corn and bean varieties. They have a proven research and extension capacity that is focussed on crops of immediate interest to Haitian producers. Many NGO's are involved in applied research and extension for different crops throughout Haiti, such as CARE, PADF, and ASSODLO. The Donor support to NGO applied research and extension activities have led to a private sector, demand driven approach to extension.

Input suppliers have done little to provide extension services to producers. One reason is the low utilization of agricultural inputs, especially fertilizer. As described in Chapter 3 of this report, input suppliers import fertilizer, seeds, and crop protection chemicals and distribute them through agents around the country, but have little capacity to provide technical advice in their utilization. Facilities for soil testing are also lacking. There are, however, isolated examples of fertilizer distributors collaborating with project activities and participating in extension activities. Examples can be found especially in the Artibonite, where input use is the highest in the country. We believe that, with assistance, input suppliers could build a capacity to provide limited extension services to farmers.

5.2.2 Market Information Services

No market information services currently exist in Haiti. No government agency receives international price information and there is no system to collect and disseminate local wholesale or retail prices. This situation severely constrains decision-making at all levels of the agricultural marketing chain. While exporters and larger farmers have access to international markets, smaller producers do not. Market information would inform producers of prices for products on the local and export markets, help producers obtain better prices for their products by improving their bargaining power, and help farmers to make informed decisions concerning how much to sell and when and where to sell. From the buyers point of view, market information improves ~~sales in terms of quantities and regularity of supply~~.

An agricultural market information service (MIS) should be established after a proper feasibility study is conducted. Such a study would address the following issues: scope of commodity coverage; price data collection and dissemination strategies, including frequency of

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price data collection and reporting and choice of media (radio, newspaper, others); which prices to report (producer, wholesale, retail, export); and institutional affiliation, staffing, and technical assistance and training needs. It would also be important to review lessons learned from previous attempts to set up a market price information system in Haiti[34], and from experience in Nicaragua and other Latin American countries. Current USAID/Haiti experience with price data collection in the context of its early warning system is also an important resource for establishing data collection and dissemination modalities.

While it is beyond the scope of this agribusiness assessment to make definitive recommendations about the specific functions of the MIS, the following principles should guide its design.

First, the institution selected for housing the MIS should be viewed as impartial; otherwise the credibility of information disseminated may be called into question.

Second, if an existing body is chosen, a hard-headed assessment needs to be made as to whether widely available price information is actually in the interests of its constituents. For example, large and medium-scale commercial enterprises tend to dominate agricultural producers associations in Haiti. Some members are also exporters, importers, or buyers of local producer for domestic consumption. As participants in the modern sector, it is fairly easy for them to obtain information on local and international prices on an individual basis. For some commodities for which there are only a few buyers, they may collude on prices paid to local farmers. Arguably, such enterprises would have little interest in improving market price information for small farmers -- in effect, increasing small farmer bargaining power and thus directly conflicting with their commercial objectives.

Third, the MIS should start small and extend its activities over time. At first, only a handful of homogeneous (i.e. easily standardized in terms of quality and volume) and widely traded commodities should be covered. Grains (rice, maize, sorghum) tend to be easiest, tubers and plantains a bit more difficult because of differences in quality and freshness, and certain fruits and vegetables most difficult.

In addition, prices should initially be collected in only a few major urban markets (Port au Prince, Cap Haitien, and Les Cayes), and probably at the wholesale level. This could eventually be extended to more markets with prices at different levels of the marketing chain. Also initially, the MIS would report prices on a weekly basis, eventually increasing frequency to two to three times per week or even daily. Radio is the best means of communication, especially for daily prices, although weekly prices and trends could also be reported in newspapers.

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[34] In the 1970s and 1980s, an agricultural market price information system functioned in Haiti. Since 1991, a Monitoring Unit within USAID has been publishing a monthly (later bi-monthly) Monitoring Report that includes market price data for a wide array of food commodities and charcoal in three Port au Prince markets and ten provicial markets.

Unfortunately, there does not currently appear to be any institution that is a logical place to put the MIS. Possibly a semi-autonomous public institution should be established -- probably under the aegis of the MARNDR. As a semi-autonomous agency, the MIS would have greater flexibility to hire and fire staff and set salary levels than a body subject to civil service guidelines. In addition, if revenue-generating activities were developed (sale of publications, advertising), the agency could retain these funds for its uses -- rather than being required to return them to the treasury.

5.2.3 Training

Expansion of agribusiness is greatly facilitated by education and training in both agriculture and business management. In Haiti there is university level education in agriculture and there is some training in business management. However, there are few facilities for training in agriculture for the thousands of small-scale producers. Likewise, Haiti offers little in practical training in business administration for lower and middle level managers.

In our view, MARNDR should begin now to develop the capacity to provide technical assistance and training to agricultural producers, accompanied by the supply of plant material, beginning with growers of coffee, mangoes, and citrus fruit for the essential oils industry. Inasmuch as work of this kind is already being carried out by IICA on coffee, ORE on mangoes, and essential oil processors on limes (distribution of seedlings), it is our recommendation that the Ministry initially work in cooperation with these groups and expand on programs already begun. Their experience can provide a valuable base on which the Ministy can build much larger programs for the whole country.

For personnel of agribusiness firms, we suggest connecting processors and exporters of specific commodities with their counterparts in the USA and/or other countries. This can most effectively be done by pairing Haitian trade associations or producer groups with specialized groups in the U.S. While we recommend that this be essentially a private sector activity, MARNDR could help by providing a forum (including conference facilities) for the following kinds of training and information transfer types of activities:

- An expert from the Specialty Coffee Association in the U.S. could conduct a seminar in Haiti on producing and marketing specialty coffee.

- Haitian exporters of cocoa could be encouraged, and perhaps assisted, to attend an annual meeting of the Cocoa Merchants Association.

- Experts from the USA and the Dominican Republic could conduct a national seminar on the foliage and cut flower industries.

- The Produce Marketing Association or the United Fresh Fruit and Vegetable Association could prepare a training course on producing fresh fruits and vegetables for the U.S.

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market. This could be presented in Port-au-Prince and then packaged so that one or more local organizations could present it in other parts of Haiti.

- USDA could be requested by USAID/Haiti to conduct short courses for vegetable producers in control of pesticides and how phytosanitary inspections are conducted in the U.S.

- The Food and Drug Administration (FDA) could be requested to conduct seminars for food processors in good manufacturing practices, process control, and HAACCP procedures.

These programs could be conducted under the auspices of a program or project established by a donor to increase agricultural exports from the country.

5.3 Professional Associations

A variety of associations and chambers exist in Haiti or in are in the process of formation.[35] Interviews with members and employees of these groups indicated that there is a great deal of duplication of membership and objectives among the groups. There is also some indication that members have conflicting ideas concerning goals and purposes of the various groups. In the agribusiness area there are four Chambers of Commerce and six associations that are currently recognized, some of which are active and others are in the process of revitalization.

The Chamber of Commerce and Industry is the oldest private sector organization in Haiti. Its role is to act as the umbrella group for all private sector groups in Haiti. Because the Chamber was created by Francois Duvalier and apparently used for political reasons in the past, it has not been taken very seriously. During the embargo, the Chamber was used as a focal point for discussions within the business community. However, it seems that since the embargo the Chamber has taken on new life. A new (and more progressive) board of directors has been recently elected and the Director indicates that members are only now understanding the advantages of a strong Chamber of Commerce.

The Haitian American Chamber of Commerce (HAMCHAM) is currently in the process of reactivating its membership and its activities. For obvious reasons the Chamber was inactive during the embargo. The Chamber has recently hired a director and will soon move into their own office. HAMCHAM is literally starting all over again and needs to establish information networks from the ground up.

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[35] These include (CCIH) Chambre de Commerce et d'Industrie d'Haiti, (CCIPNNE)Chambre de Commerce d'Industrie et des Professions du Nord et du Nord-Est, (CFHCI) Chambre Franco Haitienne de Commerce et d'Industrie, (HAMCHAM) Haitian American Chamber of Commerce, (ADIH)Association des Industries d'Haiti, (AIHE) Association Inter-Americaine des Hommes d'Affaires, (APA)Association des Producteurs Agricoles, (APRONA) Association des Producteurs Nationaux, (ASDEC) Association des Exportateurs de Cafe, (CLED) Centre pour la Libre Entreprise et la Democratie.

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The Agricultural Producers' Association (APA) was established in 1985 and started with approximately 60 members who were mainly agribusiness processors and exporters. Their originally focus was as a lobby organization. In 1987 the membership was expanded to include smaller producers via the membership of farmer associations, particularly those in the Artibonite Valley. Membership at that time was increased to 110 producer groups representing about 90,000 producers. APA received funding from various donors (UNDP, FAES, IDB and USAID) for research and extension activities. The promotion of mango planting and marketing was one of APA's more important activities. USAID planned to help APA serve as the link between producers and agribusiness by assisting them to identify and negotiate commercial agriculture ventures. Unfortunately the project never started due to the 1991 *coup d'etat*. APA's current status is unclear. There were apparently some internal conflicts when some APA members openly supported the defacto government. There are also the conflicting agendas of small producers and industrial producers or exporters. Currently APA has no office, no employees and no activities. Although APA could be a vehicle to promote agricultural production suitable for local processing or export markets, they need to resolve their internal problems first.

The Association des Exportateurs de Cafe (ASDEC) has existed for many years, yet has never had the participation of all of the coffee exporters. The association has long been perceived as a predatory, self-interested (viewed often as exploitive) group of coffee exporters who meet primarily to divide territories and fix prices. ASDEC has almost never demonstrated any interest in reinvesting any of their coffee profits in the coffee sector. Instead coffee has been viewed very much like as a crop to be "mined".

The recent mergers of coffee export businesses now means that ASDEC is really one exporter (PRIMEX) a consolidation of the exporters Dufort, Brandt and Madsen. Although there are other exporters, they are not now part of ASDEC. The ASDEC president readily admitted that ASDEC is not an active organization and that exporters should be concerned with Haiti's declining coffee production. ASDEC has offered to start coffee production schemes on several occasions but has always requested donor funding to do so. A commodity association focussing on coffee is something that could be very useful to the promotion of coffee in Haiti. However, ASDEC does not seem to be the most appropriate formula to do this.

The Centre pour la Libre Entreprise et la Democratie (CLED) was founded in June 1993 by a small group of young, progressive business people. It seems that the organization was founded partially out of frustration with other associations that did not seem to deal with some of the real issues at hand. Some of these issues include public and private sector collaboration and the involvement of the private sector in the development of the country. CLED's primary objective is the promotion of free enterprise, and the development of democratic institutions in Haiti. In order to be a member, you must be a member of the private sector who has investments in Haiti. CLED backed the Governors Island agreement and organized some trips to the U.S. to familiarize participants with the decision making process in the U.S. They are first and foremost an education organization that is composed of a younger generation of Haitians, who seem to have a new view of the private sector's role in nation building which should be valuable in rebuilding private sector activities in Haiti. CLED has an office, a full time Executive Director

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and has recently received a grant from the Center for International Private Enterprise (Chamber of Commerce of Washington).

A recent development (March 1995) is the United States-Haiti Business Development Council (BDC). This organization is meant to provide a permanent forum to foster greater interaction between U.S. and Haitian officials and business representatives in a way which will lead to increased trade and investment flows. The purposes of the U.S.-Haiti BDC are: to provide a forum to enhance the private-public dialogue between U.S. and Haitian government and private sector representatives; to expand commercial relations; to identify and resolve obstacles to trade and investment; to identify project-oriented approaches to addressing problems where government involvement affects commercial projects; and to identify promotion programs to assist the respective business communities in their endeavors in the U.S. and Haitian markets, including trade missions, exhibits, seminars and other events.

The BDC held its inaugural meeting in early 1995 and has not yet met again. Given the limited size of the Haitian private sector, the Haitian members of the council are also prominent members of the other associations and chambers in the country. Some members have not participated in a meeting as yet and others are skeptical that this sort of organization will be particularly effective.

The previous discussion illustrates that there are multiple organizations that serve as focal points for the Haitian private sector and agribusiness is a part of all of their agendas. While there are a number of organizations with many duplications, there is no one organization that has taken on the task of trade investment and promotion. This is an important function that could be assumed by an already existing organization (HAMCHAM for example). The organization could take on the task of serving as a clearinghouse for information on Haitian agribusiness enterprises and investment opportunities in Haiti, as a point of contact for foreign business person visiting the country and perhaps as a policy advocate on issues relevant to agribusiness development in Haiti. Other functions could include the collection of information on foreign and Caribbean markets for Haitian products, and the preparation of profiles of proposed agribusiness investment projects.

Associations organized by commodity are also almost non-existent. There is a non-functional coffee exporters association, a nascent poultry producers association and the beginnings of a mango exporters association. Associations organized by commodity or product could benefit from the creation of links with comparable associations in the United States or other countries. Services provided might include technical assistance in production, processing, and marketing, information on current U.S. regulations on imports, and advice regarding organization and administration. Examples of such associations include the Produce Marketing Association, the National Crop Protection Association and the Florida Foliage Association. Voluntary organizations such as VOCA and the International Executive Service Corps (IESC) can provide the services of professionals in specific commodity areas at relatively low cost.

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5.4 Trade and Investment Promotion

Significant increases in employment, national income, and exports for Haiti will require new investment from within Haiti and from abroad. The establishment of successful trading relationships are important as they can lead to investment by the foreign partner. The U.S. is Haiti's best source of both trade and investment; promotion activites should give a high priority to establishing links between U.S. and Haitian enterprises and trade associations.

While Haiti needs an investment promotion activity, it does not now need a full scale investment and export promotion organization such as PROMINEX, which depended entirely on USAID funding and suffered from serious differences of opinion, both among the officers and directors and USAID officials. We recommend instead the creation of a small-scale investment promotion office in the private sector. Possible locations include the Chamber of Commerce and Industry, the Haitian-American Chamber of Commerce, and the U.S. - Haiti Business Development Council -- though further study would be needed to decide on location and support needs. The unit would require a staff of three to five persons and a limited budget to support office costs. Donor support would be sought for these costs for an initial period of three years, after which its performance would be reviewed to see if it should be continued on a self-supporting basis through charging fees for its services, or disbanded.

The functions of this office, which would of course not be restricted to agribusiness, would be as follows:

1. Serve as a clearinghouse for information on investment conditions, regulations and procedures, tax and labor laws, etc. which would be available on demand to visiting business persons. At least two guides to investors already exist and could be used for this purpose.

2. Provide information to visitors on existing Haitian agribusiness enterprises and business people, and act as a meeting place for initial contacts between them. Also provide names of qualified Haitians who work as consultants to business.

3. Identify investment opportunities in Haiti by inviting the business community to submit information on short forms, similar to those used by the OPIC Investment Opportunity Bank, which would be entered into a computer data base. They could be brought to the attention of U.S. investors by sending them periodically to the U.S. Commercial Attache in Haiti, the Latin American and Caribbean Business Development Center of the U.S. Department of Commerce, the OPIC Investment Opportunity Bank, the AgroAmerican part of C/LAA, and selected other private and public organizations, and to the attention of investors in other countries by sending them periodically to American chambers of commerce in countries where they may be interested in investing in Haiti. Some countries that might be selected are Canada, the Dominican Republic, South Korea, Israel and France

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4. Collect and compile information for the use of the Haitian business community on foreign (U.S., Caribbean, European) markets for present or potential Haitian export products, including product grades and standards.

5. Collect information on foreign suppliers of machinery, equipment and industrial materials such as packaging, for use by Haitian industry.

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APPENDIX A
HAITIAN DEVELOPMENT FINANCING INSTITUTIONS

1.1 Societe Financiere Haitienne de Developpement (SOFIHDES)

The SOFIHDES development finance corporation was established in 1983 to help "break the excessive concentration of economic power among a small elite by providing capital and technical expertise to promote and support new industrial investment in Haiti." Initial capitalization totaling approximately US$9.0 million was provided by 143 private Haitian businessmen (US$1.0 million) and USAID/Haiti ($8.0 million). The USAID portion was provided as a 20-year, U.S. dollar-denominated loan with a 10-year grace period and a flat annual interest rate of 5 percent.

The purpose of the project was to assist potential borrowers with project preparation assistance and financing while also helping SOFIHDES become self-sufficient and financially sound. The distribution of assets figures in Table A1 illustrates reasonable growth and somewhat better loan to asset ratios than those of the commercial banking sector.

Table A1
SOFIHDES Asset Distribution (thousands of gourdes)

	1989	1990	1991	1992	1993	1994
Cash	926	2,131	4,247	1,758	18,695	3,103
Loans	42,715	42,967	39,947	34,594	38,697	38,230
Investments	11,526	11,641	11,569	23,164	28,185	37,182
Total Assets	57,869	59,439	58,805	62,036	88,506	81,618
Loans/Assets	74%	72%	68%	56%	44%	47%
Cash/Assets	2%	4%	7%	3%	21%	4%
Invest/Assets	20%	20%	20%	37%	32%	46%

In real dollar terms, inflation and devaluation have consumed over 50 percent of the value of the capital provided by USAID and the Haitian investors since 1983, but SOFIHDES remains a relatively sound and efficiently-run organization. It has maintained regular repayment of the USAID loan, extended credit to several hundred borrowers, effectively controlled operating costs and has an outstanding portfolio of 70 projects totaling 42,257,000 gourdes (approximately US$2,914,276).

SOFIHDES has been the object of some criticism to the effect that it has not met its development goal, that its clientele and the terms and conditions of its loans are identical to the commercial banks, and that it has only succeeded due to the injection of relatively low-cost

capital from USAID.[1] The initial USAID capital contribution was a key element in the start-up of SOFIHDES, but there is little evidence to suggest it has become "just another bank". The Board is known to be cautious and collateral (including equipment liens) is required for all loans, however, applications are evaluated against cash flow, estimated return on investment, and consideration of a borrowers credit history and capabilities. Collateral is not the first item sought when considering loan eligibility, and the average SOFIHDES loan (US$41,633) is approximately half the size of the average commercial bank loan (US$90,897).

The SOFIHDES Director admits to the conservative character of his Board, but insists this is necessary to protect capital. A poorly functioning legal system, difficulty obtaining accurate financial information about borrowers, and the uncertain economic and political climate preclude aggressive lending in Haiti. He feels his basic problem is the scarcity of capital to finance new lending and is seeking an injection of new resources on concessional terms.

In actuality, SOFIHDES does possess resources to finance an expansion of lending without an immediate injection of new capital. The percentage of assets invested in loans has declined every year since 1989 to a current average of 47 percent. During the same period, the percentage of assets placed in other investments has more than doubled to 46 percent. This suggests that SOFIHDES has followed the lead of the commercial banks by increasing investments in foreign exchange as a hedge against inflation and devaluation, and as a way to earn a higher rate of return than investing in Haiti during the embargo. Given the uncertain economic and political climate that now exists, it's not surprising the Board is reticent to convert overseas investments into local currency loans.

SOFIHDES also has access to the interbank lending market, having borrowed 15 million gourdes from the BNC and 6 million from the FDI in 1993. Given the relatively low interbank rate (10 percent) and the excess liquidity now available within the commercial banks, it may be possible to obtain resources for short-term working capital loans.

1.2 The Haitian Development Foundation (HDF)

The Haitian Development Foundation (HDF) was established 1979 to provide credit and technical assistance to the micro and small enterprise sectors of the economy. It has received financing and technical support from USAID/Haiti since 1983 through two separate projects and is widely considered to have become the largest source of microenterprise financing in the country.

