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UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

HAITI

PROJECT PAPER

PROVINCIAL ENTERPRISE DEVELOPMENT

AID/LAC/P-639

PROJECT NUMBER: 521-0223

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PD-ABD-246

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number

DOCUMENT CODE: 3

COUNTRY/ENTITY: HAITI

3. PROJECT NUMBER: 521-0223

4. BUREAU/OFFICE: OFFICE OF PRIVATE ENTERPRISE

5. PROJECT TITLE (maximum 40 characters): PROVINCIAL ENTERPRISE DEVELOPMENT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 06 DD 30 YY 96

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 91 B. Quarter 3 C. Final FY 95

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(908)	(2,375)	(3,283)	(3,535)	(8,465)	(12,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	908	2,375	3,283	3,535	8,465	12,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) PSEE	730	8TI		-		12,000		12,000	
(2)									
(3)									
(4)									
TOTALS				-		12,000		12,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 840, 860

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code: EQTY

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

TO EXPAND ACCESS TO CREDIT THROUGHOUT HAITI ESPECIALLY IN PROVINCIAL TOWNS.

14. SCHEDULED EVALUATIONS

Interim MM 01 YY 94 | MM | YY | Final MM 05 YY 96

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☒ 941 ☐ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

USAID/Haiti Controller Clearance
I have reviewed and approved the methods of implementation and financing for this PP.

Igor Nesterczuk, Mission Controller

17. APPROVED BY

Signature: David Cohen

Title: David Cohen, Director, USAID/Haiti

Date Signed: MM 06 DD 21 YY 91

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM | DD | YY

PROJECT AUTHORIZATION

COUNTRY : Haiti

PROJECT TITLE: : Provincial Enterprise Development

PROJECT BUMBER : 521-0223

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I authorize the Provincial Enterprise Development project for Haiti, involving planned obligations of not to exceed $12,000,000.00 in grant funds over a five-year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is five years from the date of initial obligation.

2. The project consists of financial and other support for strengthening and expanding the availability of credit and supporting investment services for small, mid-sized and emerging businesses, particularly in provincial centers, working through existing intermediate credit institutions. The long-term goal to which the project contributes is to stimulate the growth of the private sector of the Haitian economy, especially in the provinces, and to improve the well-being of the population through employment and income generation. The project's purpose is to expand access to credit throughout Haiti, especially in provincial towns. To achieve the foregoing purpose, the project will finance capital grants, technical assistance, training and commodities, as well as audit, evaluation and management services.

3. Most of the project funds will be obligated by a Cooperative Agreement with the Haitian Development Foundation; the balance will be obligated by contracts for project-related services. These obligating documents, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. <u>Terms and Conditions</u>

Source and Origin of Commodities, Nationality of Services.

Commodities financed by A.I.D. under the project shall have their source and origin in the United States, Haiti, or in countries included in A.I.D. geographic Code 941, except as A.I.D. may otherwise agree in writing.

Except for ocean shipping, the suppliers of commodities or services shall have the United States, Haiti, or countries included in A.I.D. geographic code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States, other countries in code 941 and the cooperating country.

David Cohen, Director

Date 6/26/91

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LIST OF ACRONYMS

ADIH	Association of Haitian Industries
APA	Agricultural Producers' Association
APB	Professional Bankers' Association
BCA	Agricultural Credit Bureau
BCI	Banque de Credit Immobilier (Mortgage Bank)
BNDAI	National Agricultural and Industrial Development Bank
BRH	Banque de la Republique d'Haiti (Central Bank)
CA	Cooperative Agreement
CMP	Management Productivity Center
FDI	Industrial Development Fund
FHAF	Haitian Foundation for Assistance to Women
FMG	Fund Management Group
GOH	Government of Haiti
HDF	Haitian Development Foundation
IFI	Intermediate Financial Institution(s)
IHSI	Institute for Statistics and Information
IRR	Internal Rate of Return
LOP	Life of Project
MEDA	Mennonite Economic Development Associates
NGO	Non-Governmental Organization
OPE	Office of Private Enterprise
PAR	Policy and Administrative Reform project
PCV	Peace Corps Volunteer
PED	Provincial Enterprise Development (Project Title)
PID	Project Identification Document
PPED	Provincial Private Enterprise Development
PROMINEX	Center for Promotion of Investments and Exports
PSC	Personal Services Contract
SOFIHDES	Societe Financiere Haitienne de Developpement
SOGEBEL	Societe Generale de Banque et de Logement
TA	Technical Assistance
Zin d'Art	Craft Development and Export Center

I. BACKGROUND AND PROJECT RATIONALE

A. Project Background

This project builds upon a seven-year relationship between USAID/Haiti and the local private sector, aimed at establishing and strengthening credit institutions and increasing access to credit and related services for small and mid-sized industrial and agroindustrial enterprises; for microenterprises in production, commerce and services; and for construction and house mortgages. Three USAID projects have been implementing activities in these areas, all of which are scheduled to complete in 1991 or early 1992. Current projects involve substantial institutional assistance in the form of lending capital and technical assistance to a) the Development Finance Corporation (SOFIHDES) (Project No. 521-0154); b) the Haitian Development Foundation (HDF) (No. 521-0181); and c) the Haitian Mortgage Bank (Banque de Credit Immobilier - BCI) (No. 521-0163).

These three projects have developed solid and viable financial institutions where none existed before, to serve major elements of the Haitian private sector which historically did not have links with commercial banks or access to credit on commercial terms. These projects have been implemented over the past seven years, a period of extraordinary political and economic turmoil in Haiti, during which seven governments have vacillated through contradictory policies, or have operated in a policy vacuum. The business community has been subjected to a variety of uncertainties, shortages, confidence crises, price fluctuations, power outages, etc., which have seriously impeded not just investment growth, but even the basic ability of many industries to survive. A broad discussion of Haiti's current business and financial environment is presented in the next section.