Early HDF attempts to provide both technical and financial assistance to its micro and small-scale business clients ended in 1984 when the Foundation was reorganized, technical ~~assistance and training services were eliminated, and a renewed emphasis placed on the delivery~~ of financial services. In 1986, the HDF began an expansion program to increase outreach and

[1] Evaluation of the Development Finance Corporation Project (SOFIHDES), Checci and Company, September 1988.

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loan volume, and to date branch agencies have been opened in Croix-des-Bouquets, Jacmel, Les Cayes, Cap-Haitian and Jeremie. Each branch has a Supervisory Committee of volunteer leaders..

The HDF operates under the guidance of a ten-member Board of Directors and has 42 full-time employees, including 20 in Port-au-Prince and three or four in each of the branch offices. An Executive Director administers day-to-day operations with support from a reasonable mix of administrative and technical personnel, including 10 university-trained credit officers who analyze loan applications, monitor the loan portfolio, and provide technical support to the branches. In a recent assessment of the HDF, the role of the credit officers was seen as too broad (i.e., they were spending too much time helping potential borrowers prepare loan applications).

HDF clients are owners of micro and small enterprises employing between one to ten workers, including the owner and family members. Typical economic activities include bakeries, grocery stores, restaurants, food and beverage sales, iron making, auto repair, tailoring, and many others. The HDF does not finance agriculture nor lend for speculative trade or the purchase of items for personal consumption.

The Foundation specializes in small loans (US$200 to $3,500) for working capital and purchases of tools, equipment for production, transport and buildings. The interest rate for HDF loans is 22 percent and terms generally range between three and five years for fixed assets and shorter periods for working capital. Some kind of collateral is required for all loans with the exception of the "small loan program", a facility for clients needing working capital but lacking real collateral. The maximum loan amount under this program is US$3,500. All loans larger than this amount require collateral and the approval of the Board of Directors.

The HDF has a preference for group loans and would like to increase lending to cooperatives and other intermediaries as part of its "volume-low cost" operating strategy. That strategy proposes to increase loan volume without increasing fixed operating costs by making larger loans to other financial intermediaries, who in turn lend to individual clients. According to the Director, this would permit the HDF to circumvent the high loan origination and administration costs incurred in lending to many small, individual clients while also helping to improve loan recovery rates. The HDF is now providing financing to several coffee associations supported by IICA using a guarantee facility established by USAID. It also has an ongoing activity in agribusiness lending with Plan International and has provided financing to the *Fonds Haitiens d'Aide a la Femme (FHAF).*

Overall, the HDF has been slow to develop as a sustainable financial institution. After 12 years of USAID-financed assistance, it remains dependent on an external operating subsidy and total loan volume is very small for an organization with five branches and 42 full-time employees. In November 1994, the HDF had 1,049 clients and a loan portfolio totaling approximately 19.3 million gourdes (US$1.33 million), however, only 374 new loans were disbursed during the 1994 fiscal year and interest income was not sufficient to defray operating

costs and the creation of adequate loan loss provisions.[2] Loan delinquency has also been a problem but cannot be accurately determined because record-keeping and accounting is out-of-balance. In March 1995, the HDF Director estimated delinquency at 18 percent of outstanding loans, an improvement over the 1993 rate of 26 percent, but far too high for an organization struggling to achieve self-sufficiency. Finally, loan interest rates range between 12 and 22 percent (plus an additional 2 percent loan origination fee), well below the inflation rate and clearly insufficient to cover operating overhead, maintain adequate loan loss provisions and provide for a reasonable growth of capital. The slow loan turnover, low volume, relatively high operating costs and inadequate pricing policies are problems that must be addressed by the HDF in the near future if it is to become a significant source of financing for the micro and small-scale entrepreneur. Inflation is consuming the value of HDF loan capital, earnings are unavailable to finance capital growth, and donor capital is becoming more difficult to obtain.

1.3 The Societe Haitienne d'Epargne et du Credit (SHEC)

The Haitian Savings and Loan Society (SHEC) was established as an independent credit union in October 1993 following a five-year development effort financed by the Canadians (CIDA) through MEDA, the Mennonite Development Assistance program. The goal of the MEDA program was to experiment with mechanisms to provide savings and loan services to the low income sectors of the Haitian society. Over time, the experience gained would determine the feasibility of creating a Haitian organization capable of becoming self-sustainable by mobilizing deposits, making loans at market rates, and covering operating costs from interest income.

SHEC is organized as a classic credit union with a 12-member Board of Directors and a separate, 3-person supervisory committee. There is no credit committee because analyzing loan applications requires skills not possessed by non-professional, volunteer Board members. There are 27 staff, including a Director General, ten credit and eight savings agents, and eleven administrative personnel. Membership currently totals 2,000 individuals, each of whom has purchased a minimum share valued at H$30.00.

In savings, SHEC has three products -- passbook accounts, planned savings accounts and time deposits. According to the SHEC Director, planned accounts are designed to help the borrower save for future needs. Planned account users deposit 30-50 percent of expected loan requirements in a savings account to be pledged as collateral. Over time, the accounts grow and the borrower has greater leverage against which to borrow for medium and longer term investments (e.g., housing). The program is apparently popular among salaried workers, who view it as a form of forced savings. Both members and non-members are permitted to save. In February 1995, there were 2,500 passbook accounts totaling 4,180,576 gourdes (US$288,316) for an average account size of US$115.33. Term deposits totaled 579,000 gourdes (US$39,931). Interest rates on passbook accounts earn 3 percent, planned accounts 4 percent, and term deposits

[2] "Evaluation of the Provincial Enterprise Development Project", Development Assistance Corporation, December 1994.

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between 6 to 9 percent depending on size. There is a minimum on term deposits of 25,000 gourdes.

Loan rates range between 18 and 22 percent, and are determined by the activity to be financed -- 18 percent for production, 19 percent for services and 20 percent for commerce. All loans also include a 7½ percent administrative fee. As a promotional device, SHEC will lend to non-members once, with loan size being restricted to 2,500 gourdes (US$172.41) and an interest rate of 22 percent.

There are three types of loans -- micro, medium and personal. Micro loan borrowers are those who possess net assets less than 5,000 gourdes and little collateral. A minimum of 15% of loan amounts is required as collateral for an individual micro loan. Micro borrowers with absolutely no collateral must join solidarity groups possessing 3-5 members to be eligible for a loan. Medium-scale loans are defined as those made to members with over 5,000 gourdes in assets and 3 or more employees. Fixed assets equivalent to 25 percent of the loan amount must be pledged as collateral and there is a maximum on the first loan of 50,000 gourdes (US$3,448). SHEC has one loan totaling 350,000 gourdes (US$24,138) to a group of clothing buyers who travel to Panama and return with product for resale locally. In February 1995, SHEC had an outstanding loan portfolio totaling 6,616,639 gourdes (US$456,319), with an average loan size of US$652.00. SHEC closely monitors the loan portfolio by visiting all borrowers at least once a month. It has achieved a 97 percent loan recovery rate, but loan volume is small and maintaining a high recovery rate will likely become more difficult as SHEC grows and can no longer visit clients on a monthly basis.

SHEC is a relatively new organization that has been operating independently from MEDA for only 8 months. During that period, it has maintained a strong rate of growth for both savings and loans, while maintaining a good control over delinquency. It is self-sufficient, with interest earnings covering operating costs, but there is little remaining at year end for capital reserves. SHEC has an 8 percent capital/assets ratio, a little low by international credit union standards but much better than the commercial banking system. Ninety-nine percent of assets are invested in loans, a situation that exposes the organization to excessive risk and suggests inadequate liquidity management skills. For example, it is often recommended that credit unions maintain a 15-20 percent liquidity reserve against unexpected deposit withdrawals. At present, it is likely that most SHEC members are saving to leverage loans, however, when SHEC begins to work with net savers (i.e., those who have no intention of seeking a loan), much more disciplined liquidity management procedures will be necessary.

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APPENDIX B
ASSESSING IMPACTS OF THE ACTION PLAN

The various components of the Haitian Agribusiness Action Plan will have potential impacts in four areas:

- Economic: Have investments of program participants risen? Have these investments resulted in increased income, employment, and local value-added? Has productivity (yields and cost reductions) increased and product quality improved?

- Equity: How are the benefits of Action Plan investments in market development distributed? Who are the winners and losers? Here it is important to consider indirect or multiplier effects. For example, technical assistance from the market development and training components may directly benefit business people. Agribusiness promotion projects are sometimes criticized for only benefiting the rich. Given recent Haitian history, addressing this concern is especially important. Yet if one traces linkages back to suppliers of raw materials (i.e. small farmers), and finds that these backward linkages are strong, such criticism is unwarranted.

- Environmental: What environmental impacts have occurred, both positive and negative? Investment in land-intensive technologies (versus extensive ones) and anti-erosion measures may have positive environmental consequences. On the other hand, greater use of chemical pesticides and cultivated area expansion resulting from higher producer prices or freer market access may result in environmental degradation.

- Other impacts: What health, nutrition, and food security impacts have occurred, both positive and negative? Counter to much conventional wisdom that cash-cropping penalizes food production and imperils household-level food security, recent studies have found that increased market linkages often enhance food security (von Braun and Kennedy, 1986[1]). Given the diversity of recommended Action Plan activities, these effects may be quite important in some areas, but less so in others.

It is beyond the scope of this paper to construct a full-blown economic analysis of potential impacts in all of these areas of the Action Plan. This can only be meaningfully accomplished as specific interventions, their geographic and commodity focus, and their costs are identified. Yet at this point, a few examples serve to illustrate potential impacts. Here we concentrate only on income and employment effects; eventually it would also be important to focus on environmental and food security-related impacts. The following discussion reveals how one might measure specific effects and trade-offs between different types of targeted credit activities. Making short-term capital more readily available for labor-intensive activities can have very large multiplier effects.

Marketing credit for mangoes is a good example of potential multiplier effects.

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[1] von Braun, Joachim, and Kennedy, Eileen. "Commercialization of Subsistence Agriculture: Income and Nutritional Effects in Developing Countries. IFPRI Working Paper No. 1 on Commercialization of Agriculture and Nutrition. Washington. April 1986.

According to one of the large mango exporters interviewed, they advance 10-15 G per dozen to *speculators* who then purchase and bring produce to the packing plant. This marketing credit is typically turned over 3 to 5 times in the course of a campaign: thus G 1 million of credit advanced directly generates G 3 to 5 million of purchasing activity. Table A1 provides a breakdown of the mango marketing budget. If this year's exports are half their pre-embargo level of around 2 million dozen, then an additional G 2 to 5 million[2] (US$ 137,000 to 344,000) would be required to get exporters back to pre-embargo export levels. Assuming a producer price of G 6/doz, this would inject G 6 million into farm households and G 2 million to *spéculateurs* and the people they hire. On top of this, one can add increased employment at packing plants (at G 1.5/dozen, an increment of G 1.5 million), as well as employment at the port (which we will not attempt to quantify). Finally, an indirect multiplier of 1.5 is commonly used in Haiti for second-round effects of increased income as farmers and

Table B1: Mango Purchase and Export Costs for Haiti

Item	Cost/Unit	Cost Estimates Low	Cost Estimates High	% of cif Miami Low	% of cif Miami High
Farm Price	G/doz.	6.0	7.0	13.2%	13.6%
Transport	G/doz.	2.0	5.0	4.4%	9.7%
Speculator Margin	G/doz.	2.0	3.0	4.4%	5.8%
Cost to Packer Gate	G/doz.	10.0	15.0	21.9%	29.1%
Handling 1/	G/doz.	1.5	1.5	3.3%	2.9%
Hot Water Treatment	G/doz.	3.0	4.0	6.6%	7.8%
USDA Inspection	G/doz.	3.0	3.0	6.6%	5.8%
Packing boxes	G/box 2/	9.4	9.4	20.7%	18.3%
Cost to Port	G/doz.	16.9	17.9	37.1%	34.8%
Total-free alongside	G/doz.	26.9	32.9	59.1%	63.9%
Port Charges:					
Port Authority	$US/doz.	$0.06	$0.06	2.1%	1.8%
Shipper Agent	$US/doz.	$0.14	$0.14	4.5%	4.0%
B/L Processing	$US/doz.	$0.01	$0.01	0.2%	0.2%
Ocean Freight	$US/doz.	$0.90	$0.90	28.5%	25.2%
US Handling	$US/doz.	$0.17	$0.17	5.5%	4.9%
Total Shipping 3/	$US/doz.	$1.29	$1.29	40.9%	36.1%
Total Cost-cif Miami 4/	$US equiv.	$3.14	$3.56	100.0%	100.0%

Sources: For local costs, an anonymous mango packer in Port au Prince; for shipping costs, AGEMAR, Port au Prince, 1995.

1/ Includes handling at the packing house, containerization, and movement to the port.

2/ Most of this is actually paid to suppliers in US$; total of $0.65, with $0.50-0.55 paid in dollars, and remainder paid in gourds for local labor.

3/ All shipping charges computed for a 40 ft. reefer containing 3,400 dozen mangoes.

4/ Local cost converted to US$ using an exchange rate of G 14.5 per US$.

[2] At the high end, if mangoes cost the exporter G 15/doz and capital is turned over three times, then (1,000,000 X 15)/3 = 5,000,000. At the low end, if mangoes cost the exporter G 10/doz and capital is turned over five times, then (1,000,000 X 10)/5 = 2,000,000.

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marketing agents produce other goods with local value-added. In sum therefore, G 2 million of marketing credit could quickly generate as much as G 12 million in additional economic activity -- most of it concentrated in rural areas and among the poor.

The effects of making credit available for investment are not as dramatic because capital does not turn over as quickly as is the case for marketing credit. Nevertheless, such credit is necessary for reviving some businesses, as well as allowing for expansion of especially dynamic industries such as mangoes. As demonstrated above, the income generation effects of industries with strong backward linkages can be substantial. Clearly, to the extent that targeting is feasible and desirable,[3] priority in donor assistance should go to firms and industries with strong backward linkages to small farmers and the poor.

Labor intensity (versus land or imported capital intensity) is the key for assessing the extent of backward linkages. Reddy Citrus, which makes pectin, lemon oil and lemon juice from fresh lemons might be typical. A breakdown of the employment a firm like this creates is useful. Direct hire staff number 24. Seven of these are drivers who collect the fruit in rural areas. If we make an assumption that all participants in Reddy's business were unemployed prior to working for the company, and that all work only for the company, we can summarize direct and indirect employment as portrayed in Table A2. Though a tiny change for the better given Haiti's large unemployed population, this is not an insignificant sum in absolute terms. In addition, secondary multiplier effects would also increase the number of people affected by increased economic activity.

In contrast , the management of a new sorghum farm with which we spoke, had calculated its total number of direct employees at 15 for a 960 acre farm operating year-round. Even adding employee-equivalents for downstream warehousers, transporters and retailers, this operation would probably generate no more than a total of 25 new jobs.

Agribusinesses that pay year-round wages, offer some training or informal extension to their contract growers or direct employees, and do not conflict with the growing season of other products if they operate on a seasonal basis, will be the most beneficial to the economy, and ultimately, to the food security of the poor in Haiti.

For several reasons, it is much more difficult to meaningfully assess a priori potential impact of agribusiness promotion efforts and improved market information. First, specific interventions are not known ex ante. If the mango growers are assisted to form an association and improve linkages with US growers associations, it is not known with certainty what activities

[3] Targeted credit programs may seem like a good idea on paper, but the reality is that credit targeted to specific activities is often unworkable. Money is fungible and those entrepreneurs engaged in multiple activities often take the money and invest it in the business activity that gives the highest financial return. This is not always the purpose for which the donor agency intended it. Such problems are further aggravated when credit is subsidized: often advocated for agriculture because of national development priorities and purported high risk. When credit is a "gift," it becomes subject to political manipulation. The Action Plan laid out in this report counsels against subsidized credit for this reason, as well as lack of sustainability.

they will engage in.[4] While we may be aware of one or two, to get a full flavor of the impact of forming associations, we would have to add up all potential interventions and estimate their impact: this is not possible.

Second, the most meaningful impacts of promotion efforts and improved market information are often dynamic ones -- expanded markets due to identification and application of new technologies, new clients or market niches, or lowering uncertainty for market participants.

Third, impact of such activities is not direct, but is filtered through the behavior and actions of Action Plan clients. Direct attribution of causality between recommended Action Plan interventions and changes in income or employment is also very problematic because sorting out Action Plan contributions from exogenous factors (macro policies, technology and information transfer not associated with the Action Plan, rainfall, natural disasters, etc.) in any rigorous quantitative (and credible) way is usually next to impossible.

Table B2: Direct and Indirect Employment Calculations for a Fruit Processor

Employee Category	Number	Comments
Full-Time Staff	24	Managers, accountants, machine operators, guards, etc.
Drivers	7	For assembling fruit and transporting from rural areas
Harvesters	70	10 per driver
Growers	6,272	4 trees picked per day per harvester * 70 harvesters * 4 month season @ 28 work days/month with a single growing season per year and an average of 5 fruit trees per farmer = (4*28*4*70)/5 = 6,272
Miscellaneous Contracted Employees	4	Sum (in full-time equivalents) of all people who worked for Reddy Citrus --- accountancy firms, freight forwarders, mechanics, etc.
Total	6,367	

Source: Reddy Citrus Co., Port au Prince (1995).

[4] One concrete objective for a mango exporters association is to assume management of the USDA inspection contract (not actually inspecting themselves, but arranging for the contracting of USDA services), removing it from the single firm that has it now and may be overcharging. As Table ?? shows, USDA inspection represents 6-7 percent of the Miami cif price). Cutting this cost in half would result in cost savings of G 1.5 per dozen -- part of which would presumably be passed back to farmers in the form of slightly higher producer prices.

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APPENDIX C
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AGRICULTURAL POLICY ANALYSIS PROJECT, PHASE III

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HAITI AGRIBUSINESS ASSESSMENT

Volume II: Supplementary Reports

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Technical Report
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PART TWO: "OPERATION JUMP START" Proposal of Citizens Network

INTRODUCTION

The Haiti Agribusiness Subsector Assessment was carried out for AID's Global Bureau and USAID/Haiti by a team of eight persons through the Agricultural Policy Analysis Project (Phase III), Abt Associates, prime contractor.

Members of the team, their organizational affilitations, and their areas of specialization, are as follows:

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Dr. Reid Whitlock	Michigan State University	Food security
E. Morgan Williams	Citizens Network	U.S. agribusiness partnerships

In summary, the terms of reference for the assessment called for the consultants to:

- identify constraints in the private agro-industry sub-sector of the Haitian economy which currently impede its recovery and growth, and
- propose specific interventions by AID or other donors, especially in the market driven export sector, to alleviate these constraints and stimulate recovery and growth in the short and longer term.

The team was in Haiti from March 13 to April 1, 1995, and while there worked closely with the Economic Growth Office of USAID/Haiti, Dr. Abdul Wahab, Chief. We gratefully acknowledge the support and cooperation we received from Dr. Wahab and his staff, especially Marc-Eddy Martin, Ron Daniels and Ralph Denize. We also coordinated our work with the Ministry of Agriculture, Natural Resources and Rural Development (MARNDR), represented by Philippe Mathieu, Technical Deputy Director, Wilson Durand, Director, Rural Development, Will Roche, and Michel Canale.

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For AID/Washington's Global Bureau, David Schroder was extremely helpful in coordinating the entire effort. Ron Stryker, Shirley Pryor, and Tracy Atwood of the Global Bureau, and Roberta van Haeften of the Latin American/Caribbean Bureau, provided useful comments on the draft report. Others who contributed advice and comment include John Horton of the InterAmerican Development Bank, Jim Kenworthy of Nathan Associates, and Gene Grasberg, agribusiness consultant.

Volume I of the report begins with a summary of our findings and is followed by a proposed action plan to address the principal constraints we identified. The five sections of the body of the report cover in turn (1) background information on agribusiness in Haiti before and after the embargo, (2) the policy environment for agribusiness development, (3) a commodity-by-commodity review of the agribusiness activities in Haiti, (4) a description of the financial sector and some proposals to increase the availability of loan capital, and (5) institutional issues, including farmer cooperatives, government institutions, professional associations, and trade and investment promotion.

This document, Volume II of the report, contains two supplementary reports, both of which are summarized in Volume I: one on food security implications of agribusiness implications and a second with the "Operation Jump Start" proposal of Citizens Network.

PART ONE

FOOD SECURITY IMPLICATIONS OF AGRIBUSINESS INVESTMENTS

PART ONE

FOOD SECURITY IMPLICATIONS OF AGRIBUSINESS INVESTMENTS[1]

1. Background

One of AID's over-arching Agency-wide goals is improvement in the food security of the populations in the areas where it intervenes. Food security is defined as sustainable access to and availability of, food at the household level. Another Agency-wide goal is economic growth. Because of the structure of the economies in AID-assisted countries, agribusinesses[2] have a greater likelihood of successful, sustainable growth than any others. This paper will highlight how agribusiness sector initiatives in Haiti can influence food security.[3]

The USAID Mission in Haiti wants to "improve food security", (along with increasing rural jobs and incomes and agricultural production) as an objective. It has identified the expansion of agribusiness and trade[4] as another distinct objective. These objectives are not inconsistent with the four "axes of intervention" to which the Haitian Ministry of Agriculture, Natural Resources and Rural Development is committed: land tenure, environmental protection, export cash cropping and food security (defined to include increasing food production, and regulation of internal movement of goods and increasing rural revenues)[5]. Other government agencies and friends of Haiti have stated on numerous occasions their commitment to similar objectives.

The main reason for having a food security perspective on the agribusiness system is to ensure that those ultimately charged with deciding which recommendations to fund and to implement, will have been made aware of the possible areas for complementarity and mutual reinforcement as well as the areas of possible conflict or obstruction of one by the other.

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[1] This document was written for inclusion in the final report of a much larger study commissioned by the Global Bureau of USAID and the Haiti USAID Mission. The author is Reid E. Whitlock, Visiting Associate Professor of Agricultural Economics, Michigan State University. 17 April 1995 (Revised 28 June 1995). Its format and layout are keyed to the chapters that precede it, written by other members of the Agribusiness Sub-Sector Assessment Team, whose work was undertaken between 9 March and 17 April 1995.

[2] Agribusinesses in this document refer to those firms involved in the food, fiber or fishery value chain from production through to final retail distribution, to include processing, commercial-scale farming, domestic and international sales and trade. The typical small-scale family farm in Haiti is not considered an agribusiness here.

[3] The Government of Haiti states that food security should permit: "*access of all to the food needed to achieve and sustain full and productive lives, without risk of loss of this food supply in the near future*" and should be appropriate in quantity and quality, as well as culturally acceptable. Politique de Sécurité Alimentaire et Politique Agricole Nationale, 9 Fevrier 1995, Danielle Avin et Philippe Mathieu, Forum Libre, Republique du Haiti, p.1. Note that USAID's 1992 Policy Determination # 19 which defines food security, includes the criterion "utilization".

[4] Economic Growth Office, USAID/Haiti, March 1995, *untitled internal document, n.p.*

[5] Avin & Mathieu, ibid. p.2

This document does *not* attempt to comprehensively address all aspects of the food security issues facing the Republic of Haiti. Its sole aim is to filter the main larger work of which this document is but a small part -- conceptualization of a workable agribusiness investment stimulus plan for Haiti -- through the lens of food security.

2. Food Security, Agriculture and Agribusiness

Context. Addressing the food needs of the poor is a precondition to Haiti developing the political stability for economic growth to begin in the country. It is also a precondition to good political relations with its neighbors, most notably the United States, Cuba and the Dominican Republic where concern about the influx of Haitian immigrants is a dominant concern. These points suggest the close links that can exist between agribusiness as one of the most logical sources of national economic activity, and food security, which depends on all that agribusiness represents: an interest in rural agriculture, employment opportunity (off-farm and on) and increased incomes for the poor.

Agribusinesses do not grow successfully without well-functioning food markets present. Such markets assure rapid movement of goods, quickly and accurately signal prices, and pull along with them the markets for inputs (from fertilizer to tools to pesticides to cardboard packing boxes) and for storage facilities. The existence of these same markets is the best assurance of food security for the poor in Haiti, because their presence and proper functioning help lower the real cost of food. As an added bonus for agribusinesses, well-functioning markets give farmers the confidence to diversify into cash cropping secure in the knowledge that their food needs can be met in the market, eliminating the need for them to produce all their food themselves. Agribusinesses in Haiti should not only be encouraged to participate in these markets, they can help create them.

Agribusiness development matters more to food security than does development of other business sectors because the raw products that agribusinesses process, export or market domestically are the same ones the poor produce. Improvements in the delivery systems, inputs, infrastructure, technical assistance or legal environment available to poor farmers and their family members help agribusinesses receive a better product faster and more cheaply.[6]

A sensible agribusiness development strategy for Haiti would, therefore, do well to consider food security as an important factor to be managed wisely, both on the output (product) side and input (healthy labor and potential purchaser with adequate buying power) side. Ultimately, the more that food security considerations are integrated into a national agribusiness stimulus strategy the more implementable and sustainable that strategy is likely to be.

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[6]Work undertaken by members of the Michigan State University Food Security team in Mali, Mozambique and in Southern Africa has explored and confirmed exactly this kind of mutual benefit in the cotton zones of these countries.

Though it has been mentioned that USAID has specifically declared that agribusiness stimulus programs in Haiti should have an export focus (or an "investment from U.S. business" focus), at least passing mention should be made of the importance that domestically-focused agribusinesses can have on the food security of the country. These firms can play a key role in improving the food supply and the food marketing channels in the country, both of which are essential to the development of a vibrant and dynamic export sector. To the degree that agribusinesses become more active in the domestic markets, they will be able to assume the role of channel captains, overseeing and influencing the passage of products through all the steps in a channel from farmgate to shipside or aircraft side for export. This will be possible because the same channels serve the domestic markets as the export ones, up to the final stages, where export goods go through additional quality control, inspection and packaging. Integrating backwards through these channels, acquiring an understanding of the economics of the intermediate collection and marketing steps prior to final processing would permit these firms to exert their influence and bring professionalism, accuracy and modern techniques to these channels.

There are many poor, food insecure people in Haiti. Their collective income will increase as agribusinesses expand. These people will probably spend a significant percentage of their new income on food, much of which will be domestically produced. They will probably begin to demand more services such as processing and milling which add value throughout the food chain and further reinforce the complementarity between agribusiness and food security.

Land Tenure and Land Improvement. Haitian farmers are typified by tiny (often contested) plots, few livestock, and a degree of financial precariousness that leads to the sale of their labor during parts of the year to pay for essentials.[7] They do not grow enough to meet all food needs exclusively from their labors on their own land.

Lack of clear land rights, and lack of strong government enforcement of such rights is a long-standing reality in Haiti. For agribusinesses, this means supply volatility, low incentive to backwards integrate into land ownership and high security costs (as land must be protected from squatting, seizure, crop theft and destruction).

Tenure-provoked problems are particularly acute on state lands because the government has been inconsistent in its treatment of those who have established themselves on this land. Because the occupants expect to be expelled at some point, they make few efforts to minimize the negative ecological impact of their presence.[8] This disregard for the environment unfortunately accelerates erosion, soil exhaustion and deforestation.

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[7]ANDAH, Evaluation, op.cit

[8]Discussions with FAO Agricultural Sector Assessment Team, 3/26/95

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Privately-owned land is often similarly abused, because of the population pressure on the limited arable resources. The total area presently under cultivation is already six times more than the estimated "good agricultural land" in Haiti.[9]

Concerns have been voiced that donors and others (like agribusinesses) with access to productivity and yield enhancing technology have been inadvertently contributing to Haiti's soil degradation through the introduction of improved seeds to rural farming areas. As the price of these seeds goes down, farmers may take them, having seen how well they have worked on plantations or in NGO-monitored projects, and sow them on inappropriate marginal land (upland and steep- sloped)[10]. Population pressures certainly influence this over-use of hillside land, but yield-enhancing seeds appear to play a role as well.

The main implications of these conditions for agribusiness are two. First, there will be little incentive to invest in land, decreasing the possibility for market rationalization and for those at the processing and exporting end of the channels to take a more active interest in the modernization of agriculture through their involvement as land owners. The more valuable one's land holdings, the more one has to invest in security to keep what one has from being squatted on, stolen or poached. Secondly, farm production per capita will continue to decline. This means that agribusinesses dependant on farm output for their livelihood (the vast majority) are asked to make long term investments in their businesses in the face of increased deforestation, soil exhaustion, and land abandonment on the part of their suppliers. The likelihood of them agreeing to this is small.

Water Rights and Irrigation. Like land rights, water rights are not clearly established or strictly enforced. In some cases, they are linked to the land owner, in others, to the land user.

Cases exist where, in the 1950's, people made water infrastructure improvements to property. In return for their work, they legally gained the right to the water from the canals and irrigation ditches they built. The people who own the land now (but who didn't do the improvements) do not have right to the water. Such situations are at the root of disputes, violence and use by force.

Some agribusinesses are likely to be large water users, for irrigation, washing or power generation. They often make investments with their own money, since the government does not respond in a timely manner to their requests. In spite of their outlays, they are still taxed by the water utilities at the full rates, their very visibility making them easy targets for tax collection in a way that the informal sector is not. In order to extract "informal compensation" for this perceived injustice, these businesses may route water in ways that redirect it away from needy

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[9]Emergency Economic Recover Program: Report of the Joint Assessment Mission, Nov. 7-20, 1994, Inter-American Development Bank

[10]Notes of 23 January 1995 meeting between Richard Abbott, Abt Associates, and Zach Lea SECID/PLUS Project.

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farmers or villages. A decrease in water access harms the farm household and its eventual food security.

Extension. The government of Haiti has made little commitment to agricultural extension. As a result, introduction of new technology, technical assistance in the use of inputs, and other improved farming techniques have virtually all been brought to the farmer by commercial concerns dependent on farm-generated products, and by NGO's for certain crops like coffee, cocoa and maize.

On the plus side, this gives agribusinesses an opportunity to influence quality down to the producer level. By providing guidance on pesticide application, grafting procedures, or seed planting practices, agribusinesses can minimize some of their risk while at the same time helping farmers improve their productivity, thereby enhancing their food security.

Tools. Lack of cash has made it nearly impossible for farmers to replace or repair their tools. The daily, intensive use these farm implements receive makes their useful life relatively limited. Agribusinesses might consider providing tools to their contract farmers and suppliers to improve their productivity. This would have the additional effect of improving the overall household well-being of these rural families. Care must be taken in the choice of tools distributed. Recently a foreign donor initiative involved giving out machetes (instead of hoes), leading to peasants chopping down trees (and each other) instead of farming.

It is also worth considering whether prices for tools bought commercially rise with a stimulus in agricultural activity that increases demand. This could abruptly place a cap on growth in an environment where the market does not have the resources to respond to new demand with additional supply in the short-term due to capital constraints and logistics bottlenecks.[11]

Plantation Farming. Though several plantation farming initiatives have been launched in the past, continual subdivision of land parcels has meant that few large plantations remain. To the degree that such land *is* obtained, it should probably be used for high-value intensively cultivated export crops of opportunities to market them have been preventative. This will generate the greatest returns for the owners. Combining small plots into large ones is not a familiar concept to this generation of Haitians. It will be viewed as an experiment, both in the business sector and in rural cooperatives and groupings of individual farmers. If the experiment demonstrates that significant productivity gains can be achieved through combining small lots into large ones (aerial pesticide application, mechanized tilling and harvesting, managed irrigation and

[11]These prices have already risen from 2.3 times pre-embargo levels in 9/91 to 4 times those levels by 8/94. See the table on page 15 of ANDAH, op.cit

fallow-land rotation) then the practice can be expected to grow, with some of the productivity improvement impact accruing to the farmers themselves, thereby increasing their food security.[12]

Unfortunately there is a potential "downside" to plantation agriculture that needs to be weighed. It is not obvious that in a country where clear title to land is difficult to prove or obtain, an agribusiness could aggregate a number of small parcels into one or more larger economic ones without leaving peasant farmers landless, or without using their influence to forcibly buy titles. Theft of crops, common even now, would rise once farmers began to view the land on which they worked as mere employees as "not theirs", and as owned by "rich people" who could easily absorb petty theft losses.[13]

Presence of NGOs. A reality of rural life in Haiti is the strong presence of foreign non-governmental organizations. Strong traditional antipathy between the illiterate rural peasant and largely urban-based agribusinesses can be diminished through the intercession of these NGOs. NGOs have been accused of circumventing government and of creating dependence. The other side of these accusations is that these NGOs have vehicles, communications, good record keeping and literate project staff all operating in the rural, inaccessible heartland from which agribusinesses often source their products.

Storage. Storage capacity is an essential part of a country's food system infrastructure. One source has stated that farm-level post-harvest grain storage losses are on the order of 50-60% of the amount harvested. This number is high even for an IDA-eligible country, and is particularly remarkable given the speed with which Haitian farmers tend to sell their harvest to obtain cash[14]. As agribusinesses professionalize various sub-sectors through binding contracts for delivery, storage upgrading should become more prevalent. As better quality storage becomes more available and affordable, it should have a positive long-term impact on domestic food security.

The part of the storage equation that is *not* likely to be addressed in the near future, for reasons of cost and of electricity provision, is refrigeration.

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[12]In theory, food security is *most* enhanced when agribusinesses work with smallholders, rather than with larger plantation-organized groups, but the administrative overhead of working with the former sometimes increases the attractiveness of the latter.

[13]Another downside to plantation agriculture is that it concentrates income in the hands of a few and thus limits broad-based demand for local non-farm goods and services. The fact suggests that the very structure of agriculture conditions growth potential in other sectors of the economy. (See: Johnston & Kilby, Agriculture and Structural Transformation, Oxford University Press, New York, 1975)

[14] These reported post-harvest figures seem extremely high to us and could not be confirmed. More investigation into storage losses would be in order to verify these reports. Additionally, a reverification of the amplitude of seasonal price swings would permit questioning as to why no one has been induced to offer reliable private storage to take advantage of the opportunities for high seasonal profit-making.

There is no question that the cost of reaching some of Haiti's most food insecure, given the state of the country's roads, and given the fact that they are often the most physically isolated from these roads, is often exorbitant.[15] This is one reason why storage is important. It allows products to keep, while awaiting transport that may be many days in coming. It also permits release of supply to wholesalers, processors and exporters in measured amounts over time, thereby avoiding the three-fold problem of farmers having to "dump" all their harvest at very low prices due to lack of storage, of processors having to turn away supply for lack of storage space, and of exporters having to sell abroad at a low price for lack of an ability to release the product onto the market in a way that takes advantage of periods of high demand in the importing countries.

One concern that was raised (in the private sector) was that the GOH would forbid large-scale storage to rest in the hands of private entrepreneurs[16], due to a fear that "profiteering" would result. Though this is possible, the generally liberal business environment, and the difficulty the government would have in enforcing this makes it unlikely. Nonetheless, it was recently announced that the European Union would be providing one million U.S. dollars of funding to create a national security stock for cereals. Such stocks are usually created in countries that suffer from crop failures, *not* from what are principally allocation problems. This stock will be costly to constitute, perhaps requiring food aid (as opposed to local purchases) to keep the stock "topped off" and to guarantee that appropriately timed technical rotations take place. Even with all the expense and effort that this will require, the very lack of a physical infrastructure that creates food insecurity in Haiti in the first place, will create an obstacle to distribution of food from the security stock warehouses to those in need.[17]

Reconstitution will require large bulk purchases by the GOH. This may be of interest to agribusinesses. The fact that this same grain will at some point be distributed to the needy --- probably for free or at highly subsidized rates -- will unfortunately undercut these same agribusinesses should they be involved in rural grain sales.

Soil Testing Services. There is no one in Haiti at present who performs soil tests. If agribusinesses call in specialists to help them match soil quality to crop variety, their findings could be useful to others on contiguous plots, and individual farmers might engage the services of these soil specialists, thereby raising their own yields. Texas A & M University has a world-renowned soil analysis service that at least one entrepreneur in Haiti has taken advantage of. For

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[15]Roberta Van Haeften, A Framework for Discussing the Reorientation of the Enhancing Food Security Project, The Title II Program in Particular, , USAID, Port au Prince, 30 December 1994, p.24

[16]Meeting of the Comité Restreint du Sou-Comité de l'Agribusiness du Comité Presidentiel, Port Au Prince, 3/27/95

[17]Another problem with such security stocks that one frequently sees in Africa is the lack of clear rules governing when stocks will be released.This lack of release rules has 2 effects on food security: first, the presence of a large stock which might be released at government whim, creates uncertainty for private traders, thus discouraging investment in private storage and marketing; second, large physical stock losses are sometimes incurred due to poorly managed or executed technical rotation of public stocks. This raises the cost of public storage.

a cost of ten U.S. dollars per sample, it will provide a complete soil profile, with recommendations on how to correct deficiencies. This service should be better publicized as it could be useful to village and farmer associations in the same way as it helps the large-scale commercial farmer today. One area for further investigation is the possibility of Haitian farmers contracting for the services of soil analysis and testing laboratories in the Dominican Republic.

Private Road Construction and Rehabilitation. To get harvested products to processing facilities, storage areas, collection points, ports and retail markets economically and without damage all-weather roads are essential. The government is not in a position to build or maintain its road network. At least in some limited way, private firms may agree to build feeder roads, or to maintain/upgrade existing roads in return for tax, land access or other benefits. This would have a direct positive impact on food security. Approximately 33% of the towns and villages where Haiti's 500 public markets are located have no motor vehicle access[18]. An additional 26% of the total can only be reached intermittently by four wheel drive vehicle.[19] Improving access to these markets develops internal trade, aids in the transmission of productivity-enhancing information between farmers (who meet and share ideas in the market, often remarking at the quality of the output of their neighbors relative to their own), and assures access to food that supplements home production.

The diversification strategies of the poor regularly include converting assets to cash to enable them to buy food in the markets[20]. The existence of roads lowers their opportunity costs when traveling to the markets, allows them to market more of their surplus, decreases handling losses, and gives them access to a wider variety of food products in their diet than would otherwise be the case.

Insistence on Quality, Cleanliness, Timeliness, etc. These are distinguishing characteristics that should set formal-sector, relatively organized and professionalized agribusinesses apart from the average Haitian farmer or micro-entrepreneur. Inculcation of these values will lead to improvement in what farmers get paid when they sell to assemblers and processors, thereby raising their incomes.

3. Food Security and the Policy Environment for Agribusiness

Donated Food Aid. The Government of Haiti (GOH) recognizes most of the detrimental elements inherent in the acceptance of foreign food aid. It understands that introducing additional food into small, price-sensitive regional markets may substitute for locally-produced food in the short-run, reducing farmers' incomes and incentives to continue to produce food for sale over the

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[18] From Baseline Vulnerability Assessment for Haiti p.7

[19] Proceedings of 9 April 1987 meeting of the Transportation Working Group, USDOT, p.7

[20] Staatz & Bernsten, Technology Development and Food Security, pp.9-11

longer-run.[21] It understands that in the medium and longer-term, altering consumption patterns in favor of the product mix offered by aid donors (which frequently differs from the traditional diet of the country) can be accompanied by decreases in the demand for traditional, affordable, locally produced foods. It knows that the free distribution of food creates attitudes of dependency which ultimately undercut farmers' willingness to work --- as suppliers to agribusiness and as providers to their own families.