Operating in this often negative environment, the three USAID-assisted institutions, SOFIHDES, HDF, and BCI, have nevertheless scored some impressive achievements, as measured by the numbers of small businesses helped through loans and technical assistance, the numbers of people trained in business related subjects, the numbers of jobs created, and the volume of investment capital generated. However, much remains to be done to assist these organizations, as well as other private financial institutions, to continue to reach out to Haitian business people, including urban microentrepreneurs and emerging businesses, and to provincial enterprises at all levels. This type of outreach requires on the part of the credit institutions an increased level of planning, risk analysis, monitoring and follow-up, better communications and more complex logistics than serving their present clientele, comprising mainly established businesses in the Port-au-Prince area. Such an ambitious objective as extending credit and supporting services to entrepreneurs in several provincial centers cannot be achieved by

the institutions alone without a significant level of outside help. The focus of this project, therefore, is to pick up where the now completing projects leave off, in extending access to credit and financial services to smaller and provincial entrepreneurs. The project will provide strong incentives in the form of capital risk sharing, technical assistance, access to better information, etc. to attract both development finance institutions and private banks to expand their markets into the provinces. In the absence of the project, it is doubtful that any systematic extension of credit in the provinces would occur.

B. Current Business and Economic Climate in Haiti[1]

As late as the middle of 1990, the private sector in Haiti remained cautiously optimistic regarding a recovery of economic activity, on the assumption that a successful democratic election would take place by the end of the year. Despite the success of the election, the failure thus far of the new government to formulate a coherent financial or economic policy has turned a mild optimism on the part of the private sector to skepticism, and even pessimism. As a result, investment in the manufacturing and industrial sectors has virtually ceased, and consumption has fallen sharply.

This economic slowdown was not precipitated by any direct actions by the new government, but rather by uncertainty and the uneasy feeling that the Aristide administration would be anti-business and would introduce policy measures detrimental to private enterprise. Even if this apprehension is not fully justified, it has certainly had a dampening effect on business activity, and several negative indicators can be cited. After almost four months in office, the new government has not yet defined its political or financial strategy, but has taken measures and made statements which have confused and frightened the business and financial communities. Examples include artificially fixing the prices of steel, edible oils, cement and rice, a proposal to increase the minimum wage by 67 percent, attempting to mandate the rate of exchange between the US dollar and the Haitian Gourde and publicly attacking the business community. This has caused confusion and resentment and has placed business leaders on the defensive with respect to negotiating with the government. Some observers contend that the private sector has overreacted and that the government is not really anti-business, but merely wants to improve pay and working conditions of lower level employees. Nevertheless, the present environment offers entrepreneurs little incentive to invest or import, even to replenish inventory. The prevailing attitude is one of "wait and see", along with reluctant preparation for the expected raising of the minimum wage. If government actions are reasonable and some positive

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[1] Data drawn from Walker, J. & Caprio, G., Macroeconomic Assessment, March 1991

steps are taken regarding investment, tourism, etc., coupled with a recovery from the current recession in developed markets overseas, the level of demand and overall business activity could rise sharply, and the liquidity picture could change suddenly. For the moment, however, production is well below capacity, and businesses are being forced to make some tough decisions, such as eliminating marginal activities, laying off non-productive labor, and putting investment plans in abeyance.

In addition to government attitudes and policies, the macroeconomic situation is a major determinant of the business climate. During the late 80s and especially since the election, most economic indicators (including inflation) have been declining. Inflation has declined from 17 percent in 1980 to an average of 10 percent for the entire decade of the 80s. Assisted by economic reforms in 1986 and 1987 and increased activity in the contraband importations of certain products, the Consumer Price Index (CPI) declined by 5 percent in 1987. Since then, increasing public sector debt gradually fueled inflation back to around 20 percent in 1990. As a result of reduced demand, inflation in 1991 has dropped to about a 10 percent annual rate during the first quarter, which could rise to around 15 percent later in the year, if there is a pick-up in demand and business activity.

Private sector investment has declined from around 10 percent of GDP in 1980 to less than 6 percent in 1990, with the residential construction sector accounting for most of this amount. The manufacturing sector has remained depressed, with very little foreign investment taking place. With a return to political stability and the introduction of a macroeconomic reform package, the investment climate could improve, but not before 1992. Public sector investment is only at 5 percent of GDP, and major increases are not expected before 1992.

Exports declined 2 percent in 1988, stagnated in 1989 and declined 16 percent in 1990. Manufactured exports declined 3 percent in 1989 and 7 percent in 1990, while the value of coffee exports fell 62 percent in 1990, after two years of stagnation. Manufacturing exports are expected to decline 10 percent in 1991 and could be seriously jeopardized if the sector loses its international competitiveness through higher wages and/or higher retrocession rates.

The public sector treasury deficit is predicted to be about 293 million Gourdes ($US 39 million) for 1991, as per IMF estimates, and when added to the expected deficit created by the state run enterprises, the Central Bank will be required to generate approximately 375 million Gourdes of additional financing ($US 50 million).

One of the most pressing economic issues for the GOH is the foreign exchange crisis, now largely dominated by the petroleum pricing policy and to a lesser degree by the declining performance of the export sector. The exchange rate between the Gourde and the U.S. Dollar, as stated in terms of the dollar premium above the historic 5:1 rate, remained fairly stable at around 50-55 percent during 1990, then fell slightly at the end 5 of the calendar year, after the December election. In 1991, the rate held steady at the 1990 average for the first three months, then fell to around 44-46 percent, mainly as a result of a reduction in imports. By May, the dollar had reached a plateau of 50 percent and many observers expect the dollar premium to rise again slightly during the second half of 1991.

In 1991, liquidity within the banking sector has regained its traditional high level, after dipping sharply in the spring of 1990, following a relatively large increase by the Central Bank in reserve requirements on bank deposits. Most banks continue to face a high-liquidity situation, with few new loans being issued, as investor confidence remains shaky and businesses continue to be ultra-cautious about borrowing. The portfolios of most banks have generally deteriorated somewhat, as the percentage of non-performing loans increases, and emphasis now is on collections from current clients rather than on new lending. The present depressed business climate is likely to continue through the first year of the new project, when an upswing can be anticipated, if government policies begin to reflect a pragmatic rather than an ideological approach and investor confidence returns.

C. Provincial Credit

Lending in the provinces has thus far amounted to only a small portion of the private sector debt in Haiti. In 1986 the figures from the Central Bank showed that less than 7 percent of private sector credit was outside the Département de l'Ouest (Port-au-Prince). In addition to very little provincial lending, term lending occupies a very small percentage of the total portfolio outstanding in the banking sector (medium-term credit being defined by the BRH as between 1 and 3 years and long-term credit as over 3 years). In separate studies, both Development Finance Consultants and Leslie Delatour indicate that the fine line between the two are blurred by the practice of rolling over lines of credit (i.e."evergreen" loans). Under these conditions, the term element is not a relevant factor in the pricing of a loan, and therefore not in the pricing of the deposits. The presence of a stable savings and institutional deposit base (pensions and insurance funds) combined with conservative lending practices, has allowed banks to avoid perfectly matching their funding and thus to enjoy a positive liquidity position.

Figures for productive lending, as a percentage of the total commercial banks portfolios are summarized as follows:[2]

Table 1. TERM CREDIT USES IN COMMERCIAL BANKS			
Year	For All Productive Uses		Industry Only
	Medium & Long Term	Long Term Only	Long Term Only
1983	13.0%	4.8%	1.4%
1984	13.9%	4.3%	1.2%
1985	10.2%	3.4%	1.3%
1986	12.0%	5.3%	1.8%
1988	25.0%	12.0%	n/a

For 1988, the data also show that of the aggregate portfolio of commercial banks, less than 1 percent was in agricultural loans, 14 percent in industry, 4 percent in construction and the remainder in commercial and personal loans, for a total of only 19 percent of the portfolio lent for productive uses. The financial system offers services to 8-10,000 corporate and personal borrowers, 75 percent of whom are found in the Port-au-Prince area, and to around 200,000 depositors countrywide.

The financial sector's lack of provincial exposure for productive purposes is the result of three interrelated issues. The first is the generally poor macroeconomic environment which has persisted throughout the 1980's. The second is the inefficient legal framework in which the financial institutions must operate. This relates to the proper identification, registration, and protection of collateral. The third issue is that of the unknown borrower and the extra risk thereby implied. Banks in Haiti tend to be very conservative, and are more comfortable dealing with familiar clients. The Central Bank estimates that loans to the 10 biggest clients account for 75 percent of all credit offered by the formal sector in Haiti.

Where projects in the provinces have been financed, it has been because they were backed by solid and well-known investors. Although some commercial banks do have a few branches in the provinces, these branches serve mostly as clearing houses for

[2] The data for the years 1983 to 1986 is from the report completed by DFC in 1987 and the data for 1988 was obtained from the report by Delatour in 1989. The latter has been adjusted for non-performing assets.

activities between the provinces and the capital. The following banks have branches in the provinces: Banque de l'Union Haitienne (Cayes and Cap Haitien), Banque Nationale de Crédit (Les Cayes, Cap Haitien, Jacmel, Gonaives, St. Marc, Jeremie), Banque Nationale de Paris (Cap Haitien).

The two AID-assisted development financial institutions, HDF and SOFIHDES, have achieved at least limited success with lending in the provinces. HDF opened a branch in Cap Haitien in the fall of 1989 and to date has 60+ borrowing accounts, with a total portfolio of 2.5 million Gds ($333,000). A recent study of the southern provincial town of Les Cayes has indicated sufficient potential for HDF to begin the process of opening a second branch in that location in the second half of 1991.

Since 1988, SOFIHDES has financed 14 provincial loans totaling 10.3 million Gds, of which 10 were in the agribusiness sector (6.1 million Gds or $812,000). Provincial lending has accounted for more than 50 percent of SOFIHDES's portfolio growth since 1988. Additional internal data from SOFIHDES show that for the same 4 years, agribusiness projects analyzed totalled 37.9 million Gds ($5.0 million), of which 25.3 percent (9.6 Million Gds or $1.3 million) were actually financed. Of the projects analyzed, 60 percent were in the provinces and of those actually financed, 54 percent were in the provinces. These results suggest first that although there are a plethora of good ideas, only a minority are really bankable with traditional banking practices (term loans backed by tangible security); and secondly, that once an institution has acquired the proper risk analysis methodology, bankable prospects can be developed, even with traditional banking practices. We can conclude that with good analysis and innovative financial instruments, more of these projects could be financed, which makes the agribusiness sector a promising area for a financial institution seeking to encourage investment in the provinces.

The foregoing observations underscore the importance of the risk factor. Proper risk assessment is a <u>sine qua non</u> to successful lending in the provinces. Familiarity with local business conditions and preferably a physical presence in the town where lending is being carried out, are fundamental requirements. To balance risk, institutions will need a well diversified portfolio to offset not only the higher risk of doing business in the provinces, but also the higher cost of monitoring and loan administration. If a provincial lending program such as the one being proposed in this project is to be successful, it must remain flexible to meet the individual demands of each project financed and provide for innovative risk sharing mechanisms with lending institutions.

II. DETAILED PROJECT DESCRIPTION

A. Project Goal and Purpose

The project goal is to stimulate growth of the private sector of the Haitian economy, especially in the provinces, and to improve the well-being of the population through employment and income generation. Within this broad goal, the project seeks to expand capital availability to small businesses and emerging enterprises, both in the capital and especially in provincial centers, so as to broaden and deepen Haiti's financial markets. Social well-being will be improved directly, though the creation of new jobs, higher incomes and increased financial stability.

The project purpose is to expand access to credit throughout Haiti, especially in provincial towns. This project differs from current and past credit activities in Haiti in its provincial focus. Priority attention with respect to both lending and technical assistance will be on provincial businesses, with a secondary emphasis on urban small-scale and microenterprises. Incentives provided under the project in the form of risk-sharing, TA and better investment information, are a necessity to attract IFIs to undertake provincial lending. The project will seek to channel resources to activities which will provide high rates of return, stimulate economic growth and create new jobs, by providing enterprises with the technical and financial wherewithal to produce more goods and services, both for export and domestic consumption.

B. Project Outputs

Activities financed under the project components described in the next section will seek to produce the specific outputs listed below (see Logframe, Annex A):

1. A financial market established at the provincial level for private Haitian financial institutions to provide term credit at market rates to small, mid-sized and emerging businesses on a continuing basis.

2. Capability developed within the Haitian Development Foundation a) to manage a large capital fund, b) to meet the credit and counseling needs of its expanding client base in the capital and several major provincial towns and c) to operate as a self-sustaining development financing institution.

3. A model established for ongoing provincial private enterprise development initiatives in several major provincial centers, to assist and motivate new and expanding enterprises by providing a range of technical and information services, leading to the identification, formulation and execution of bankable entrepreneurial initiatives.

4. Management capability of Haitian financial institutions strengthened and their access to pertinent financial and market information improved through technical assistance, training and analytical studies of constraints, opportunities and operating practices.