Unfortunately, the GOH is faced with a problem common to the governments of poor countries: having to ensure survival (of both the government and the population) in the short-run, while acknowledging that this survival in most cases comes at the cost of sound longer-term development. The challenge for Haiti is to try not to lose sight of the long-term issues while it attempts to work itself out of its day-to-day problems.

Government practice, if not explicit policy, is basically to maximize access to short-term free (or cheap) resources --- especially given that its ability to purchase at market prices what is now offered for free remains extremely limited --- while deferring the "day of reckoning" when the negative effects of its short-term decisions regarding food aid begin to seriously undermine other government initiatives such as the vitalization of rural agriculture and the promotion of an export-quality agribusiness sector as a key foreign exchange earner.

The government of Haiti and its donor partners need to adopt a better approach. Such an approach might involve using food aid as a crop insurance mechanism to get farmers to shift into new riskier crops (possibly for commercialization) or to forego some food production in order to shift into tree crop production on the fragile hillsides. Since trees would take several years to reach fruit-bearing age, food aid could help farmers bridge this period. Food aid could also be used as part of a coordinated population planning program. Families now have a large number of children partly because of what they perceive to be the correlation between more family members and more agricultural output (at minimal addition upkeep cost). If families could be assured a certain food availability while deferring the bearing of additional children, the aid could have a dramatic positive long-term impact on household food security, and on overall rural well-being.

From an agribusiness point of view, three issues are paramount here: dependency, the subversion of food markets, and uncertainty. Dependence on food aid not merely in *quantity*, but in *composition* has led to certain products, most notably rice and wheat, increasing in importance in the Haitian diet even in times and places of relative abundance when and where food aid does not play a major role in the nutrition of the population. This has meant that importation of wheat flour and rice have become steady and lucrative agribusiness activities. Products that agribusinesses might otherwise sell (vegetable oil, powdered milk, dry beans) cannot be sold because retail and wholesale sellers are forced to compete with identical products that are

[21]Van Haeften, op.cit p.25

concessionally distributed. Thirdly, the uncertainty faced by agribusinesses that are unable to find out when a large shipment of food aid will arrive in-country, or what commodities it will contain, or what target areas the shipment is destined for (and where the "leakages" will occur along the way) is extremely difficult for agribusinesses to manage.

Coordination Between Donors. Beginning in 1994 a Platform Commun project was begun in the Ministry of Planning to try to harmonize government and donor objectives and methods of implementation of their various food aid programs and interests.[22]

Somewhat in parallel to this initiative, the principle food aid donors (USAID, the European Union, and the World Food Programme) and implementing agencies (CARE, ADRA and Catholic Relief Services) meet once every two weeks to share concerns and information --- primarily of an operational nature --- regarding food aid. Security of food convoys, port off-loading delays being experienced, and other logistics management issues are discussed in this forum. Approximately every two months a larger group, under the leadership of the World Food Programme, meets to cover a similar range of issues. Government ministries, the Red Cross and a large number of NGO's are represented at these meetings. Unfortunately, the emphasis of these gatherings is on current status, real-time activities and not on forward planning and coordination. Staggering of ship arrivals, harmonization of commodity types and price levels at which commodities are monetized are specific acts of coordination these working groups could, but at present do not, undertake. Remembering that food security encompasses availability, access and utilization, all three of these aims are undermined if not properly coordinated. The meetings of the donors and NGO food managers themselves are where these issues should be squarely addressed.

Agribusiness concerns should be aired at these donor and NGO coordinating meetings, both to keep aid providers focused on undertaking interventions that will strengthen the ability of the country to feed itself in the medium term and to keep the providers sensitive to the wide reach of food security beyond simple food aid, especially as food security encompasses the efficient functioning of markets and commercial food delivery channels.[23]

Phasing Out Food Aid. The U.S. (and other donors) no longer generates large domestic agricultural surpluses. Media and public criticism of foreign aid, and general federal budget trimming have become permanent phenomena. As a result, a re-thinking of the nature and scope of the U.S. food aid program abroad is imminent.

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[22]Team meeting with Director of Rural Development and his staff, 3/27/95.

[23]See recent work by the Michigan State University Food Security Project on the creation of market-friendly food aid programs, David L. Tschirley, Cynthia Donovan, Rui Benfica, Raul J. Varela and Michael T. Weber: Food Aid, Food Markets, and Food Security: Guidelines for the Design of Market-Friendly Food Aid Programs (Mozambique) and on increasing government's confidence in the ability of the private agribusiness sector to continue to meet the food needs of the population, even in time of food scarcity (Zimbabwe). Lawrence Rubey: Improving the Design of Food Policies in Drought Years: Lessons from the 1992 Southern Africa Drought, Zimbabwe Country Study, Int. Devel. Working Paper, Draft. May 1995

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The freight, storage and handling, as well as the other program and management costs that are involved when one is moving a food commodity rather than money, mean that it costs far more to deliver one dollar's worth of food than to deliver a dollar of development assistance.[24] Viewed this way, the issue becomes the price premium the taxpayer is willing to tolerate to assure the complete and timely delivery of food aid.

To ensure value-for-money, better targeting, greater impact and closer monitoring will be essential.

Over time, donors can be expected to phase down Haiti's food aid allocation. The current program size is not sustainable, as it has been driven by the recent political importance of Haiti to the United States and the damage to domestic purchasing power brought on by the embargo. Both of these special phenomena are of limited duration.

It is in preparation for this cut-back that GOH policy must begin to emphasize increased productivity in agriculture, and growth in agribusiness exports (among others) to provide the foreign exchange that will permit the importation and purchase of that which the country's farmers cannot grow.

As policies shift from emergency feeding to a more conscious development focus in the short-run, agribusinesses should note a decrease in indiscriminate resale of food aid commodities, of market super-saturation of certain goods like maize and oil, and of farmer migration out of productive activity on the land.

Finally, it must be emphasized that the public remains very dependent on wheat[25]. Debates concerning wheat and wheat flour as food aid must keep this in mind. Bobbi Van Haeften's recent work "The Definition of Haiti's Food Security Problems"[26] points out the increase in the number of calories per person coming from imported wheat since 1961 (Section 2.1.6, Figure 5). She insightfully remarks that "this would not have been a problem if the country were able to afford to afford to import these supplies commercially. However, poor economic performance coupled with the additional food needs created by periodic natural disasters have also resulted in the country becoming more reliant on donated food to meet its food import needs." The outlays being made to keep bread products in the food basket are a strain on food budgets even now. Donors, aware of this fact, try to soften the disruptive effects of their food aid by

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[24]Roberta Van Haeften, A Framework for Discussing the Reorientation of the Enhancing Food Security Project, The Title II Program In Particular 30 December 1994, USAID, Port Au Prince , p.2

[25]Though more research in Haiti is needed to fully understand the reasons for this dependence. Professor Thomas Reardon of Michigan State University has, for instance, shown that in West Africa, the opportunity cost of women's time has accelerated the shift into rice and wheat and out of traditional preparation-intensive coarse grains.

[26] R. Van Haeften: The Definition of Haiti's Food Security Problems, Draft document 3/95, USAID, Washington, D.C.

keeping wheat products prominent in their commodity mix. As a result, dependence is accentuated in the short term, creating a possibility for severe "withdrawal shocks" for the Haitian poor when food aid is eventually cut back. As sellers, this wheat dependence may be good news for agribusinesses, but only so long as money remains available for wheat flour and bread product purchases. If and when those funds dry up, sales of these, and other food products could suffer.

In general, this study focuses on the food security implications of agribusiness initiatives, but in the area of food aid, the actions of the food aid donors directly and indirectly influence the environment in which agribusinesses will operate and the responses that can be expected from agribusinesses -- from grain marketers to millers.

Privatization of the Minoterie (Flour Mill). The privatization of the minoterie (flour mill) is part of a larger package of privatizations of state-owned corporations designed to slim the size and decrease the financial losses of the government. This effort should have a positive impact on the enabling environment for agriculture and agribusiness and as such should be encouraged. It remains to be seen whether privatization will be actually be successful, or whether the alternative sources of wheat flour that bakers and traders have already developed (almost entirely wheat *flour* imports as opposed to whole wheat) will retain their attractiveness to a degree that no potential buyer of the mill will be interested in making the purchase.

A separate, but relevant phenomenon worth monitoring in this regard is the growth of small mills for grinding whole wheat into wheat flour. Up to now, demand for bread has remained quite inelastic in the face of significant decreases in incomes. If incomes continue to fall, and if the price differential between imported whole wheat and imported wheat flour is large enough, Haitians may opt to import whole wheat and transform it themselves, either in the hammermills now used for maize grinding (if appropriate levels of fineness can be achieved), or in new or modified machines --- if these machines do not prove too costly for purchase in large numbers.

To the degree that small-scale milling is expanded, the incomes of these micro-entrepreneur millers will rise. Many of the distortions introduced by the parastatal minoterie will be reversed by the growth of these millers, to the benefit of overall food security.

Exchange Rate. To have agribusiness exports be as attractive as possible in U.S. and other foreign markets, quality and other factors being equal among competitors, the number of dollars an exporter receives for a product priced in Gourdes must be low. The Gourde is *devalued* to achieve this. All legally imported inputs as well as some smuggled goods (seeds, fertilizer, rice, spare parts for vehicles, tools) will cost more to buy when the purchasing power of the Gourde is devalued, though, and the question for this study becomes:

> Is food security better assured from the income that ultimately rises with each export transaction, or is it better assured with lower-cost inputs with which to produce these exports?

The objective, in determining where to peg the Gourde:Dollar exchange rate, should be the effective guiding of investment between the internationally tradable and the non-tradable sectors of the economy. Both sectors are important, and a number of factors extending far beyond food security must be included in the determination of where the correct balance lies. For instance, price elasticity of demand for exports and imports must be considered. If demand is highly price elastic, then devaluation improves the balance of payments. We did not explore Haitian import demand-price elasticity for consumption or intermediate goods, but suspect that at least on the export side, demand is likely to be quite elastic with substitute goods being readily substituted.

Inflation. Agribusinesses will benefit from low inflation rates in most cases. The exceptions are when generalized inflation pushes prices up at a rate faster than those in the agribusiness sector (often the case because of long-term contract buying with prices locked in), or when farmers are able to obtain inflation-adjusted higher farmgate prices.[27] In these situations windfall profits are possible to owners (at least those making domestic sales). If these are passed on to workers an argument could be made that these pay-outs would raise incomes -- perceived as a plus for food security. These same workers though, would have to turn around and make their food purchases at inflated market prices, nullifying any income effect.

Usually, the stability and predictability associated with low inflation are seen as having a more salutary effect on food security than the possibilities for gains[28] in a high-inflation régime.

Trade Policy. An assumption was made at the outset that agribusiness investment would have an export emphasis. An outward-focused trade policy generates revenues that the government can more easily tax than those generated in the country's under-served interior. These revenues can be used to improve social services. Similarly, if Haiti achieves visibility as a reliable, high quality supplier of food, fiber and fishery products, this will lead to new investment, with the capital injection, economic revitalization and jobs creation effects that that implies.

It should simply be noted that an export emphasis obviously favors the cultivation of export "cash" crops over traditional ones grown and processed for the domestic market. The income earned by the poor through sale of crops for export up through the food system will permit them to buy food --- but at what cost in financial and in lifestyle terms ? Will they buy

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[27]USAID Monitoring Unit document(15 Jan. 1992), p.2

[28]It is interesting to note that even in the darkest days of the embargo in the summer of 1994, the rural market prices of basic commodities did not change that much due to inflation. For example: maize increased 0.8 times, sorghum remained unchanged, rice increased 1.2 times, and black bean remained unchanged, between 4/94 and 7/94. See: ANDAH, op.cit

staples available to them at lower-than-Haitian world market prices or will they buy relatively unhealthy highly processed foods? Will they abandon traditional agriculture in such numbers that the country would be unable to feed itself in times of internal crisis and market failure? The country has recently (within the last three years) experienced a near-total blockade of imported goods and embargo on exported goods, resulting in severe economic downturn. Political instability has scared away foreign and domestic investment alike. This is the context in which decisions concerning degree of export orientation will be made in Haiti.

The challenge of food security in Haiti today can be visualized by imagining an equilateral triangle with its base at the top. The top represents the mass of the lowly paid or subsistence poor. This group depends significantly on those few, at the point (bottom) of the triangle, who earn more than they need to assure their survival. If the cash-generating base remains small, the prosperity of those with surplus capital will be under continual pressure from an ever-expanding group of claimants made up of extended family members, neighbors, and "friends", given Haitian propensity to share (whether willingly or under duress).

With each shock in the economy or new wave of political instability, the group best able to leave the country, shut down operations to avoid being looted -- and the small group at the bottom of this inverted triangle will grow even smaller. Business confidence suffers even more, fewer people of means support yet greater numbers of unemployed, landless and penniless, and the most basic requirement of life --- food security --- is compromised even further. The only way out of this downward spiral is to graft a new element onto the tiny base of cash-rich goods-demanders. This element must consist of foreigners. To reach foreigners Haitians must physically relocate themselves -- a difficult proposition for the poor in the present regional political climate -- or they must sell the fruits of their labors. This is the country's export challenge. Finding outside buyers for its goods has the twofold effect of bringing money into the country from sources *additional* to the traditional ones, and doing so in ways that add new wealth rather than merely redistributing the old. Finding outside buyers also entails convincing them that Haiti has more appeal as a trade partner, than other possibilities. This condition makes the challenge of trade even more daunting.

The challenge then is to balance export crops with food crops. Too much of the former and the "safety net" provided by domestic production, in times of economic and political crisis, will be absent. Too much of the latter and the specialization, foreign currency earnings and quality improvement that will actually pull Haiti along the development path will not occur.

Complementarity between the two types of crops is possible and has been successfully achieved in a number of other countries. With experience and gradually increasing sophistication of land management, complementarity can extend to crop selection by season (an export crop in the hot season, a food crop in the cool), by geographic placement (a high-value export crop in the highlands, and a food crop in the lowlands), by rotation technique (with soil fertility and aeration improved over the long-term by the cycling of nitrogen-fixing legumes with high-value seasonal vegetables), and by choice of coexisting crops (intercropping between tree crops and food crops that can thrive in the shade in the rows between the trees).

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The place of rice on the country's trade agenda deserves special mention (apart from the discussion of rice as a priority sector for agribusiness investment, which appears below) because it is a staple food for both the rural and urban poor. The ease with which rice enters the country, legally and illegally, and the low price at which it can be purchased even in remote rural markets, is a boon to consumers, but a disincentive to domestic rice producers.

Since many of the consumers are themselves the producers, it is not difficult for them to see the two sides of the country's rice policies. The country's open and outwardly focused approach to rice has beneficial effects for consumers as long as they have money to buy legally, or products to barter illegally. When importing becomes prohibitively expensive consumers may find themselves with no viable domestic market (unless the Gourde floats totally freely[29]) to turn to for the purchase of this important diet staple if domestic producers disappear. For producers, the open policy will force productivity enhancement and cost reduction, which will positively affect both the rice-growing zones of the country and probably other parts of the national economy as well. The downside is that there will definitely be a consolidation and narrowing of the producer base as the less-competitive are driven out of business. This may be appropriate, but it is nonetheless difficult for the government to endorse politically and for the victims to adjust to practically.

An export-driven trade and investment policy has the potential to relentlessly squeeze the domestic rice farmer. This farmer will be forced to adapt or (s)he will disappear. Responding to consumer preferences for cleaner, longer grain, parboiled rice will help the farmer maintain a share of the domestic market. If the Haitian rice farmers cannot respond to these quality demands from the market (s)he may be forced into other crops or other occupations as market forces dictate. A benefit of the demise of the rice farmer could be the conversion of the rich, flat land now taken up with rice paddies, to other, higher-value, more intensive uses geared to exportation. Use of this land could improve profits to the farmers as well as promote labor absorption.

The fact that domestic rice has been benefitting from tariff protection and has nonetheless been uncompetitive, means that with the February 1995 decrease in the tariff on imported rice from 10% to 3%, it will be even more difficult for the rice farmer to survive. The government's apparent inability to rigorously police its porous border with the Dominican Republic offers yet another challenge to the domestic rice farmer in the form of smuggled, low-cost rice[30]. Though there are clearly substitutes to domestically produced rice, they are imported at a cost in foreign exchange and possibly in employment (of domestic rice farmers) that needs to be examined closely to permit measurement of their benefit in light of the potential alternative employment

[29]If the exchange rate is allowed to float, as export earnings fall, the Gourde devalues and domestic rice becomes more price competitive. Hence, if the exchange rate is in equilibrium, the cost of foreign exchange of imports is fully reflected in domestic costs expressed in local currency. If domestic rice is not competitive under *those* conditions, the inputs used in its production have higher value elsewhere in the economy, and would be reallocated.

[30]See chapter two for a more in-depth treatment of this topic.

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undertaken by domestic rice farmers, and the export activities that are stimulated elsewhere in the economy that permit the continued
commercial importation of rice.[31]

4. Food Security and the Agribusiness Economy

In order to accurately assess the food security impact of agribusiness investment in different crop systems, a thorough understanding of the following is required:

- market structure
- markets competitiveness
- risk residence (who assumes risk in the chain?)
- types of backward and forward linkages

Though a comprehensive analysis of each crop system *(filière)* is outside the terms of this study some highlights will be helpful for drawing the reader's attention to some particularly significant or provocative food security linkages to individual exploitable products.

Choice of Crops. The present emphasis of the government and many in the donor community is toward export-oriented agribusiness investment. This emphasis dictates at the outset what crops will be grown and solicited by agribusinesses. This crop list (see Chapter Three) has important implications for the food security of the poor. If products like cantaloupe, asparagus, ackee and premium mangos (e.g.the Francis Haitian variety) are favored, the value added is high and the likelihood of theft of the crops is low (since these crops are not popular within Haiti, with the exception of the mangos). To the degree that these are new introductions, establishing modern, productivity-enhancing practices may be easier than for crops that enjoy long histories of traditional-style cultivation.

An export-oriented strategy raises the issue of market stability. If a product is very high value-added but very susceptible to huge swings in consumer interest, encroachment from other markets, or losses due to adverse weather or to unexpected pest infestation problems, it might be an inferior crop choice (for the long-term profitability of the involved firms and for the food security of the poor) compared to some lower-value, or non-export oriented alternative. Diversification into *several* crops simultaneously can attenuate some of this risk, but this is costly, time and labor intensive and not often practical in the Haitian context of non-existent extension services, low literacy, slow adoption of new technologies, and little involvement of the export sector backwards to their suppliers in the hinterland.

The fact that overall agricultural production (output) might increase does not necessarily lead to a drop in domestic consumer prices. This is a common fallacy, and those supporting the

[31]Note that rice, flour, soy oil, corn and sorghum were all exempted from the import embargo (USAID, Monitoring Unit Report, 15 January 1992, pp. 10-11), and demand for local rice, maize, manioc, banana, sorghum and yam rose with the embargo (ANDAH, Evaluation de la Situation Agricole, Oct. 1994, p.29).

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promotion of specific agricultural products in the hope that large increases in output will help food security need to carefully consider additional information. The consumer price impact of increased output depends on whether the country is a net importer of the item in question[32], the tariff structure for the particular product, and the imperfections in the market (transport, demand elasticity, information and concentration of ownership).