C. Project Components

1. Capital Fund and Term Lending

a) Organization of the Capital Fund

The capital fund under this project will be granted to the Haitian Development Foundation (HDF) and will be managed by the Fund Management Group (FMG), an autonomous entity within HDF. The funds to be managed will include not only the lending capital furnished under this project but also the present and future amounts accruing to the SOFIHDES/HDF trust, as well as any other funds which may be made available, such as PL-480 or ESF-generated local currency. Although references to "The Fund" and to FMG throughout this paper are almost interchangeable, strictly speaking, the Fund is the body of capital represented by deposits and its loan portfolio, while the FMG is the group of people who manage the Fund, including its Advisory Committee.

The role of the FMG, as well as the Fund, will be to provide financing through intermediate financial institutions (IFIs) for micro, small and medium enterprises, with emphasis in the provinces and loans for larger projects which have substantial provincial impact, especially with respect to employment. Project lending criteria dictate that end-use lending, with rare exceptions where unusually high employment generation can be demonstrated, will be to productive enterprises in the provinces or to small or microenterprises in the capital. Loans for consumption or production agriculture will be excluded.

Loans for low-cost housing will be eligible, even encouraged, under the project, through such intermediaries as BCI, SOGEBEL and MEDA, but the extent of such loans will depend in part on the results of a small pilot activity being implemented by MEDA and comprising 35-40 loans, to test the feasibility of mortgage lending to persons with $300 per month family income or less, using the antichresis concept as collateral.[3] The results of

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[3] Because of the lack of a cadastral system and properly mortgageable titles in Haiti, the concept of antichretic lending is being studied as a form of loan security, wherein a loan is backed by the property's potential to generate income, rather than by the bank's right to foreclose and take title to the property. In antichretic lending, the bank may respond to a default by removing the borrower from the premises and finding a renter to continue payments, but the original borrower does not lose the property and can reoccupy after the loan is repaid. This creative mechanism may permit lending to low-income households in Haiti or any borrower who

this pilot, as measured by payback rates and possible court tests of antichresis, will not be known until the second or third year of the project.

The FMG will manage the capital fund, with the objective of maximizing both returns to the Fund and the impact upon the target markets, while at the same time minimizing risk. This is admittedly a difficult task and will require skillful management.

In order to attract IFI's, the FMG will have to adopt a proactive market-oriented approach and retain the maximum amount of flexibility in negotiating terms with the IFIs. Potential clients to the Fund will comprise the entire private financial sector and in special cases, perhaps some publicly owned institutions. IFIs operating in the primary target market (i.e. those emphasizing provincial and microenterprise lending) will receive funding in tranches based on their need, while institutions making larger loans will borrow on a project-by-project basis. All IFIs will be approved as qualified borrowers from the Fund prior to accepting actual applications for funds. The FMG will be headed by an experienced banking professional, capable of performing project risk analysis. Applications will be reviewed and approved by the FMG's Advisory Committee, comprising experienced businessmen and bankers[4]. Their decisions regarding allocation of lending capital among IFI applicants will be approved by the central Board of HDF. All decisions on lending tranches to IFIs will be subject to the written approval of USAID/Haiti, by the Mission Director, or delegated not lower than the Chief of the Office of Private Enterprise. In the unlikely event of a substantive dispute on lending capital allocation among IFIs between the FMG's Advisory Committee and the HDF Board of Directors, the matter will be referred to USAID/Haiti for resolution.

To preserve the capital of the Fund, the funds represented by the SOFIHDES/HDF Trust will be deposited in the relatively risk-free

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is incapable of obtaining a perfected mortgage due to lack of title. The main drawback of antichresis is that it remains an untried concept and has never been tested under Haitian law.

[4] Sophisticated and demanding analysis of this nature cannot be expected on a *pro bono* basis. Therefore, the FMG will be authorized to pay reasonable *honoraria* to members of the Advisory Committee, based on the actual degree of their participation. Similar compensation should be available to the HDF's microenterprise Advisory Committee and the HDF's overall Board of Directors. This was among the recommendations of the Price Waterhouse evaluation and was independently proposed by Leslie Delatour in the design team's discussions with him. Such payments would be set at a relatively nominal level, within HDF's budgetary capabilities, yet sufficient to serve as an incentive to participate actively. Board members' fees could be paid from the revenues of the lending program, or even from the A.I.D. support grant initially, as long as budgetary provisions are made for continuance after the project.

interbank market, while the capital funds provided under this project ($4.7 million[5]) will be used to finance the lending operations. Within the interbank market, the FMG will spread its deposits across the private financial system. Diversification will be achieved in the lending operation through the use of three loan categories: microenterprise lending, risk-sharing and non risk-sharing lending (see the next section, C.1.b, and the Technical Annex C for a more detailed description).

The operational independence of the FMG will divorce decisions on lending capital to IFIs from the ongoing business of HDF in the delivery of its own microenterprise lending program. This separation is intended to avoid any possible conflict of interest, which could theoretically arise if HDF itself were a contender for lending capital and thus in competition for funds with other IFIs. Initially under the new project, HDF will continue to receive lending capital on a grant basis, as it has done under the current project. Given HDF's foundation status, the higher risk nature of its clientele, and the added burden of its expansion into the provinces, cash flow analysis indicates that HDF will continue to require no-cost capital, at least for the early phases of the new project. In the current project, HDF has made good progress in growing its way out of operational subsidies and no longer requires an operating expense grant to carry out its present program. However, given the difficulties in expanding to the new target groups in the provinces, HDF is not yet ready to borrow capital funds on a competitive basis and will continue to need the full interest rate spread to cover its operating expenses. Nevertheless, one stated objective in the new project (in Output No. 2, Section II.B.) is to develop HDF into a fully self-sufficient institution. Based on cash flow records and projections during the life of the project, it is HDF's intention to move from a capital grantee to a capital borrower from the FMG, initially probably on concessional terms, and eventually on fully competitive terms. Negotiation of the initial concessional terms will be based on a proposal by the HDF's Microenterprise Advisory Committee and analyzed by the FMG's separate and autonomous Advisory Committee. Negotiated terms would be subject to approval by the HDF Board and the Director of USAID/Haiti, or his designee.

For managing the fund, the FMG will earn a 2 percent fee, based on the total amount of funds managed. FMG will also collect from the borrowing IFI a 1 percent fee for each loan disbursed. Since income from fees will rise as borrowing increases, and since start-up costs will be higher in the first year, the fee structure must be supplemented by an operating grant to the FMG

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[5] This amount, which represents the value of capital to be provided to the FMG under the project, does not include the capital grant of $2 million to be extended to HDF itself by the project, to continue and expand its own microlending program and its provincial initiatives.

under the project, until a break-even point is reached. The Financial Analysis, Annex D, shows when the profitability point will occur under various scenarios. A basic objective is that the FMG achieve self-sustainability during the life of the project.

The staff of the FMG entity will comprise a managing director, who will be a banking professional, assisted by a financial analyst and a secretary. An Advisory Committee comprising representative members from the business and banking communities will review and recommend loans for the Board's approval. A long-term technical advisor is considered necessary for at least the first two years of the project to establish the FMG operationally. Thereafter, any TA needed by the Fund can be provided by short-term consultants under the Institutional Support component of the project.

b) Term Lending

Experience has shown that the Haitian financial sector has normally enjoyed a healthy liquidity position. Even with excess liquidity, long term lending to higher risk activities has been limited. The issue according to many analyses and reports is one of risk and not one of supply of funds. This has been most recently documented in a study of the Fonds de Developpement Industriel (FDI), which concluded that to tap the higher risk market, more effort has to be made in the area of risk identification, risk analysis and options for risk sharing. This strongly suggests that the FMG will have to put considerable emphasis upon flexibility and innovation in managing its fund and in devising workable incentives to increase loan demand by the IFIs.

Until now less than 7 percent of the total credit to the private sector has been placed in the provinces. Historically, only 13 percent of the total banking sector's portfolio comprises medium- and long-term loans for productive uses, the balance being loans for operating costs or consumption. In reality, this figure may be lower due to the common practice of "evergreening". Two of Haiti's public institutions have had poor records on term lending, not only for productive purposes, but also to smaller provincial entrepreneurs, the primary target market of this project. These institutions, BCA and BNDAI, are now in collection operations only and are not making or seeking new loans.

The target market for the lending will be:

i) Provincial small- and microenterprises[6]
ii) Larger provincial projects
iii) Port-au-Prince small- and microenterprises
iv) Other projects with important development and/or employment generating aspects (as justified on an exceptional basis).

This target market will be served through three distinct categories of loans:

i) Microenterprise-directed lending: This category of loan will be directed to an IFI which will directly address the central objectives of the project. Depending upon the individual case, this category may involve supplying lending capital on concessional terms, as provided for in the AID Policy Paper on Financial Markets Development, August 1988.

ii) Risk sharing: In this category, the Fund will share in the risk of a loan. Some of the risk-sharing mechanisms might include subordinated debt, pari-passu arrangements on collateral offered, deferred principal payments, graduated interest arrangements, balloon loans, retractable bonds (or putable bonds), and revenue bonds. These options are discussed further in the Technical Analysis summary and annex. Loan guarantees and equity participation are other conceivable risk-sharing arrangement, but they will not be employed in this project because of policy constraints, or technical problems and management complexities. The most

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[6] There is no generally excepted definition of a "microenterprise". A.I.D.'s *Microenterprise Development Program Guidelines*, contained in Policy Determination No. 17 of October 1988 suggests as an objective criterion the employment of approximately 10 people, but also recognizes other factors, such as low level of assets and revenue, rural setting, ownership by women, etc., where businesses with a larger number of employees should still be treated as microenterprises. The guidance indicates that Missions may have to use a locally appropriate definition of microenterprise (e.g. USAID/Dominican Republic sets the standard at up to 50 employees). HDF considers many, if not most, of its clients to be microenterprises, even though its average loan size is several times the $300 figure suggested in PD-17. However, average loan size to microenterprises in this project will be significantly less than under the current HDF project, because of the provincial nature of the market and the expected participation of MEDA and FHAF, which specialize in very small loans. HDF's interpretation of microenterprise is typified by an enterprise owned by persons at least in the poorer half of the population (noting that Haiti is the poorest country in the Western Hemisphere) and often woman-owned or operated. Another criterion for an eligible microenterprise is that it is the smallest business entity viable enough to succeed at its chosen activity and capable of undertaking regular debt servicing with a financial institution in the formal sector. With these factors in mind, the term "microenterprise" in this paper should be interpreted broadly enough to include small-scale businesses, operating with minimum capital and owned by the poorer half of the population.

important factor in risk-sharing is to require the IFI to retain sufficient exposure to ensure prudent management.

iii) No Risk Sharing: This is a straight lending operation, where an IFI for mainly internal reasons, decides against using its own funds to finance a project in the provinces.

2. Provincial Private Enterprise Development

a) The Concept and Objectives of PPED

This project component arises out of a comprehensive study commissioned by USAID/Haiti's Office of Private Enterprise (OPE) and undertaken in 1990 by an experienced local consultant. The study comprises both an activity proposal and an operations guide for its implementation. With its emphasis on extending credit to the provinces, this project provides an ideal vehicle to implement the Provincial Private Enterprise (PPED) initiative.

The objective of the PPED component is to make accessible to the provincial entrepreneur the same range of business services which are already available in Port-au-Prince. Examples of such services, which are largely unavailable in most provincial areas, include information on markets, suppliers, prices, etc.; assistance with technical specifications and product design requirements; documentation requirements for credit, licenses, incorporation, etc. Private sector investment, as well as most government services in Haiti, are highly centralized in the capital city, to the detriment of the provincial entrepreneur. Few financial institutions are represented outside of the capital, and some will not make loans in the provinces.

It is evident from USAID/H outreach activities in 1988-90 that a sizeable pool of entrepreneurial talent and demand exists in the provincial centers. These businessmen and women are ready to invest their time, energy and money in projects in their cities, but hesitate because of the myriad obstacles, both real and imagined, that stand in their way. The PPED activity seeks to be the catalyst to bring supporting services to provincial businesses, including information dissemination, market and financial contacts, technical and procedural know-how, and training and assistance with proposal preparation. PPED will help reduce the fragility of the financial market by increasing the base of qualified borrowers and expanding access to credit outside Port-au-Prince to provincial towns.