A second fallacy is that processors or exporters, can determine what farmers will plant. Haiti's poverty is such that agribusinesses are only likely to be able to influence these decisions when their wishes are consistent with the cost realities facing the farmers, and when the agribusinesses make their wishes known in an effective way. Shifts in planting from cabbage to carrots (which require less fertilizer) and from black beans (haricot) to small beans (pois congo) due to seed cost are good examples[33] of the kinds of decisions regarding choice of commodity farmers made on their own, on the basis of their cost structures, even though the crops they abandoned were more prized by the buying public. In a country with poor market signaling, even the existence of a willing buyer does not necessarily motivate farmers to plant what the buyers ultimately want.

4.1 Export Crops

Coffee. If coffee rehabilitation is undertaken significant investment will be required[34]. This will take time, as well as money. The benefits are foreign exchange which can be used to purchase domestically-produced food, and which will sustain the public's demand for wheat and other products in their diet for which domestic substitutes do not exist, and environmental protection given the coffee plant's erosion resisting root structure and low appeal as fodder, utility use (axe handles, roof supports) or fuelwood.

Sugar. For sugar to be seriously promoted as an export crop, processing capacity must be added[35] (or, perhaps, rehabilitated). The existence of a now-unmet International Sugar Agreement sugar quota allowance means that there is a ready export market for up to 18,000 tons of sugar per year.[36] To date, it has been easier for Haiti to import sugar illegally (often through barter transactions) and to re-export *this* sugar, than to modernize its refineries to permit it to export a high-quality product of its own manufacture. As a locally-produced staple, expansion

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[32]Staatz & Bernsten, op.cit p.21

[33]ANDAH, op.cit p.31 ff

[34]See the Coffee PP that David has.

[35] At present there are four sugar processing companies. All virtually moribund on the production side. Nonetheless, sugar processing still employs over 20,000 people.

[36] Now, Haitian sugar exporters are said to re-export smuggled sugar, purchased presumably with local currency or in barter, in order to generate hard currency and to not "waste" their quota.

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of domestic sugar cultivation would probably be relatively easy to achieve, though Haiti's ability to increase quality to export standard is questionable.

Peppers. Hot peppers are very robust and one need not be a very accomplished farmer to grow them.[37] Where a specialty non-traditional crop with a growing world demand exists, the cultivation of which does not tax the limited skills and resources of the average Haitian farmer, it should be encouraged.

Livestock. There is apparently a viable market for Haitian goats in Puerto Rico. Goat husbandry is "low-tech" and high return-on-investment and the animals are a good store of wealth and nutrients in a storage-deficit country. They are a good source of protein and fat that is often difficult for poor farm households to obtain from other sources. They withstand drought well and require few inputs to thrive. The manure they produce is an additional side-benefit to poor farmers.

These factors argue for their promotion. The downside is that though they are discriminating herbivores, too many of them in too small an area, with too little control of their activities from owners can lead to measurable damage to erosion-preventing ground cover.

The arguments for raising goats can be used to recommend their controlled husbandry for domestic consumption. Extending this to controlled husbandry for export would require overcoming the exhausting and costly logistical obstacles of moving the animals from remote rural areas to markets which is probably not practical on a commercial scale at this time.

Mango. The mango industry provides important non-obvious linkages to other parts of the rural economy and should be promoted. The vehicles that transport mangos to market bring passengers and supplies to the producing areas during their backhaul runs. These trucks are sometimes the *only* form of wheeled transport available to isolated populations. Mango wood makes excellent charcoal and firewood. This wood is an input to the sugar industry (which burns the wood).

People cut the trees down today for the wood because it can immediately be sold for cash, and because it can immediately be used in household activities. These alternatives are more appealing than waiting for the mangos to mature.[38] Pigs that were slaughtered for food during the worst days of the embargo, culminating in their virtual extinction during the last three years, used to eat surplus mangos. With their demise, tree-owners see less reason *not* to chop down the trees than they did before.

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[37]Steve Allen, farmer in Dominican Republic for McIlhenney's. Interview, 3/23/95

[38]Discussion with FAO Agricultural Sector Assessment Team, 3/26/95.

New plantings would therefore serve to reforest areas denuded for short-term gain, and hopefully result in more wood being produced than is immediately needed for charcoal, thereby increasing mango production.

Mango has strong and growing international demand, and an organized and professionalized group of exporters at the buying end of the market channel. These exporters are probably in the forefront of Haitian agribusiness people in understanding the need to offer technical assistance, input assistance, storage and transport to their suppliers in order to meet the requirements of a highly demanding and time-sensitive market. This situation suggests that bonuses for quality, provision of tools or seeds and advice on grafting, cropping and handling are more likely in this crop than any other, to the benefit of the producer, whose revenue will rise as a result.

Vetiver. Vetiver is the raw material from which a rare and important oil used in perfume manufacture is extracted. Current cultivation practices usually involve high-density planting of the root crop. Because it is the root that is harvested, all soil retention and deep-soil aeration offered by the plant when still in the ground is immediately lost upon harvesting. Because vetiver adapts to almost all soils, and can be stored before harvest in the ground indefinitely, and takes little skill or attention during planting or growing, it is a "natural" for Haitian farmers if cultivated properly. Grown in appropriately-spaced bands, vetiver does little damage when uprooted. Staggered harvesting is another way to minimize the adverse impact of the uprooting. This argues for the crop to be promoted by NGOs working directly with farmers, where there is some avenue for conveying the appropriate way to cultivate and harvest this potentially valuable crop, whose ecology-destroying downside at present grossly outweighs its foreign-exchange generating upside.[39]

4.2 Crops for Local Consumption

Maize. Maize is eaten in most rural households. About 29% of arable land, producing approximately 200,000 tons per year, is devoted to maize. Agribusinesses have shown little interest in maize because the logistics of dealing with many smallholders are daunting and because this production is supplemented by food aid with which it can clearly not compete.

Plantain. Plantain reportedly offers the highest farmer profit/ha among "traditional crops"[40]. In addition to its use as a sort of ubiquitous starchy vegetable, like bread or ugali or sadza or njeera in other cultures, plantain is transformed in the capital into flour for bouille (breakfast porridge). Its attractiveness to farmers and multiple beneficial uses in the diet points to it as a good candidate crop for increased commercialization by agribusiness people.

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[39] Discussion with FAO team, op.cit 3/26/95

[40] 23 Jan 95 meeting with Zach Lea, SECID/PLUS project. Notes.

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Plantains used to be exported to The Bahamas. Those links have been discontinued, but the revitalization of this market could encourage rural production, which will boost incomes and food basket diversification, as more plantain and plantain by-products make their way to the markets.

Sorghum. Sorghum is an important drought-resistant staple that does well in a variety of Haitian geo-climatic zones. Its use as an import substituting crop on a large scale has been proposed by one local entrepreneur working in collaboration with an American. This project has already resulted in the acquisition of 1088 acres of land and the purchase of mechanized tillers, harvesters, spreaders and other equipment.

Though this kind of project is not likely to be replicated in many parts of the country, due to the capital and flat-land requirements, and due to its inability to employ many people or generate income for the poor in a country that desperately needs jobs for its unemployed, it is an interesting and potentially useful undertaking. The project has targeted a key domestically-produced crop, and theoretically has driven down the per unit costs of production so much that it will be able to offer a competitive product to the market and still realize profits. As a modern farm, this enterprise will become in many respects the trendsetter that others with fewer resources (and the ability to take fewer risks) will look to for ideas regarding planting techniques, seed types and harvesting approaches. It remains to be seen whether aid organizations and wholesalers (the venture's intended markets) will find it convenient and financially attractive to buy (and ultimately to re-sell) the firm's sorghum, and whether sorghum is becoming a victim of changing tastes in the face of massive donor-sponsored school lunch and donor-run maize-based food aid programs.

Sorghum tortillas are being popularized as a wheat bread substitute elsewhere in the Caribbean. If sorghum can be popularized as a wheat substitute (or extender) in Haiti, this will represent a significant savings of foreign exchange for the purchase of what has become a staple of daily life. Since bread must be baked in ovens that require wood that is one of the country's scarcest resources, alternatives that will decrease wood use should be especially welcome. They will ultimately keep trees from being chopped down, with all the positive benefits that this implies for the poor of Haiti.

Rice. Rice remains a basic foodcrop for virtually all households. Because of its importance and availability in the world market, an assessment similar to the one for sugar must be made. The key question is whether it makes sense to invest in the rice sector when imported rice is cheap (even *with* the present tariff) compared to domestic rice and is perceived as being of superior quality.

Table 1: Monthly Average Rice Prices (Gourdes) [last half of 1994, by month]							
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
milled white	4.44	4.67	5.11	5.63	4.89	4.67	4.44
parboiled, milled	4.00	4.00	4.11	4.74	4.00	3.33	3.56
imported US	4.44	4.44	4.67	5.33	4.22	3.78	4.00

Source: USAID Monitoring Unit bulletin, January 1995, p. 13

Issues of control of smuggling, continued availability of foreign exchange for purchasing imports, and government commitment to keeping rural populations from wanting to migrate to the cities, further taxing already-overburdened public services and housing, must be dealt with before informed decisions concerning future investment in the rice sector can be made.

The value of rice imports (see table below) suggests that rice might be an important import-substituting crop that should receive priority policy treatment as well as continued interest from entrepreneurs who import much of the national demand at this time.

Table 2: Selected Haitian Imports from the U.S. (in millions of $)						
Commodity	'88	'89	'90	'91	'92	'93
Rice	23	31	42	39	47	36
Wheat Flour	8.3	9.3	17.6	23.4	42.7	36.3
Whole Wheat	17.9	24.9	13.6	2.4	n/a	n/a
Cereal Grain	n/a	n/a	n/a	n/a	0.7	0.6

Source: Haiti Sector Analysis, U.S. Department of Commerce, International Trade Division, Office of Latin America and the Caribbean, 17 November 1994

The decision of whether to invest in the rice sub-sector has already been addressed positively by the owners of the more than 200 small rice mills in the Artibonite Valley and the farmers that supply them.[41] They have committed to supplying the domestic market and would be among the first harmed by policies that made it easier or cheaper for rice imports to compete with their output if they did not become more competitive in the process.

[41]Meeting of Comité Restreint, op.cit, 3/27/95

4.3 Input-Related Issues

Agribusiness incorporates everything in the food system that begins with food, fiber and fishery inputs and proceeds through the post-harvest, storage, distribution, processing, and packaging and ends with final retail end-product sale. Because of the encompassing nature of this food system, one must look at non-farm activities of agribusiness entrepreneurs as well as on-farm ones.

Inputs. The *very* short-term impact of agribusinesses entering the market and ordering agricultural inputs in an environment where purchases have been few in number and small in size, will be to raise prices and increase stock-outs, both to the detriment of the poor, who need these same inputs to guarantee their short-term food security. The bias of input suppliers could also turn away from small quantity sales to bulk, wholesale operations.

Longer term however, the jobs created, and the liquidity injected into the rural economy will likely outweigh these short-term effects. Also, as long as the inputs are largely imported and the Gourde continues to be priced on a float (so that it is rationed only by price) the supply of inputs should be very responsive to demand. As input suppliers increase the scale of their operations in response to consistent demand (and increasing leverage in negotiations) from the newly established agribusinesses, prices should drop back down, perhaps to levels even lower than today's, as scale economies are achieved, and the overall input market should function more smoothly.

Chemicals. Chemicals have an impact on farmer health and environment degradation. They also adversely affect the salability of the final product. Not enough, too much, expired or wrong kinds of chemicals are serious problems --- particularly for demanding U.S. buyers. For these reasons, the promotion of the use of chemical inputs must balance these possible problems against the benefits of increased yields, arrested infestation and subsequent loss curtailment. Proper application, handling and storage have not characterized Haitian agricultural chemicals to date, and before too much responsibility for safeguards in these areas is ascribed to exporters, to buyers and to the sellers of inputs, the real likelihood of their following through with training and assistance to the individual cooperative and the individual farmer should be evaluated.

One final point worth mentioning here is that some Haitian mangos currently enjoy a price premium in American markets because they are marketed as "organic". The reason Haitian mangos are "organic" is because for the most part farmers do not have the means to treat their trees or their fruit chemically. Occasionally, in the rare cases where chemical pesticides, insecticides or fertilizers are used, small plot size, wind drift, and water run-off can mean that these chemicals are broadcast from one plot to another, supposedly "organic" one. This unmonitored practice will, when detected by the U.S. Department of Agriculture inspectors, or by buyers' inspectors, result in Haitian mangos, currently a major cash crop for the country, being watch listed or black listed, to the detriment of the many in the mango chain whose livelihoods depend on this product maintaining its good name abroad.

5. Food Security and Agribusiness Finance

Credit. There is a lack of formal credit access for the rural poor (due in part to the fact that the Rural Code prohibits pledging of agricultural land as collateral). More than 90% of all transactions are in cash, with the rest being informal credit transactions and barter. Though this may create a slower rate of growth than in other countries, it forces growth within the means of these rural populations, and can be considered "appropriate" for a population that is unschooled in the ways of bank covenants and western-dominated formal-sector attitudes toward debt, repayment and credit worthiness.

Some first-hand, though informal, observations in Haiti have found that provision of credit results in its recipients competing for access to raw materials and inputs, thereby bidding up their price [42]. Over the long-run, credit starvation, it could be argued, creates the most responsible financial behavior. In the short-run, such a situation does stunt growth. The decapitalized rural poor need tools, seeds, donkeys, fertilizer, raticides, gunny sacks and a myriad of other items to participate in the most fundamental way in the subsistence or the market economy.[43]

Branch Banking. Only limited branch banking now exists outside the capital. Many development specialists argue that access to agricultural and micro-enterprise credit is important to the livelihood of the poor. It would be consistent with this view to say that a banking system with a strong urban, non-agricultural bias and little rural credit experience will be an impediment to food security. Agribusinesses are likely to have the prestige, access and transaction volumes to call for senior-level audiences with the country's other banks. If they make the case that their businesses require branch banking in the provinces, conducted by trained and competent bankers who understand agriculture and agribusiness, this could give the rural poor access to a wider range of banking choices and credit facilities, perhaps permitting more appropriate purchases of inputs, or advantageous timing of the sale of harvest surpluses, all leading to enhanced food security.

6. Food Security and Institutional Development Issues

Cooperatives. In some areas there are so many cooperatives and village associations that they become ineffective. People join more than one without any concern for exclusive loyalty (understandable, perhaps in their risk diversification stimulated desire to seek benefit from the

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[42]Comment of Anne Hauge, owner of Reddy Citrus, 3/27/95. It should be stressed that the price of inputs may be bid up is not in itself an argument against credit.

[43]Another point worth mentioning is that non-credit constraints in the food system often find themselves manifested as demands for (often-non-available) credit. For instance, unreliable delivery of inputs may force farmers to stockpile large inventories of these inputs, thereby increasing their demand for working capital.

greatest possible number of sources), leading to the size of many of these cooperatives being too small to have any positive impact on the membership.[44]

Market Information System. The team formally recommended the creation of a market information system (MIS) for Haiti. The Planning Ministry and Agriculture Ministry were involved in an earlier MIS in Haiti, between 1977 and 1984, but this initiative is no longer operating. In addition, Radio Haiti-Inter and Radio Metropole were broadcasting price information on the morning news in Creole, until as recently at 1991.[45]

The recommended system would be different from the food security information presently maintained by the Monitoring Unit in USAID/Haiti. Its information is not **market** centered, but rather, tracks vulnerable populations, where they are located, why they are vulnerable, their numbers, why a potential event (natural, political, etc.) might degrade their food security, and the likelihood of a worsening of their situation.[46]

Similarly, the proposed system would not be the same as a national agricultural statistics data base, though Haiti needs this as well. National-level agricultural statistics place a premium on historical accuracy and completeness and are usually far too unwieldy --- partly because of their comprehensiveness --- to be useful to farm and enterprise level decision makers.

A well designed MIS would inform producers of prices and other local market information. It would include the prices of major agricultural inputs, crop forecasts, retail prices and foreign market prices. It would announce the planned and actual timing of food aid arrivals. It would guide the arbitrage decisions of buyers. As a result of this information farmers would get better prices, and be helped to make more informed decisions on when and how much to sell and where to sell. This will offer the additional benefit of improving market quantity and regularity of supply.

We were not in a position to designate a potential sponsor for the MIS, although one input supplier expressed interest in this. The Rural Development Department at the Ministry of Agriculture expressed interest but lacks the means. In some countries such as the Philippines, suppliers of inputs sponsor the system and oversee the dissemination of the information over the radio. Names of individual retailers, or farmer cooperatives or villages are mentioned in the broadcasts as a way of appealing to the listenership in a direct and intimate fashion. In many cases, the Ministry of Finance has proven a good home for such a service, because of its influence within the economy as a whole. On the other hand, the Ministry of Agriculture will

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[44]Discussion with FAO team, op.cit 3/26/95

[45]Agricultural Market Linkage Project Draft Project Paper, September 27, 1991, USAID/Haiti, Agricultural Development Office

[46]Van Haeften, op.cit p.14

never take its rightful place as a lead Ministry in this agrarian country if it does *not* take the initiative on projects exactly like this one.

Because of sometimes major price swings from month to month (and place to place) in Haiti (see table below), an MIS would go far to putting buyers and sellers on an informational level playing field, which should be a contributing factor to improved channel performance, agribusiness profitability and ultimately, food security as well.

Table 3: Short Term Commodity Price Swings For A Representative 2-Month Period in 1993 [47]

Commodity	Price Change
Meat	19%
Rice	14%
Chicken	17%
Yam	56%
White Maize	3.9%
Fresh Fish	5.6%
Tomato	< 1%
Cocoa	- 2.1%
Powdered Milk	- 1.2%

Support for a market information system is not popular with everyone. Some assemblers and buyers do not want a MIS to be introduced in Haiti because they prefer to have producers remain ignorant of prices at different levels in the marketing channels. This group claims that it *already* has excellent information on market prices and availability, through its informal networks of contacts. Perhaps the managers of the MIS will need to ensure that they too tap into these networks or else create their own. They will also need to test whether the information they now provide is as accurate as the assemblers and buyers consider it to be.

Others are concerned that the MIS would be too cumbersome to be useful. We do not envision it becoming so elaborate as to be rendered ineffective by its own weight.

Foreign Investment Promotion. Enthusiastic donor and host government support of foreign investment is often accompanied by the relinquishment of national control. Since regulatory control is essential for public well-being, conceding it is often an eventual contributor

[47] Indice des Prix a la Consommation, Institute Haitien de Statistique et d'Informatique, Octobre 1993

to food insecurity. If a processor is permitted to evict squatter farmers from a plot, if a blind eye is turned to the over-exploitation of fragile water tables to the detriment of farmers, food security can be compromised. Similarly, if the full force of a government's power to tax is diluted by its concession of long tax holidays and generous tax breaks to investors, such policies decrease short-term tax revenues to the state, with clear negative effects on the government's ability to deliver services that support food security (agricultural extension, feeder road repair, rural medical care, perhaps even subsidies on food products targeted to pregnant and lactating mothers and young children).

Positive aspects of foreign investment promotion could include the targeting by the government, or by firms themselves, of foreign partners who would contribute the capital and/or the know-how to help Haitian agribusiness grow. Though most discussions have been focused on the attraction of American partners, another source that should be explored is even closer, in the Dominican Republic. Apparently, even in spite of the stormy political relationship between the two countries, there are many business people with ties to the country that could reinforce or revive them to strengthen the agribusiness sector. There could be many attractive reasons for doing this, from economies of scale, possibilities for branch operations, and relatively easy transport to a store of skilled workers and potential product purchasers.