Important assumptions behind the PPED concept are that 1) a high level of potential business opportunities exists in the provinces (borne out by the limited experience of HDF, SOFIHDES and MEDA and the surveys conducted for Cap Hatien and Les Cayes); 2) Port-au-Prince banks have not been looking hard enough for bankable

projects in the provinces; and 3) investment ideas emerging from the provinces have not been developed into bankable proposals which meet bank lending criteria. PPED activities will capitalize on opportunities presented by the first assumption and directly attack the constraints raised by the other two assumptions.

b) The Scope of PPED

PPED will comprise the following interrelated and complementary operational elements:

1) Baseline Studies

The first PPED activity upon entering a new provincial center will be to undertake a baseline study. Baseline studies will help attract investment interest and enhance the local investment climate by providing basic business information about an area, similar to a Chamber of Commerce information publication. This information, systematically compiled and presented, is almost totally lacking in the provincial centers to be addressed by the project, except for Cap Hatien and les Cayes, where baseline data have already been gathered by USAID/OPE-financed studies and can serve as models for other provincial towns. The purpose of the baseline studies is to give potential investors an overall view of the resources and facilities available in a certain area. Data provided would include:

- population characteristics - growth rate, labor force, education levels;
- spacial characteristics - aerial photos, mapping, defining market area, urban/rural linkages;
- enumeration of existing enterprises - number, type and size of enterprises; number of employees; sources of finance; number, type and size of new construction;
- state of infrastructure - transportation and power generation resources; airport and wharf facilities; telecommunications;
- existing and potential markets, availability of raw materials, supplies, maintenance capability, analysis of opportunities and constraints, etc.

The baseline studies will be performed by short-term consultants funded by the project, with the cooperation of the local business community and provincial government officials.

2) Outreach Services

This activity would offer services to Port-au-Prince based organizations interested in expanding their coverage to provincial areas. Clients would likely include several institutions already assisted by USAID/Haiti private sector

projects such as BCI, HDF, SOFIHDES, PROMINEX, CMP, Zin d'Art, and APA). Other credit-oriented institutions, such as MEDA and FHAF, are potential users of the outreach service, along with private firms seeking to open branches in certain provincial towns.

The successful outreach assistance provided by USAID/OPE to HDF for its recent expansion to Cap Haitien and Les Cayes is a model of the type of services offered. All of these institutions provide a range of valuable information and technical services to their clientele, which are especially needed in the provinces, yet they often lack the staff, expertise and time to plan and carry out market-driven expansion of services outside of the capital. On a fee basis, PPED would provide through its outreach service the data gathering, field work and information assessment necessary for these institutions to make rational decisions regarding expansion of their activities in provincial areas. Specific services to be directed especially at NGOs with provincial credit programs will include assistance with computerization and related software design, shared databases and help in setting up an accounts management systems in the provinces. PPED's outreach can provide an informational link to the provincial centers where these institutions have no base or current operations. This activity is seen as a cost-effective way of fostering greater involvement by private development institutions in provincial centers.

3) Provincial Project Development Services

Entrepreneurs around the country have identified as a substantial credit constraint the lack of expertise in project preparation and presentation to meet the needs of potential investment financiers, whether they be commercial banks or other development institutions. The PPED program will develop the capacity of HDF, its host institution, to respond to the demand for assistance in project preparation and presentation. This project development facility will offer prospective provincial investors the services of a timely and cost-effective feasibility analysis, encompassing such factors as raw material sources, production issues, market size, equipment and personnel needs and capital requirements of the venture. If they decide to invest, clients will bear part of the cost of the study through a negotiated fee structure. The project development service will assist the client with preparation of a loan proposal and help negotiate with one or more banks, if requested by the client. The service will also be available to do follow-up analysis of the client's performance and help resolve obstacles which may impair the client's ability to repay the loan. In this connection, services offered by PPED would complement those provided by the bank itself to safeguard its investment, which will require coordination between PPED operators and financial institutions doing business in the same area.

It should be emphasized that the PPED analytical process will not be followed to completion in all cases. One of PPED's important tasks is to discourage ill-prepared and under-financed projects from continuing and thus avoid wasting the energies and resources of provincial entrepreneurs.

4) The National Forum

To promote the PPED concept with both business people and financial institutions, at least two meetings of a "National PPED Forum" will be held each year. These will be directed at interested business people from the provinces and the capital, to discuss the findings of the baseline surveys, to report the progress of PPED in offering services to the outlying areas, and to present information on new investments and other activities with private entrepreneurs. Each forum will be held in a different area of the country, taking into account the difficulties and the limitations of provincial travel in Haiti. The changes in venue will serve both to publicize the program nationwide and to involve elements of the local private sector to the maximum extent possible. These fora will serve as liaison between the entrepreneurial activities of the provincial areas and interested people from other parts of the country, including representatives of financial institutions. Joint marketing and market entry efforts will be encouraged. In addition, successful cases from the project development services will be aired to spur others into investing in their provincial area.

c) PPED's End-of-Project Output Indicators

- 6 baseline studies of secondary Haitian cities.
- 15 outreach interventions provided to development institutions.
- 50 pre-feasibility and 25 full analyses completed resulting in the establishment of at 30-35 new or substantially enlarged businesses in the provinces.
- an estimated $2,000,000 in new investment in provincial enterprises, and the creation of some 2,500 new jobs.
- at least 8 meetings of the forum, making at least 400 influential business people directly aware of the opportunities and constraints in Haiti's provinces.

d) Resources of PPED

To accomplish the activities described above, PPED will require an institutional base, an independent budget, capable management and regular access to required expertise. However, it will not be a stand-alone organization or have its own capital lending fund. At the time of the PID submission last December, no firm decision had been made regarding an institutional home for PPED, but HDF was the leading and most obvious candidate, in view of its own expanding provincial operations. Since that time the matter has been studied further, with the conclusion that there

is no more appropriate place from which to carry out PPED's activities than HDF. PPED will constitute a new operational unit in the structure of HDF, to include a program officer and an administrative officer, as well as an equipped office (with computer, printer, photocopier and fax machines), and a four-wheel drive vehicle to permit visits to their field operations. Technical assistance and training activities under PPED will be carried out largely through contracts with local consulting organizations, arranged and overseen by the PPED unit in HDF. The Peace Corps in Haiti has been approached regarding the assignment of several volunteers (PCVs) with business or financial experience to work with PPED on microenterprise lending in selected provincial centers on a long-term basis. Part of the PCVs' job will be to train Haitian counterparts to carry on PPED's work after the project.

e) Cost of PPED and the Sustainability Question

Preliminary analysis suggests that PPED will be cost-effective mechanism to transfer know-how to provincial businesses on project development and credit access. Much of the expense will be in the form of start-up costs in various provincial areas which will be borne entirely by the project. For subsequent operations, a fee for specific services rendered to individual firms will be introduced, leading to fuller cost recovery by the end of the project. Fee levels will vary depending on location, the nature of the service and the client's ability to pay, and a realistic fee structure will be developed as an early PPED activity.

PPED's long-term future and its ability to achieve full self-sustainability is uncertain. By the end of this project, PPED's main function as a catalyst to promote provincial lending may have been largely fulfilled. In any case, in PPED, the project will not leave behind a staff-heavy institution with unfunded recurrent costs. If PPED is successful and its services are valued by its clients, its earned revenue should cover its operating costs, or come close to doing so by the end of the project, when A.I.D. funding terminates. If still deemed to be needed, PPED could continue as an arm of HDF's provincial branches on a fee basis, or could become affiliated with the local Chamber of Commerce. Alternatively, consultants who worked for PPED could continue to offer their services privately to local businesses as demand dictates. Whether its functions continue on an institutional basis or through informal consulting, the standards and processes established under PPED will become recognized norms to serve as models for the development of future provincial enterprises. The catalytic role of PPED in educating provincial entrepreneurs in the ways of the formal financial sector may be its most lasting legacy.

3. Institutional Support

Institutional support is identified as a separate component of the project to distinguish it from the capital lending operation of the FMG and participating IFIs and the provincial development initiative of HDF in the form of PPED. The institutional support component will operate out of the FMG office for planning, management and control purposes, but will be funded by its own budget line items. The administrative arrangements for this component are described below in the section (V.B.).

Institutional support will encompass long-term technical assistance; short-term TA to address specific technical, management and implementation problems; short-term training; and analytical studies.

a) Long-term Technical Assistance

The Institutional Support component will provide 3 long-term advisors (see table in next section for duration).
The positions are:

i) the Microenterprise Advisor to HDF, who will assist HDF with strategic planning for microenterprise lending, provincial expansion and PPED operations;

ii) the Financial Policy Advisor, who will assist the Professional Bankers' Association in policy planning and formulation; work with the Central Bank on financial policy matters (through the public-private forum of "Comite Paritaire"); interface with the short-term TA and studies elements of the project on financial policy matters; organize seminars on technical subjects and undertake periodic analytical reporting on the state of financial markets; and

iii) the Capital Fund Advisor to the FMG, who will help set up the FMG, including overseeing the structural, legal and staffing requirements of the new entity; preparation of its annual work plan and procedures manual; initial training of FMG staff; and preparation of a promotional campaign to make the financial community aware of the FMG's resources and services.

b) Short-term Technical Assistance

The Institutional Support component provides for 24 person-months of short-term TA in specialized technical and managerial areas. All participating IFIs and NGOs, as well as the Central Bank, will be potential beneficiaries of these consulting services. Examples include computerization, computer networking and related software development (particularly valuable for NGOs with credit

programs, such as MEDA and FHAF); upgrading and standardization of bank accounting and auditing procedures; analysis of alternatives for risk-sharing instruments; and establishment of a shared financial database or Credit Bureau. Sources of short-term TA will include local consultants, U.S. firms and centrally funded buy-ins.

c) Training

Short-term training in-country will largely be contracted to the Center for Management and Productivity (CMP), perhaps in conjunction with the Professional Bankers' Association. Persons to be trained include the staffs of HDF and the FMG, as well as the staffs of other participating NGOs and financial institutions (on a fee basis, where appropriate). Subjects to be covered will include risk analysis, project and proposal evaluation, small business counseling, problem loan management, NGO lending operations, and role of governing boards in financial institutions. Training will also be provided through short (2-6 weeks) courses offered overseas (in the U.S. or other Caribbean countries) on various technical and financial subjects.

d) Studies

In addition to the normal reports left by short-term consultants at the end of their assignments, several formal studies will be undertaken during the project. The studies will be identified and implemented under the institutional support component, with USAID/OPE assistance. Illustrative study examples include an updated financial sector analysis, loan demand and risk analyses (with emphasis on provincial lending), assessment of alternative financial instruments (including risk-sharing arrangements), and relevant financial policy studies.

III. FINANCIAL PLAN

A. Funding Levels and Procedures

Most project funds will be obligated under a Cooperative Agreement (CA) with the Haitian Development Foundation. The main exception is the project management component (budgeted at $726,000) for project officer support in the Mission's Office of Private Enterprise (OPE). In addition, a relatively small portion of TA funds ($250,000) will be reserved by the Mission outside the HDF CA to cover direct contracts for two external evaluations, a close-out audit and studies and/or specialized short-term TA activities which are buy-ins to A.I.D. centrally funded projects.

The Cooperative Agreement with HDF will involve the following elements:

1. A capital grant to HDF for its own microlending program. The amount budgeted for this capital grant is 15 million gourdes ($2.0 million). Depending on demand, this level can be supplemented later in the project by local currency generations from PL 480 and ESF. The initial obligation in FY 1991 will provide half of this amount to HDF, i.e. 7.5 million gourdes ($1.0 million), with the balance to be granted at a subsequent time, depending on loan demand.

2. A capital grant to HDF for use by its Fund Management Group (FMG) in lending to intermediate financial institutions for relending to the ultimate target market. This mechanism is described in the Technical Analysis Summary and Annex C. The life-of-project (LOP) amount budgeted for the FMG capital grant is 35 million gourdes ($4.7 million), at the present rate of exchange. The initial portion to be obligated for use by the FMG under the CA in FY 1991 is 7.5 million gourdes ($1.0 million). This amount will be granted to HDF in its present institutional form in FY 1991. However, before the Fund can become operational, the HDF must complete the legal and physical creation of the FMG and the recruitment of a manager and establishment of the Advisory Committee.

3. An operating grant to HDF for the establishment and initial operations of the Fund Management Group. The FMG is foreseen as an ultimately self-sufficient operation financially, based on its 2 percent management fee (paid from interest earnings) and 1 percent loan origination fee (paid by IFI borrowers). However, there is a mismatch between the slow-starting flow of interest earnings, based on the size of the fund being managed, and the heavy up-front costs of launching the FMG. An operating grant to the FMG will ensure adequate operational funding initially, with the annual amount of the support grant decreasing each year, on a 100%-80%-60%-40%-20% formula. As interest earnings accruing to FMG rise, a larger share of operating costs can be covered from this source, and the declining nature of the grant gives FMG an incentive to stimulate annual growth in the volume of lending. A first-year grant of $250,000 covers start-up and operating costs, as well as necessary equipment and commodities.

4. A technical assistance grant to finance the Institutional Support and PPED components of the project. (For an explanation of these components, see sections II.C.2. and 3.) LOP budgets for these components total $1.0 million for PPED and $2.2 million for Institutional Support. The amount to be obligated under the CA for technical assistance in FY 1991 will be $235,000 for PPED and $630,000 for the Institutional Support component.