Contract Farming. Contract farming, linking small producers to large-scale agricultural operations has been tried, notably in production of vegetables. The enterprises engaged in this type of production ceased their operations during the embargo. It would be worth having their reestablishment explored as a way of tying rural agriculture more directly into the national food system.

If contract farming is revitalized, it needs to address the issue of choice of crops from the perspective of the impact of labor shifts --- possibly at the most important time of year for *other* crops being grown simultaneously --- into the agribusiness' cash crop. On one hand, workers may simply ignore their cash crop commitments for the traditional crop they perceive to more reliably assure their food security. On the other hand, they might honor their contractual obligations and thereby change the rural crop mix entirely over time. The new mix, favoring cash crops, may in fact respond to new realities of the global supply and demand for food products, and may enhance food security, but some attention should be paid to developments in this area to monitor whether this is indeed the case. The discussion above about ways to achieve complementarity between cash and food crops is relevant in this context.

Research and Development. Research and development (R&D) is virtually non-existent in agriculture and agribusiness in Haiti. Agricultural research is important where there are mechanisms for dissemination of findings and for their ultimate adoption. These conditions are not present in Haiti. Though R&D is important to different constituencies for a number of reasons, the comments we heard from agribusiness entrepreneurs inside Haiti were that R&D is essential if they are to preserve the species on which their livelihood depend. They used the example of coconut to illustrate what can happen when R&D efforts are not mobilized to address a widespread problem. Apparently a blight has wiped out virtually all the country's coconut trees.

The mango seed weevil, already prevalent in other parts of the Caribbean, was identified as a predator against which research needed to be directed immediately to avoid widespread damage to the mango crop.[48]

7. Other Issues of Food Security in an Agribusiness Context

Employment Impact of Agribusiness Initiatives. Employment generation is seen as an important linchpin in the government's and the group of donors' combined strategy for the revitalization of the Haitian economy. Ironically, as much as the U.S. Government, and the governments of a number of multinational and bilateral donor agencies hope to guide Haiti in the direction of a market economy, the internal policies of these donors insist on quantification of employment impact as a way of monitoring program effectiveness. This leads to expensive and time-consuming (yet still-inexact) calculations[49] of numbers of jobs created from certain specific kinds of policy interventions and agribusiness initiatives, along with the income generation effects (and food security effects) that accompany these new jobs.[50]

Agribusinesses either hire presently unemployed workers or, since they operate in a "buyers market", would hire away the best of those who already held jobs, leaving their vacancies to be filled by new workers. Either scenario results in job creation, but it is a challenge to determine how much in each case. It is simplistic to say that even a few new jobs are better than none at all. Additional work beyond the scope of this analysis would be required to determine whether the number of new jobs that might be created by a particular policy would be worth the

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[48]Meeting with Comité Restreint, op.cit 3/27/95

[49]Calculations of employment impact are complicated, and often ignore the more important issue of income improvement. Nonetheless, potential agribusiness investments should be evaluated on the basis of their employment impact as one of several analyses performed prior to investment — even if the ultimate intention is to limit the employment effects because of concerns for the high management or security cost of a large workforce, or because of the potential for high variability in quality of product that often accompanies a large workforce.

[50]One field trip was to the Lion Industries Sorghum Farm. The owner of this new sorghum farm had calculated its total number of direct employees at 24 for a 960 acre (Phase One) farm operating year-round (significantly, four of these were to be involved in farming and 20 were to be armed guards). Even adding employee-equivalents for downstream warehousers, transporters and retailers, this operation would probably generate no more than a total of 35 new jobs. This finding raised the question of whether these numbers were too "low" for this investment to be seen as positive for the country. One argument was that, as one of the only large scale mechanized farms in the entire country, able to produce a significant percentage of the nation's import-substituting sorghum requirements, this project probably has a net positive impact from a food security perspective, even though it has a relatively low employment impact. The other argument stated that the farm's competitiveness probably would come from hidden subsidies, and its benefit to the country appears to be on the supply side only, ignoring effective demand. This argument continued that the appropriateness of its technology (and by extension, its usefulness as a demonstration project) was limited.

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effort and cost entailed in creating them. This work would have to be done with appropriate attention paid to the indirect job creation and loss effects as well as the obvious direct ones.

Several of the sections above highlighted possible adverse impacts of agribusiness investment on food security. Any evaluation of the beneficial effects of job creation must be weighed against these (potentially) negative effects of agribusiness investment.

Internal Migration. Another food security related issue stemming from an analysis of employment involves determining *where* employment is generated. In many developing country settings, one can note significant rural to urban migration in search of work, a better life, or an escape of what is perceived as the tedium and isolation of rural life. In Haiti, this phenomenon certainly exists, but so does significant reverse migration. Some people return to the rural areas because of high urban food prices though urban growth is still four times rural.[51] Interestingly, although between 1991 and 1993 there were twice as many urban arrivals as departures, these were not primarily to the capital but more often to other urban areas.[52]

The phenomenon of reverse migration due to high prices[53] for food in the cities makes sense when one realizes that these high prices put food beyond the purchasing power of the urban poor. Pre-school children in a recent study in Port Au Prince were 60% malnourished, versus only 45% for rural ones [54]. The other side of the issue is that rural population pressure causes land-squabble related violence, accelerated land degradation and, to the degree that there can be said to be an optimal labor content per hectare, decreased productivity due to underemployment of resources, resulting in some cases to overall decreased output. All of these outcomes adversely affect food security and need to be considered when addressing the issue of employment generation.

Income Impact of Agribusiness Initiatives. In an important sense, the links between agribusiness investment and increases in *household income* are the most important to establish from the perspective of short term enhancement of food security. Even employment means little if the wages are low or if the work is only occasional. Income, on the other hand, passes into the hands of the poor and has a good chance of being used for food, seed, farm tools, education (which has direct long-term links to food security), medicine, purchase of small ruminants, fencing, fertilizer, and pesticides --- all of which improve food security.

Increases in income can reverse the decapitalization practices of the poor . The selling of their land and their animals, the cutting down of their trees for firewood, and the indebting of

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[51]IADB Report of the Joint Assessment Mission, op.cit p. xi

[52]ANDAH, op.cit p.12

[53]ANDAH, op.cit p.11

[54]USAID Monitoring Unit Report of 15 January 1992, p.3

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themselves to local moneylenders at usurious repayment rates, all place stress on household food security.

Increases in income can lead to more money in peoples' hands, leading to better farming practices and net yields, better eating habits, better school attendance, and lower morbidity, malnutrition and mortality.

Finally, focusing on incomes is preferable to focusing on employment generation, increased agricultural production or even increased food production, since many small farmers will not be able to produce enough food to feed themselves adequately and will have to rely on income earned from sales of their agricultural production and other income earned from off-farm sources in order to be able to buy the rest of the food they need.[55]

The Capital/Labor Crossover Point. One document we were given showed that the cost of labor had been driven up[56] during the embargo (1991-1994) to the point where it was equally attractive for a large-scale operator to use mechanization as to use manual labor on worked land.[57] One of the delicate public policy issues that must be addressed is whether Haiti is to be known for its cheap labor --- which will certainly be a deterrent to mechanization --- or for other attributes that might actually adversely affect the *number* of people employed. Investors themselves need to assess whether the flexibility of being able to fire workers in "down" times is more attractive than having to shed difficult-to-sell assets like tillers and spreaders during times of economic hardship.

The bottom-line profitability of the firm may not be the best basis for addressing the food security implications of this question at all, but rather the prospects for recycling of earnings back to the poor --- employees or their network of dependents.

Ranked according to their income recycling impacts, rice and perhaps coffee would have the most positive impact on the rural poor of all the products and processes that our team reviewed. These two put the greatest part of the "system" --- from farmer's field to final point of sale --- in the hands of the poorest Haitians. Virtually all the others involve a system of intermediaries who capture most of the income gains from the product before benefit can accrue

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[55]Van Haeften, op.cit p.20

[56] True, the brake on business activity attributable to the embargo should have created lay-offs and bankruptcies that would have released labor to the market, driving its price down. Apparently, there was a counter effect that was at least as important, which was the indexation of wages for those who remained employed, to the embargo-inflated cost of goods and services. Though strict economic theory would argue that only the internationally traded sectors of the economy (and the non-traded sectors using traded inputs, such as fuel for domestic transport) should have been affected by the embargo, the Haitians as well as the members of the international community with whom we spoke insisted that this was not the case.

[57]ANDAH, op.cit p.12 stated that mechanization costs 2,400-3,200 Gourdes per carreau for preparation of rice land, versus 2,500-3,000 for tractor use in the preparation of the same land (asset cost not included).

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to the producer. This is not to say that the profits earned by the intermediaries are excessive in absolute terms, or even inappropriate for the services they provide. It is to highlight that the net profit returned to the producer in this system is very, very low, not only in absolute terms, but in relative terms along the marketing channel. Alternatively, they involve processors and exporters who are more concerned about quantity than quality from their supplying farmers, and who perceive, consciously or unconsciously, that efforts made to train, educate, inform or collaborate with their product suppliers, will increase the leverage of the latter in ways that will ultimately result in an unwelcome change in the way profits are shared.

Wages. Agro-industries in their role as employers must consider the effect on the labor market's cost structure of paying "top dollar" to attract high-quality staff. If wages across skill levels are tightly linked[58], raising them at one level creates a ripple effect throughout the labor chain right down to the least-skilled illiterate day-laborer. If wages indeed rise at all levels because of the increased demand for labor, then the income effects are clear and immediate. If, on the other hand, the increases in the cost of labor lead to the selection of alternative investment opportunities, either outside the agribusiness sub-sector, or in the capital-intensive end of the spectrum, rather than the labor-intensive, food security will decrease. This outcome is significant at a time when the large, mechanized sorghum farm described above, is looking for widespread support for its approach, which may push more food into the market, but may do so for a population that finds itself unable to pay for that food.

The weakness of Haiti's labor unions must be evaluated with the caveat from the paragraph above in mind. Minimum wage is Gourdes 15/day in the formal sector. In the informal sector it varies between 15 and 35 per day.[59] The U.S. dollar exchange rate in March 1995 was 14.5 Gourdes = $ U.S. 1. USAID estimates of the number of people that can be supported on one full time minimum wage salary (20 Gourdes/day) varies between 5 [60]and 20[61] (in a rural milieu).

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[58]It is not clear whether they are tightly linked or not. Evidence from the embargo period indicated that increases in costs of doing business at all levels definitely trickled down to the rural, illiterate farm worker and the price (s)he was able to charge for her/his labor, suggesting relatively strong linkages. On the other hand, given the high degree of social differentiation in Haiti, one would probably hypothesize exactly the opposite --- that there would be relatively little linkage, and that there would be a large reservoir of unskilled, unemployed poor whose wages would not be influenced by the rates paid to the scarce skilled workers. Perhaps some post-embargo research in this area would help clarify this point.

[59]Association des Agro-Professionels Haitiens (ANDAH): Evaluation de la Situation Agricole, Octobre 1994, p.15

[60]Meeting with Lee Nelson, USAID Jobs Program, 3/28.95, Port Au Prince.

[61]Meeting with Terry Hardt and Vern Connaway III, USAID/ Haiti Food Management staff, 3/28/95.

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Is it therefore better to have higher wages that possibly drive investors away, or lead processors to opt for capital as opposed to labor intensive technology, or is it preferable to have the wages remain at or near their present level given the quality of life that level represents?

The Employment - Income - Food Security Continuum. The 1987 household income and expenditure survey undertaken by Iowa State University confirmed that a significant proportion of current and incremental income is spent on food. This proportion is even higher if one includes other goods and services (tools, seeds, education) that improve long-run food security. This information will be updated by the findings of a five-person team that USAID will be hosting in April and May 1995 which will be responsible for measuring the impact of the Mission's jobs creation program. Since one of the main benefits of this program was supposed to be income generation, which was to lead to improvement in food security, the team's findings will be welcome, as a reconfirmation that patterns of spending remain predictable. Being confident of how the poor use their incremental income is useful for those hoping to sensitively program food security-enhancing activities.

Income and GNP. Income is the flip side of output. One of the key macro-economic indicators used by donors to target its food aid and nutrition improvement programs is GNP/capita, since there is a reasonable correlation in most countries between this and observed food security [62]. What donors and the Haitian government itself must guard against is believing that because aggregate numbers have improved, that food security at the household level has, as well. The output of an agro-industry might lead to very little income creation for the poor, even given the complex web of dependencies and obligations that serve to distribute income throughout the population. Haiti is still a land of incredibly skewed wealth, with the wealthy often the most removed from the traditional extended family networks that typify the poor.

Gender Equity. Most in the donor community state a desire to improve gender equity in the areas where they intervene. This almost always means raising the level of access of women to the privileges, whether in wages, working conditions, or types of work, to that presently enjoyed by men. Agribusinesspeople often have the power to question the *status quo* and encourage or solicit the participation of women in various parts of their operations, whether that be closer to the processing and exporting end of the product chain or to the planting and picking end.[63]

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[62]Complex emergencies, that have more of a political or military character to them, and are basically man-made problems, rather than natural ones, are becoming increasingly common, and are bringing to light the need to re-examine this correlation.

[63]Staatz & Bernsten, MSU Staff Paper 92-39 "Technology Development and Household Food Security, p. 21.

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8. Conclusion

Haitian grain production in 1994 was estimated at 848 thousand tons while 1.35 million tons were needed.[64] The gap was filled partly by imports that the poor could hardly afford. Another part was met by food aid[65]. Some of the effective demand was left unmet. As a result, people went hungry.

As dramatic as hunger may be, it can be alleviated — at least temporarily — in the short run through food aid, or through internal migration whereby poorer families move in with marginally better-off ones. Food *security* requires more permanent solutions.

Agribusinesses can help. These enterprises have capital, able entrepreneurs and access -- to new technology, to information, to policy makers. They also have a self-serving interest in the nutritional status and buying power of their workforce and future customers.

This study has tried to link the fields of agribusiness and food security. Its objective has been to look at the narrow question of how food security is influenced by investment decisions in the agribusiness subsector. It has not addressed, and was not intended to address, the full range of food security issues that are relevant today in Haiti.

Agribusiness and food security can be complementary. This paper has provided many examples of both how agribusiness gains by considering food security issues, and how the enhancement of food security in Haiti improves the likelihood of success of agribusiness undertakings in the country.

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[64]Avin & Mathieu p.4

[65]Another source, the Inter-American Development Bank, claimed that production only met 50% of national needs, leading to 900,000 tons of imports, of which 100,000 were in the form of food aid. Such discrepancies are not uncommon and highlight both the difficulty of quantifying the magnitude of food security problems, and the importance of reliable data from which to work.

ANNEX ONE
IMMEDIATE ACTIONS

Short-term food security for households will be enhanced in locales and food sub-sectors where agribusinesses (investors, providers of retail inputs and entrepreneurs) furnish small tools, fertilizer, agricultural chemicals, improved seeds, and spare parts (for processing machines such as rice dehullers as well as for collector/distributor transport) to farmers *up front* in the knowledge that provision of these inputs will directly translate into increased sellable output, as in the 1995 crop year. Terms must be such that the observed pattern of dependency in Haiti does not become further ingrained.

Improved dissemination of market price and availability information will have an immediate positive impact on all participants in the food system in Haiti.

Investments in road infrastructure will have big payoffs in both agribusiness and food security terms, but will require at least 2 years before they will show any significant impact. Investments made in coffee rehabilitation, mango, cocoa and lime will take longer to recover (at least 7 years for coffee, less for the others) but are probably worth making. The short-term employment generation and income improvement direct benefits to the country are probably greatest in these crop sectors. Two of these crops, coffee and cocoa, are quite familiar to the rural population, but increasingly abandoned in the face of low reinvestment.

Though policy cannot always be directly influenced by agribusiness entrepreneurs and investors, several policy issues that are of central concern to business can have a major impact on the improvement of the food security of the Haitian poor. Free and clear, exclusive, officially registered, legally defensible title to water and land is one such issue. The priority given to the privatization or dramatically improved management of the port -- whether by foreigners, locals or some combination of the two -- is another. In the absence of all other improvements in food security, a working port at least ensures that emergency food aid can reach the country.[66] Finally, implementation of new policies that facilitate movement across the land borders with the Dominican Republic provides Haiti an immediate alternative to its own port as well as access to commercially attractive inputs and technical support.

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[66]Numerous studies have highlighted the problems at the port, among which, the Inter-American Development Bank's Report of the Joint Assessment Mission (for the Emergency Economic Recovery Program), November 2-20, 1994, p. 44

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ANNEX TWO
TOPICS FOR FURTHER STUDY

Two points should be flagged, though they are not treated in this study. First is the human cost from a work conditions viewpoint, of promoting investments in dangerous sisal factories and cane fields. This has not been dealt with at all.

Second is the need for policy-makers to build on the work of Bobbi Van Haeften (USAID/ Washington) and others to scrutinize the range of projects and programs presently being planned, financed and implemented by the donors and cooperating institutions to see which ones have the potential to advance a food security enhancement agenda, whether directly or indirectly. For instance, the AID Mission's Productive Land Use Systems (PLUS) project, which promotes sustainable agricultural development, especially hillside agriculture[67] doesn't directly address food security issues, yet food security is directly advanced by the successful implementation of this, and other projects which should continue to receive institutional support.

Finally, a serious evaluation must be made of the long-term future of Haitian agriculture given the fragility of the soil and the population pressure on the land. If a shift to cash cropping, intensive production techniques, and non-agricultural income-generating activities such as tourism and fishing are viable strategies for the country to pursue, ***now*** is the time for these new initiatives to be introduced.

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[67]Examples of interventions include soil and water conservation; hedgerow, rock wall, productive band, and contour canal construction; hardwood and fruit tree planting;seed distribution; yam, cassava, and cowpea research. See lobby exhibit, USAID/Haiti (3/95) and The Plus Project, SECID/ Auburn University, Pétionville, Haiti.

ANNEX THREE
CALCULATING INCOME IMPROVEMENT

The calculation should take into account how many workers a new agribusiness undertaking employs directly. For instance, if a returned Haitian comes back to the country and decides to go into business exporting cantaloupes to the United States, some number of packers, port facilitators, graders, washers, bookkeepers, drivers and foremen will be hired. This is the direct employment effect. One must now determine where these people worked before. If they left work that was higher paying (for whatever reason) then the income impact at the employee level will be less with the new firm.[68] If, because of paying less, the employers can now earn more that they then distribute in a way that has an impact on the poor, income may ultimately increase by paying at least *some* of the employees less (directly) than they received before. One needs to know whether the jobs people left to work for the exporter were subsequently filled by others, or whether no replacements could be found for the departed workers, leading to the shutdown or contraction of other businesses (with an accompanying negative impact on employment). Because some managers opt to use more labor-intensive techniques than others, one must scrutinize agribusiness operations individually to measure how many people have been employed. In our cantaloupe example, guards, and "go-fers" are common examples of workers whose numbers can vary form firm to firm by a factor of four or more. Next, the analysis must determine how many "contractors" are used. In fruit exportation in Haiti, these contractors are the assemblers, who own trucks and themselves hire staffs of harvesters to actually go out into the countryside and collect the product that the exporter will export. Some exporters engage many of these, others only a few. Some hire them to work full-time, others in a looser relationship. Finally, some of the assemblers *say* they are working full-time for an exporter and actually are, while others moonlight (perhaps creating yet more employment through undocumented use of the working capital advanced them by the cantaloupe exporter).

A thorough treatment of the issue would (a) follow this technique through every layer of new job created as a result of the cantaloupe exporter 's new business and (b) aggregate all agribusinesses into a total, to assess the global employment impact of the agribusiness subsector. Ideally, this would all be done before the fact, so managers, and perhaps public policy makers could determine which kinds of agribusiness initiative to "favor" because of its employment generating effects. By using this technique, fish farming would get ranked above goat husbandry, for instance, though, as we will see below, a ranking based on income impact might produce exactly the opposite result.

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[68]People would accept lower paying jobs in return for greater job security, better working conditions, working for a firm that has a foreign partner (perceived as insurance against shut-downs in times of political harassment), or access to extra-work money-making opportunities (i.e. a driver given a truck to use for the job invariably makes money on the side using this vehicle as a part time taxi for hire).

ANNEX FOUR
PEOPLE INTERVIEWED

1. E. Morgan Williams, Senior Advisor, The Citizens Network, 3/19/95
2. Jackass Bernard, Lion Industries (Sorghum Farm) 3/25/95
3. Woody Navin, Broad-Based Economic Growth team, USAID LAC Bureau 3/26/95
4. Lucien Rousseau, Rainbow Agro-Industries, 3/18/95
5. Jean Maurice Buteau, JMB Exports, 3/27/95
6. Joan B. Cohen, CARE health, nutrition & education consultant 3/28/95
7. Phil Gilman, CARE/Haiti food security head, 3/28/95
8. Vernon Conaway III, USAID/Haiti, PL 480, Title II Program manager, 3/28/95
9. Steve Allen, Pepper Grower for McIlhenney, El Salvador, 3/23/95 (with Morgan Williams)
10. Roberta Van Haeften, USAID/USDA, telephone, 3/15/95
11. Terry Hardt, Food Office, USAID.Haiti 3/19/95, 3/28/95
12. Ray Sollen (came with Woody Navin) AID/W 3/26/95 and 3/28/95
13. FAO team 3/26/95
14. Lee Nelson, Jobs Program head, USAID/Haiti, 3/28/95
15. MARNDR Director and his staff 3/27/95
16. John Currelly, Director, Monitoring Unit, USAID/Haiti (several meetings, through 3/31/95)

ANNEX FIVE
DOCUMENTS USED

1. "Can Haiti Change?", Foreign Affairs, Feb. 1995 (Vol. 74, No.1) by Sidney W. Mintz

2. "They Didn't Speak Our Language. We Didn't Speak Theirs", Smithsonian Magazine, January 1993

3. Baseline Vulnerability Assessment for Haiti, OFDA, Famine Mitigation Activity Report, June 1993

4. AID/Haiti Action Plan FY 1995/6

5. AGLINK Project Paper, USAID/Haiti 1991

6. Economic Growth Office, USAID/Haiti, March 1995, *untitled internal descriptive document*

7. USAID/Haiti, Monitoring Unit, Report, 15 Jan 1992, January 1994, November 1993, January 1995

8. Proceedings of 9 April 1987 meeting of the Transportation Working Group, USDOT, p.7

9. Notes of Richard Abbott, from a meeting with Zack Lea, SECID "PLUS" Project, 23 January 1995

10. Indice des Prix a la Consommation, Institute Haitien de Statistique et d'Informatique, Octobre 1993

11. ANDAH, Evaluation de la Situation Agricole, Haiti, October 1994

12. Emergency Economic Recover Program: Report of the Joint Assessment Mission (for Haiti), Nov. 7-20, 1994, Inter-American Development Bank

13. USAID/Haiti, Haiti: Next Steps to Economic Recovery, n.p., n.d. (1995?)

14. Agricultural Market Linkage Project Draft Project Paper, September 27, 1991, USAID/Haiti, Agricultural Development Office

15. PLUS Project, SECID/Auburn University, Haiti n.d. (1995?)

16. Roberta Van Haeften, A Framework for Discussing the Reorientation of the Enhancing Food Security Project. The Title II Program In Particular 30 December 1994, USAID, Port Au Prince, p.2

17. Haiti Assistance Programme, Monthly Report, February 1995, International Organization for Migration, IOM Documentation Unit

PART TWO

"OPERATION JUMP START" Proposal of Citizens Network

..... *The United States and the United Nations were willing to intervene in Haiti to throw out a very bad government, but they are not willing to stay long enough to protect the development of a good one.*

Everything in Haiti is touched by the miserable poverty of the place, the poorest country in this hemisphere. President Clinton urged the Haitians to have patience and promised that the United States will help them to create jobs, build an economy and "rebuild and repair your injured land." If Haiti's political life is not to slide back to the lamentable level from which American troops rescued it keeping that promise of support will be crucial.

EDITORIAL
THE WASHINGTON POST
APRIL 1, 1995

1. USAIDOPERATION JUMP-START: HAITI, 1995

PART II

Haiti is moving toward the road to economic recovery and growth. There are positive signs and business is expanding. However, the economic recovery process is extremely slow and needs to be accelerated to produce jobs, increased income, and opportunities for the Haitian people before the present window of opportunity is lost and stagnation and decline sets in.

There are no immediate remedies or easy solutions for Haiti, but economic growth opportunities do exist and must not be lost. The United States, its government, citizens, and invested business community need to be involved as partners in Haiti's economic recovery and development. There is no overall victory in Haiti yet. The work has just begun.

To meet the challenges of promoting democracy, alleviating hunger and poverty, improving the environment, building educational and health systems -- all highly desirable objectives -- a strong foundation for private economic growth must be established.

Haiti is for the entrepreneur, the risk-taker, those who will invest their own capital, time, know-how, and technology. It is for those who believe in the power of market driven, private enterprise economics, to create new jobs and income, strengthen democratic structures, and improve the lives of people.

The major business in Haiti is agriculture. The embargo devastated the agriculture and agroindustrial sector in Haiti. Agriculture is at its lowest point in recent history and is in deep trouble.

It is therefore critical that a practical, effective, results-driven, leveraged, mutually beneficial, and sustainable economic development program, in partnership with the U.S. and Haitian small private invested sector, be implemented immediately by USAID. A Jump-Start program is needed which will generate increased economic activity, jobs, trade and investment, and income in the Haitian agriculture/agroindustrial business sector and lay the foundation for future economic growth.

The first program needs to be in place by May 1, 1995. A strong "jump-start" is urgently needed to get the economic recovery process moving in Haiti now.

Operation Jump-Start will:

- **Utilize** the resources of USAID leveraged directly with the resources of United States companies and small Haitian private sector agriculture/agroindustrial companies;

- **Assist** in jump-starting agroindustrial business activity within Haiti to quickly accelerate the rate of growth, level of income, and jobs in the industry;

- **Expand** the export of valuable agricultural products to the United States the import of urgently needed high value agricultural inputs from the United States; and the supply of food available for domestic consumption;

- Develop important private trade and investment/partnership linkages with U.S. private invested business firms and individual investors;

- **Provide** resources for long-term growth opportunities for Haitian value-added agricultural products exported to the U.S. market, and U.S. agriculture inputs exported to the Haitian market and;

- **Lay the foundation** for a prosperous, expanding, innovative Haitian private, free enterprise, market-driven agriculture/agroindustrial sector with mutually beneficial trade and investment/partnership ties to the United States.

The Haitian economic recovery process will take several years, but the process must be jump-started immediately . As more economic activity is visible in Haiti, U.S. and other buyers, sellers, and investors from the region will begin to shed their doubts and concerns and take a renewed interest in the Haitian economy.

As trade and investment ties develop, the Haitian economy will begin to achieve the momentum it needs to sustain the recovery process and lay the foundation for sustainable growth. If this momentum is not achieved the recovery process could easily fade and devastation could once again set in.

There are many short-term, medium-term, and long-term problems in the Haitian agriculture/agroindustrial system which the USAID Agribusiness Assessment Team will address in its complete report. There will also be substantial information about agriculture in the Assessment Team's report which will not be repeated in this report. Although the problems seem to be overwhelming, progress can be achieved, and mutually beneficial opportunities do exist.

EMBARGO DEVASTATED AGROINDUSTRIAL SECTOR IN HAITI

The Haitian agriculture/agroindustrial sector has experienced numerous severe setbacks, many beyond their control, in the past several years. The Haitian economy is in a state of devastation, lower than at any point in recent history. During the embargo, exports were suspended, vital inputs were left sitting in the United States, crops were left in the field, new fruit trees died due to the lack of water and fertilizer, new investments in Chinese vegetables and hot peppers were lost, mango, coffee, and other producing trees were cut for wood which now offer opportunities for planting new and improved varieties.

Mango and other warehouses were closed, lifetime investments were wiped out, irrigation systems broke down due to the lack of upkeep, Haitian and U.S. businessmen suffered severe losses, trucks and cargo containers had to be sold, farm machinery sat idle. Electricity was unreliable for processing plants and cold storage, thus, alternative systems had to be installed at

a great expense. There were no protein feeds for chickens, and vital poultry farms for low cost meat products were closed down, fish export businesses disappeared, and jobs and income were lost.

Fuel prices soared, processing plants shut down, roads were not repaired, and there were severe shortages of inputs. American business partners salvaged what they could, closed operations and returned to the United States. Workers lost their jobs, consumer purchasing power dropped dramatically, and the overall Haitian agriculture/agroindustrial sector was essentially devastated. Each and every legitimate agriculturally related business in Haiti was adversely affected and everyone suffered. Many in Haiti say agriculture had never been in worse shape or suffered worse losses.

Against this backdrop, these setbacks subsequently left the industry without adequate financial resources to recover quickly and effectively in the post-embargo era, if at all.

Small Haitian companies are now trying to restart operations, reorganize and energize the industry. However, the industry urgently needs more financial resources to prepare for the upcoming harvests and to assist the agriculture sector in recovering.

Without effective external resources to assist in the recovery process, development will be very slow, and small Haitian farmers will continue to suffer losses in income and revenue.

The flow of income from agricultural markets, especially from the export market to the small farmers, needs to be refurbished. The Haitian agroindustrial sector plays an important and vital role in the food system, and more importantly, it is the part of the system that needs to be functional in order to generate income from the export markets as well as supply needed inputs.

Although at the present time the agroindustrial sector is struggling, it is the part of the food system that can be regenerated more quickly and easily than other sectors producing tangible results.

OPERATION JUMP-START: WHAT IT IS

Operation Jump-Start, as outlined in the following pages, could be designed, developed and made operational by USAID during 1995 with program (1) in place by May 1, 1995. This operation can point to real impact by late June and through the next 24 months, a critical time period in the Haitian food system.

Operation Jump-Start is a very focused, cost-effective, practical, risk sharing, leveraged program that can be implemented quickly, produce economic activity, generate income, trade and investment, and lay the foundation for a prosperous future for Haitian agriculture.

UTILIZES PRIVATE BUSINESS SECTOR

Operation Jump-Start utilizes the private, for-profit invested business sector in the U.S. and Haiti as the principal engine of growth with USAID leveraging its resources to provide

credit, commercial risk insurance for trade, food system development grants, and trained private sector professionals. USAID shares the risk, primes the pump, and paves the way for the emergence of a strong, market-driven, free enterprise, private economy. The most legitimate and effective role for a government sponsored economic development agency.

This is not the way USAID likes to work. USAID normally does not work directly with profit-making, private invested businesses. However, the present situation in Haiti and the urgency for any programs which can work and make a difference means that business-as-usual at USAID needs to change. New strategies and partners are crucial. New public/private sector partnerships are needed to effectively perform the tasks at hand, provide tangible economic returns, leverage scarce resources, and lay the foundation for economic growth.

CREATES ECONOMIC OPPORTUNITY

Operation Jump-Start is not a series of programs to redistribute wealth, but to create wealth, to share risk, to energize economic activity, expand opportunity and access to the economic system, increase the number of players, substantially increase competition at the expense of monopoly positions, create partnerships, and pave the way for normal business operations.

One businessperson stated that the name of the game in Haiti has been to create invisible barriers to entry into the economic system (it seems to be the same game everywhere). Operation Jump-Start's strategy is just the opposite. It calls for expanded economic opportunities, participation, and access to credit and input markets, in order to substantially reduce invisible barriers. Thus, the goal is not to reallocate what is in Haiti, but to expand and enlarge the economic system, so there will be more resources, income, and effective participation in the Haitian economic system.

Operation Jump-Start is not a program to radically revamp every existing structure in the Haitian food system. The system in Haiti is working, though at a extremely low level of productivity and income. There are hundreds of thousands of people working in the system. To successfully revamp all of the production, distribution, marketing systems, and surrounding structures would take large, long term programs (10-15 years) with immense donor budgets, which by themselves would unlikely be successful.

The best way for the donor community to assist is to help the economic system change itself through new programs, such as those suggested by Operation Jump-Start, which engage the Haitian small private invested sector with the private invested sector from all of the countries in the region that are willing to be investor/partners in the Haitian economic recovery process. The new income and business structures can then more effectively change the system internally as new, effective partners with donors.

USAID, or any other donor, must seek real partners with resources, who are willing to take risks with their own capital, and put in a variety of resources in addition to capital. This can be accomplished by USAID working in partnership with the U.S.-Haitian invested private

sectors. Together, they can make a difference. The invested business sector becomes the major instrument of development in partnership with USAID sharing risk and leveraging resources and producing sustainable results.

USAID could appoint a small, highly effective group of individuals called the Operation Jump-Start Team to design and implement the program.

Operation Jump-Start would have four basic programs:

1. Working Capital Loan Program (WCLP) for Haitian agroindustrial businesses to quickly accelerate economic activity in Haiti under carefully targeted business plans linked to small producers and jobs;

2. Trade Credit Insurance Program (TCIP) for agricultural/food system inputs from the United States to establish important and vital trade linkages with the United States;

3. Food System Development Program (FSDP) to establish long term trade and investment/partnership linkages with the United States -- for the development of the Haitian food system.

4. Agribusiness Volunteer Program (AVP) to support the growth of the Haitian agroindustrial sector with technical assistance from U.S. agribusinesses professionals.

Programs (1) could be executed immediately followed by the implementation of programs (2) and (4) in the Summer of 1995, and program (3) by the Fall of 1995.

2. WORKING CAPITAL LOAN PROGRAM FOR HAITIAN PRIVATE AGROINDUSTRIAL BUSINESSES (WCLP)

To Quickly Accelerate Economic Activity in Haiti

The first major program of Operation Jump-Start would be the Working Capital Loan Program (WCLP) for small Haitian Private Agroindustrial Businesses.

There are 40-60 small, important Haitian agroindustrial businesses that have a substantial role in the food system, especially in collecting, purchasing, processing, packaging, wholesaling, and domestic export marketing agricultural products. In addition, some of these businesses play a crucial role in the agricultural input sector that is responsible for seeds, fertilizers, crop protection chemicals, machinery, etc.

Many of these important small businesses were devastated by the embargo. They were nearly shut down, borrowed out, delinquent on loans, severely decapitalized, and unable to function efficiently for several years. They desperately need an infusion of working capital to reinvigorate and reorganize their operations. These businesses are essential if income flow is to be captured by the small farmer, especially through export markets, and through the increased use of targeted agricultural inputs. These businesses could quickly increase economic activity and income.

Agroindustrial businesses operate under a tight, very conservative, no risk, underdeveloped Haitian banking system which accords little or no priority on lending to the agricultural/agroindustrial sector. Therefore, there are very few working capital loans made to agroindustrial businesses.

Many businesses, currently trying to reinvigorate themselves, were essentially the risk-takers and innovators before the embargo. Moreover, they were responsible for improvements and new features in the Haitian agriculture sector before the embargo. Many of these new features, which had positive, long term elements and were at the infancy stage of development, were subsequently suspended when the embargo was set in place. These new ventures were generally export-oriented and need to be started again, now.

Key Features of the Working Capital Loan Program (WCLP):

- Loan facility would be open from May 1, 1995 to December 31, 1996.

- USAID would contract with one or more selected Haitian financial institutions to participate and perform services in the program such as loan origination, due diligence, loan approval, loan servicing, loan collection, etc. Participating institutions would receive technical assistance from USAID in agroindustrial loan making under program (4) of the Jump-Start program, the Agribusiness Volunteer Program (AVP).

- USAID would design and establish the program and select the financial institution(s) to implement the program, etc. The USAID Operation Jump-Start Team would begin this work early in April, 1995.

- In most cases, loans would be a working capital line-of-credit to small non-bankable agroindustrial businesses in order to finance future business operations, particularly, future operations that would generate business activities, employment opportunities, earning for small farmers, earnings from domestic markets, earnings from exports, earnings from increased utilization of agricultural inputs, and a positive cash flow and earnings for the agroindustrial enterprise in Haiti receiving the operating loan.

- Working capital is needed for businesses working with mangos, coffee, winter vegetables, cut flowers, rice, bananas, coconuts, limes, tomatoes, onions, meat processing, beans, sugar cane, sisal for baler twine, Chinese vegetables, fish, fishing operations, vetiveer for perfume oil, ornamentals, etc. Good markets are available.

Mango Credit Cycle

- The operating capital credit cycle for a mango exporter is from 90-120 days. Cash has to be distributed to farmers and small buyers to purchase and deliver the product, boxes are bought for cash; cash is needed to pay workers to process the product from the small growers, box it and prepare it for delivery. Furthermore, cash is needed to pay for transportation to the United States. Exporters to the U.S. normally do not get paid for the product until 30 days after it arrives in the U.S. Considerable up-front cash is needed to go through a mango marketing cycle. Most exporters need from $100,000 to $300,000 to finance mango exports. The peak months for mango exports are April, May, and June. (See page 9-10)

- Family-operated agroindustrial businesses, such as meat packing, packaging and distribution firms have suffered severe losses. Working capital has been depleted to keep businesses open, maintain equipment, pay operating costs, pay workers, etc. Since consumer buying power is down, sales are also low. One of the largest extra expenses has been purchasing barrels of oil to operate generators to power refrigeration units. There have been days when electricity from the state plant was available to businesses for only 3 minutes per day. No real banking or financing options exist in Haiti today to help rebuild these important businesses.

Loan Criteria

- Loan criteria would be based on past business performance with complete understanding and empathy for the problems directly caused by the embargo, the reputation and business plans for future operations, especially those related to moving inputs to small farmers and buying products from them providing credit or in-kind payments.

- U.S. agribusiness specialists could be made available to work with loan recipients under the Agribusiness Volunteer Program (AVP). The AVP could mobilize the expertise and

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human resources of U.S. Agribusiness professionals to assist Haitian business people rebuild and expand their businesses. Volunteers usually are senior or mid-level managers, senior technical personnel or independent farmers. Each Haitian business that receives a working capital operating loan could request and receive targeted assistance over the life of the loan under the AVP if USAID put in place a AVP program for Haiti. (Program (4) under Operation Jump-Start)

- The security would be cash flow from sales, accounts receivable, etc. that would be generated as a result of utilizing working capital line-of-credit. Other security measures could be taken if available and appropriate.

- The working capital lines-of -credit for most businesses would range from $25,000 to $200,000. The precise limit USAID would want to set could be decided by the Team after discussions with potential borrowers and the participating financial institutions.

- USAID would issue the loan guarantee or letter of credit to the issuing bank, probably within the range of two-thirds to three-fourths of the loan total. The final percentage would be decided by the Team after further discussions with financial institutions but would be set at a level to ensure participation and creative lending.

- Payments on the operating lines-of-credit would be made as agreed upon in the loan document with all final loan payments to be made no later than May 1, 1997. The exact final date will be determined by the Team after further analysis.

- USAID would set the maximum loan total they would guarantee. If the guarantee facility from USAID was three-fourths, then USAID's exposure of $3 million could produce a total lending facility of around $4 million.

- USAID could guarantee the entire portfolio to a certain percentage and thus gain more leverage from the lender. Allowing the lender to be the first out should also generate more leverage.

- The final costs to USAID for this type of window would be in the range of $500,000 which is a significant and effective leverage of USAID funds, far beyond what USAID now attains in most programs.

- The WCLP is a "Jump-Start" and would have a "sunset" clause included. Hopefully, by December of 1996 or soon thereafter, the businesses would have recovered enough to finance themselves or to qualify for the OPIC facility or normal bank loans.

SPECIAL SUPPLEMENT TO OPERATION JUMP-START: EMERGENCY WORKING CAPITAL LOAN PROGRAM FOR MANGO EXPORTERS

FAX FOR IMMEDIATE DELIVERY

To: Abdul H. Wahab
Chief, Private Enterprise & Agricultural
Development Office (PADO)
USAID Mission/Haiti

From: Morgan Williams
Member, USAID Agribusiness Sector
Assessment Team/Haiti

Date: April 5, 1995

Subject: Mango Season in Haiti -
Emergency Working Capital Loans Program

The peak mango season in Haiti will be here soon. The mango season opens in March, is in full swing by mid-April, hits its peak in May, slows down in June and fades away in July.

Mangoes are purchased from small farmers and growers. It is estimated that over 300,000 people are involved, either directly or indirectly, in the Haitian mango industry and receive income from this important agricultural product.

Mangoes provide jobs and income for small farmers, buyers, transporters, receivers, handlers, packagers, dock workers, and many more. A fully operational mango industry, generating income within Haiti and providing hard currency earnings from its exports, is a great way for Haiti to prove that it is on the road to recovery.

Many of the mangoes are packed in boxes that come from the U.S. They are shipped Miami by U.S. companies. Haitian mango exporters rent facilities and warehouses from U.S. companies in Florida at the Port of Miami. U.S. companies provide cold storage facilities, unloading services, and trucking services to points all across the U.S. and Canada. U.S. buyers move the mangoes into thousands of supermarkets.

SPECIAL SUPPLEMENT, PAGE 2

The mango business is important to Haiti and also to the United States. The mango industry is a mutually beneficial one providing jobs and income in both countries.

There are around ten mango exporters in Haiti. It is estimated that six to eight of them need an emergency working capital loan now if they are to be fully functional for this year's mango season. The working capital loans that are needed, for 90 to 120 days, will be around $1,000,000. (U.S.).

It is extremely important that USAID sets up a working capital loan facility that will make loans to mango exporters by May 1, 1995. The money needs to be flowing to the industry throughout Haiti by that time so the economic potential of this year's mango season is not lost.

USAID can use this mango season to give Haiti a boost it needs. The loan facility, for this mango season and then for other agriculture/agroindustrial working capital needs during the next 20 months can move Haiti along the road to economic recovery.

This program allows USAID to use one million dollars for 120 days, receive it back with interest, have it ready to loan it out again, and give the island of Haiti an essential boost it needs. This is an effective way to use USAID resources. Please let me know your thinking on this issue - Hope to hear from you soon.

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3. TRADE CREDIT INSURANCE PROGRAM FOR AGRICULTURAL AND FOOD SYSTEM INPUTS FROM THE UNITED STATES (TCIP)

To Establish Important & Vital Trade Linkages Between Haiti and the United States

The second major program of Operation Jump-Start would be the Trade Credit Insurance Program (TCIP) for agricultural inputs from the United States.

The program would allow the United States government, through USAID, to finance urgently needed agricultural and food system inputs for Haiti. This program will have real economic benefits for Haiti and trade benefits for the United States.

Agricultural inputs can significantly increase productivity and hard currency earnings generated from exports. Equally important, the program is being offered at a critical time in Haiti's recovery process. Use of inputs in Haiti's agriculture sector has dropped dramatically and thus crop yields are down.

This program directly supports and enhances exports from the U.S. Executing this program at this critical time reestablishes prior commercial relationships and creates new ones: Haiti has bottomed out and is looking towards economic recovery. It makes sense to pursue mutually beneficial commercial ties with Haiti.

The program reinforces Haiti's productive capacity. A strengthened and viable Haitian private agriculture/agroindustrial sector is in the interest of the United States: it supports U.S. security interests and U.S. efforts to expand democracy, good governance, and market-driven economies.

Key Features of a Trade Credit Insurance Program (TCIP):

- By utilizing its own authorities, USAID would use assistance funds to finance a program of trade credit insurance for U.S. exports to Haiti. TCIP should be operational by July, 1995.

- USEXIM is not in business with Haiti, therefore this USAID program will not be competing with USEXIM.

- USAID would enter into an agreement with EXIM Bank under which USAID would undertake the repayment risk at a set percentage of sales contracts. USEXIM would further undertake, on behalf of USAID, management of the program.

- This would be similar to an agreement USAID has just entered into with USEXIM (March, 1995) regarding a trade credit insurance facility for Ukraine. (Information about this new program is available)

- USAID created a similar trade credit insurance program (TCIP) in 1984 in Central America which ran about eight years. The implementing agencies were USAID,

contracting with USEXIM bank and Central American Central banks. Countries participating include: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. At the end of September, 1992, cumulative confirmed letters of credit had exceeded $1 billion since the program began. A $20 million reserve fund for program claims was established through a transferring agreement with USEXIM, and it did not experience defaults required payments from the reserve. The USAID reserve was de-obligated. A TCIP program for Haiti would be smaller.

- USEXIM, following its regular procedures for insuring trade credits, would act as USAID's agent in implementing the program. USEXIM would process the applications in the United States. USAID would cover USEXIM's administrative costs.

USAID/USEXIM

- USEXIM Bank would issue insurance to a U.S. exporter for a sale to a Haitian importer with the same format used for its own program, except the insurance would be issued by USAID, not by the bank.

  a) As part of a private/public sector agreement with U.S. agribusinesses participating in the program, the U.S. government and private sector suppliers would share the risk on transactions financed under the program. Risk sharing arrangements with the private sector would maximize the total amount of export financing available for appropriated U.S. government funding. The U.S. government will not be responsible for the portion of transactions which the U.S. supplier agrees to bear. In the event of default, the federal financing account would cover the exporter's losses on that portion of the transaction which would be insured under this program.

  b) The credit risk would probably be shared two-thirds or more by U.S. government, and one-third by the U.S. supplier depending on further discussions with potential participants by the USAID Team. The U.S. government needs to cover enough credit risk to generate substantial participation in the program.

  c) With a two-thirds public sector/one third private sector participation on the total value of contracts, USAID could with $5 million produce a $30 million program which gives USAID significant leverage on their money and creates a large impact on Haiti through additional business interconnections with U.S. agriculture businesses. Haiti need strong business partners in order to recover and move ahead rapidly.

  d) There no EXIM Bank in Haiti. USAID would probably contract with one or more financial institutions in Haiti to work with USEXIM in application, processing, credit analysis, and due diligence on the Haiti buyer.

e) There most likely would not be a central bank sovereign guarantee from Haiti to USAID on the contracts, USAID could see if one would be available -- but should, if necessary, move ahead without one.

f) Participating businesses in Haiti could receive technical assistance under program (4).

g) The trade credit insurance program would be in operation for two years, from July 1995 to July 1997, unless additional time was approved by USAID. Trade credits would be extended from one to five years depending on the product exported.

h) In the meantime, a financial institution within Haiti needs to be created to work with USEXIM and establish normal trade relationships, which are absent at this present time, but could generate trade relationships in the future.

i) Payments under sales contracts would be made as agreed upon by the seller and buyer, however, the longest payment window available would be one to two years after the products arrive in Haiti. USAID would establish the repayment terms to allow adequate time for repayment.

U.S. AGRICULTURAL INPUTS NEEDED IN HAITI

- The commodities financed would be agricultural and food system inputs. Commodities include seeds, fertilizer, crop protection supplies, such as herbicides, fungicides, and pesticides; feed ingredients include soybean meal, feed supplements, agriculture machinery, fuel, food processing and packaging machinery, irrigation pumps, used and new trucks, diesel engines, back hoes, power tillers, corn mills, refrigeration units, tractors, bakery ovens, flatbeds, boilers, peanut shellers, mechanical harvesters for sugar cane, propane kits, rice mills, meat industry supplies, grain storage facilities, freezers, food packaging materials, corn shellers, hand motor tillers for rice, small tools, and raspadors for sisal.

- Quality seeds are in great demand, seeds need to be refreshed, fertilizer consumption has dropped to one-half of past usage, animal feeds are in short supply, used trucks are needed, and irrigation equipment has to be repaired or replaced.

- Rice production has fallen considerably. To raise production back to the previous levels, major input and credit packages must be implemented and managed by suppliers and rice farmer organizations. The input package needs to contain new and improved rice seed varieties (seeds from present plantings have been planted repeatedly and need to be replenished), soil testing and proper fertilizer packages, and hand motor tillers for working the soil.

  Irrigation systems for rice are in need of repair, they need to be declogged and in many cases new pumping equipment is vital.

Storage facilities and equipment for post harvest rice processing is also needed.

The total input package for rice is not available locally nor is financing available from within Haiti. New and innovative credit and technical assistance packages through an alliance of companies needs to be put together utilizing supplier credit and payment in-kind. Programs (1), (2), (3), and (4) of Operation Jump-Start working together can resolve this matter.

TRADE AND INVESTMENT CONFERENCE

- The Citizens Network Agribusiness Alliance (CNAA) could organize an important meeting in Port au Prince that would bring Haitian buyers and sellers together with U.S. buyers and sellers of agricultural products and inputs and with potential investors/partners. The CNAA sponsored U.S.-Haitian Agriculture/Agroindustrial Trade and Investment Conference could be convened in the Summer or Fall of 1995. A good time would be immediately after implementation of the Haitian TCIP facility.

4. FOOD SYSTEM DEVELOPMENT PROGRAM (FSDP)

To Establish Real Long Term Trade, Investment, and Business Partnership Linkages with the United States, for the Future Development of the Haitian Food System

The third major program of Operation Jump-Start would be the Food System Development Program (FSDP). This program would be implemented by USAID in the Fall of 1995 lasting for 3-4 years.

This program would complement and supplement other programs and assist in gaining additional leverage for USAID funds. It will further produce sustainability through long term U.S.-Haitian private, invested business partnerships, interconnections, trade, and investment.

Haitian businesses today need more than just money, technology, or markets. Haitian businesses urgently need long term, full-service business partners and investors from the region who bring a complete range of expertise in technology, management, marketing, and particularly experience in the large U.S. market who want to do more than just buy and sell.

Therefore, it is important to expand long term partnerships, investments, and joint-ventures with Haiti. This process needs to move quickly for the recovery process in Haiti to gain momentum, and produce positive results beyond what has been accomplished in the past. Long term private sector invested businesses are needed as partners to invest, operate on the ground in Haiti, participate in the economic development of Haiti in the years ahead, and to develop strong commercial ties with the United States.

Haiti, geographically located near the largest and advanced markets in the world, with advanced technology and services, can benefit from business partners from the region as well as the United States. In essence, Haiti needs to be a reliable supplier and export more to the United States and other economies in the region and Europe if significant economic growth is to be achieved.

Haiti's future is linked to its ability to buy and sell in the U.S. market. Business partnerships and trade between the United States and Haiti should be strengthened and enlarged. This can be a win-win situation for both countries.

The Food System Development Program would provide an important opportunity to increase partnerships and to allow these partnerships to create and pursue economic opportunities and development activities to improve the Haitian food system.

PARTNERSHIPS

Under this program, USAID would be utilizing the talent and resources of U.S. private, for profit invested agribusinesses who are investing in Haiti with Haitian partners. U.S. businesses would act as partners with USAID in the economic development of Haiti. U.S. businesses would be the vehicle of development under this program.

USAID resources would be combined with the resources from the U.S. private sector and their Haitian partners to establish leveraged, results-oriented, sustainable economic growth projects beneficial to all parties involved.

Key Features of the Food System Development Program (FSDP):

- U.S. companies investing in the Haitian food system with local partners would be utilized by USAID as instruments of development to improve and expand the Haitian food system including basic production, to generate credit programs, input channels and distributors, technical assistance and income for small farmers, and to assist in developing linkages with additional U.S. companies and markets.

- U.S. companies, and their Haitian business partners, working together with the USAID selected U.S. implementing organization, would work on needed policy reforms, infrastructure development, real market linkages in the United States, credit programs, delivery systems for agriculture inputs, market promotion, improved post-harvest procedures, transportation, product development, credit programs for retailers of agriculture inputs, and other important improvements needed to generate additional income for agriculture in Haiti.

- U.S. companies investing in Haiti could apply, through the USAID FSDP contractor, normally a U.S. not-for-profit agribusiness trade association with members who are investing in Haiti, for food system development grants to perform critical work at cost under approved work plans and budgets.

- The development grants could not be used to pay for development of the core business being undertaken by the U.S. firm and their partner, but could be used to pay for specific business plans approved by the program to add to the original business plan, to move beyond normal business activities, to provide additions to the core project, to undertake additional activities important to the development of the Haitian food system, such as product development, input credit and delivery systems, exporting and strengthening ties to the large U.S. market.

- For instance, a U.S. company in Haiti, with investments and operations buying Haitian agricultural products with a Haitian business partner (fully participating in the business), could apply for a food system development grant.

- The U.S. company could be buying, processing, packaging, adding value to the Haitian agriculture product, etc. The development grant could be used to work, in a assortment of ways, with the small farmers who are supplying the product and for developing/strengthening farmer associations, and farmer-owned supply and marketing cooperations.

- Grant funds could be used to bring the advanced seeds, seedlings, other farm inputs, training for small farmers in growing the product, training in pruning trees, harvesting-packaging the product for transportation to a market and for export ties to buyers in the

region, and a variety of other activities that could be undertaken to improve the income of small farmers.

- The U.S. investor/business partner could use the grant to improve the food system from top to bottom from the core business activities. Grant preference would be given to those using food system development grants to work with, train, provide inputs to, improve infrastructure, improve input delivery systems and exports, improve systems to provide more direct contact for small farmers with processors and exporters which would improve the production, marketing, and revenue of small farmers.

LEVERAGE

- The U.S. company would have to be investing in Haiti over the life of the food system grant program from $2.50 or more for each dollar of USAID grant money allocated to the expanded business plan presented by the U.S. firm. Grant preference would be given to those who would be investing more in reference to the leverage given USAID funds. This would not work against small companies investing in Haiti during the selection process.

- Food system development grants would most likely be in the range of $250,000 to $500,000 depending on the size of the grant program and the projected impact of the proposed food system development plan presented by the company.

- Grants could be utilized over a period of three years or so depending on the length of time established by USAID for the program. There would have to be clear evidence of the companies long term commitment to the Haitian food system, to be an investor and partner.

- The U.S. company would be reimbursed by the USAID contractor for approved expenditures under the approved food system development budget submitted by the company and approved by USAID.

- This program could also be used to forge greater linkages between U.S. and Haitian trade associations for trade development, training, trade shows, business interconnections.

- A $12 million program by USAID, for grants and management service, would make a major impact on the development of the food system. This would be combined with an inward investment from the U.S. in the range of $30 to $40 million for the overall impact of an investment package approaching $50 million. Many other spinoffs would also take place as economic activity is generated and companies are networked together.

- This would be sufficient to fund 20-25 food system development projects which would give significant leverage, sustainability, bottom-line results far beyond the initial investment by USAID in the program. This program would provide additional momentum to those created by programs (1), (2), and (3), benefitting Haiti as well as the United States.

5. AGRIBUSINESS VOLUNTEER PROGRAM (AVP)

To Support the Growth of the Haitian Agroindustrial sector with technical assistance from U.S. Agribusiness Professionals

The fourth major program of Operation Jump-Start would be the Agribusiness Volunteer Program (AVP).

This program would support the growth of the Haitian agriculture/agroindustrial sector with technical assistance from U.S. agriculture/agroindustrial professionals.

There is a great need for short-term technical assistance advisors to work with the Haitian agriculture/agroindustrial sector. The years lost during the embargo has put the industry behind many of its neighbors in critical areas, such as product development, processing, packaging, marketing, and knowledge of the U.S. market.

The AVP program would provide professional assistance to the Haitian agroindustrial businesses who receive working capital operation loans under program (1) of Operation Jump-Start.

The AVP program would also provide similar assistance to Haitian importers and agricultural input suppliers who are expanding their distribution and credit programs with the introduction of the trade credit insurance program (TCIP), program (2) of Operation Jump-Start.

In addition, Agribusiness professionals could also assist in the food system development projects receiving grants under the food system development program (FSDP), program (3) of Operation Jump-Start.

There is also an urgent need for Haitian financial institutions to create agriculture/agroindustrial lending departments. These departments, with trained agroindustrial bank officers, currently do not exist in Haiti.

Operation Jump-Start can make a substantial contribution to this major problem by involving Haiti's financial institutions in the operating loan program and the trade credit insurance program, and by providing technical assistance from the AVP program to the participating banks during the time of the program.

The commercial banks in Haiti do not offer full service lending, especially to agriculture/agroindustrial enterprises. Many banks indicate they have very little interest in lending, except to a few, well-known businesses and families. Most commercial banks are very conservative in their lending, assume little to no risk, are primarily undeveloped in their loan departments, and express little to no interest in the agribusiness sector.

This situation is a major handicap to a very important industry that requires operating capital loans, particularly at this critical juncture in their recovery and development. The lack

of credit severely limits access to the economic system and reduces economic opportunity and growth.

Some financial institutions have expressed an interest in moving into the agriculture sector and have indicated they would participate in this type of program.

Key Features of the Agribusiness Volunteer Program (AVP):

- USAID would design and contract an Agribusiness Volunteer Program (AVP) to support the growth of the Haitian agriculture/agroindustrial sector with technical assistance from U.S. agribusiness professionals.

- The program would be implemented in the summer of 1995 so that assistance could be available to support the implementation of the major programs of Operation Jump-Start and the participating Haitian companies and agricultural organizations.

- The program would run for three years with 50 agribusiness volunteers fielded in Haiti each year for a total of 150 volunteers over the three year period.

- A program of this magnitude would cost USAID around $1 million under normal contracting procedures based on other similar programs funded by USAID in the past.

- Haitian companies and agricultural organizations could request assistance under this program through the USAID contractor who would be responsible for operating the program.

- Volunteers are generally senior or mid-level managers, senior technical personnel, or independent farmers. Most volunteers are assigned for three to four weeks, though in other programs some have stayed as long as six months.

- Volunteers would be recruited with skills to meet the specific needs outlined in the request from the Haitian organization.

- Every phase of Operation Jump-Start could call on the AVP program for support. The AVP program could support other needs beyond the Jump-Start program as identified. There may be other USAID programs that could use AVP volunteers and Haitian organizations not involved in Operation Jump-Start.

- The AVP program would have the flexibility to meet almost any need requested for professional assistance. A program of this type, when used in conjunction with other on-going programs and targeted to meet specific needs of on-going business operations and agricultural organizations, can be very effective and produce positive results.

6. HAITI • 1995 AND BEYOND

- Haiti is moving toward the road to economic recovery.
- There are windows of opportunity.
- A foundation for economic development and growth is critical.
- Haiti needs long term partners.
- The U.S. government, working directly with the Haitian and U.S. interested private sector, can make the critical difference in Haiti's economic recovery and growth process.
- There is still more work to be done in Haiti.
- The United States should take the lead in Haiti's economic recovery through forging effective public/private sector partnerships and mobilizing the needed resources.