B. The Project Budget

Based on the above factors, two budget tables follow. The first shows the method of implementation and financing (Table 2) and identifies the elements of the project which fall outside the HDF Cooperative Agreement.

Table 2. Method of Implementation and Financing			(in $000)	
ACTIVITY	METHOD OF IMPLEMENTATION	METHOD OF FINANCING	AMT FY91	AMT LOP
HDF/FMG Lending & TA	Cooperative Agreement	Direct Payment	3,145	10,812
Project Management	Pers Services Contract	Direct Payment	138	724
Evaluations	Direct AID Contract	Direct Payment	-0-	92
Audits	Direct AID Contract	Direct Payment	-0-	122
TA/Studies	Direct AID Contract	Direct Payment	-0-	250
Total			3,283	12,000

On the following page, an annual budget is presented (Table 3), showing line items obligations by project component. Inflation is factored in at the compounded rate of 5 percent per year for dollar costs and at 10 percent per year for local currrency (L/C) costs. Since L/C is obtained by converting dollars, it is assumed that inflation beyond this level would be offset by a rise in the dollar premium. Lending capital, both to HDF itself and for use by the FMG in lending to IFIs, is expressed in nominal (current) terms and is therefore not subject to inflation.

PROVINCIAL ENTERPRISE DEVELOPMENT
Budget by Project Components

Table 3

(US$000)	FY 91 FX	FY 91 LC	FY 92 FX	FY 92 LC	FY 93 FX	FY 93 LC	FY 94 FX	FY 94 LC	FY 95 FX	FY 95 LC	Total FX	Total LC	Total FX + LC
FUND MANAGEMENT GROUP & HDF													
Lending Capital		1,000		1,000		1,500		1,200			0	4,700	4,700
HDF Capital Grant		1,000		1,000							0	2,000	2,000
FMG Operating Grant	60	200	23	170		140		110		80	83	700	783
Total FMG & HDF	60	2,200	23	2,170	0	1,640	0	1,310	0	80	83	7,400	7,483
PPED													
HDF Operations Staff		45		47		50		52		55	0	249	249
Technical Assistance	80		84		88		93		97		442	0	442
Activities		50		66		73		80		76	0	345	345
Commodities	50	10		11		12		13		15	50	62	112
Total PPED	130	105	84	124	88	134	93	145	97	146	492	655	1,147
INSTITUTIONAL SUPPORT													
Long Term TA													
Microenterprise Adv	140		147		154		162		170		774	0	774
Banking Policy Advisor	140		147								287	0	287
Capital Fund Advisor	140		147								287	0	287
Instit Support Spec		30		33		36		40		46	0	185	185
Short-term TA (24 pers/months)	120		95		83		52		36		386	0	386
Training	10	20	22	22	22	24	23	27	12	30	89	123	213
Studies	30	20	63	22	55	24	29	20	24	15	201	101	303
Total Inst. Support	580	70	621	77	314	85	266	87	243	91	2024	410	2,434
PROJECT MANAGEMENT													
OPE Project Off. (US)	138		74								212	0	212
OPE Asst Proj Off (Haitian)			95		132		139		146		512	0	512
Total Project Management	138		168	0	132	0	139	0	146	0	723	0	723
AUDITS									122		122	0	122
EVALUATION					55				36		92		92
TOTAL (by currency)	908	2,375	896	2,371	590	1,859	498	1,542	644	318	3,536	8,465	12,000
Total FX+LC by Year		3,283		3,267		2,449		2,040		962		12,000	

INFLATION RATE										
Foreign Exchange		105.00%		110.25%		115.77%		121.56%		
Local Currency			110.00%		121.00%		133.10%		152.40%	

IV. SUMMARY OF PROJECT ANALYSES

A. Technical Analysis

1. Introduction

The Technical Analysis examines the prevailing issues in the financial market, especially the project target market, and the range of techniques and mechanisms available to penetrate this market. The detailed Technical Analysis is contained in Annex C.

2. Main Target Market

Credit projects that are rigidly targeted to specific recipient groups often have great difficulty in achieving their objectives. To avoid a situation in this project where either the loan fund is underutilized because of insufficient demand, or where questionable loans are approved to meet quotas, the following target markets are being emphasized:

1. The microenterprise[7], both provincial and urban;

2. The emerging enterprise, a larger (usually mid-sized), expanding business whose capital needs are considerably greater than the microenterprise, but little or no borrowing experience and established credit;

3. The larger enterprise whose loan-financed activity is in a provincial area and has significant employment generating potential.

The project seeks to place lending capital in IFIs where at least three quarters of the loans and two-thirds of the collective value of the project funds loaned are placed with borrowers in these three categories. It is recognized that to preserve a balanced portfolio and to spread risk, some loans may go to larger, mature businesses, but in these exceptional cases, IFIs must ensure that a significant development or employment impact is achieved.

The microenterprise market is presently being serviced by HDF and other NGOs, such as MEDA and FHAF. So far, the vast majority of these loans have been in the Port-au- Prince area. The emerging enterprise often falls in between the lending range of development finance institutions like HDF and SOFIHDES (e.g. a $40,000 loan) and would be unable to meet the loan standards of a commercial bank.

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[7] See Foonote No. 6 on page 12 for a definition of microenterprise in the project context.

These markets are largely untapped and ill-defined, even though they are markets that have always existed. Attempts to penetrate these markets have been made in the past by various institutions, but almost always with traditional lending instruments and attempts to make the prospective client fit the existing system rather than adapting the system to meet the needs of the market.

HDF in its provincial activities has begun to penetrate the provincial market, with notable success. SOFIHDES has made considerable inroads in the provinces, but still has to struggle with account administration and collateral issues. With regard to larger projects in the provinces, the situation is similar, but more closely linked to the internal capability of the financial institution to analyze, accept and manage the risk of the project and the type of lending instruments at its disposal.

The emerging enterprise market is an area that will require further analysis before identifying the appropriate lending institutions. This market has borrowing needs in excess of the HDF maximum lending limit and below the SOFIHDES minimum limit. Also this market is too complex for the HDF system and yet not sophisticated enough to qualify for the SOFIHDES level of analysis. A fresh approach (i.e. a new form of lending) is required in order to permit penetration into this market.

HDF has begun to expand its efforts in the provinces, but management complications increase with each new operation. So far, HDF's policy of decentralization has paid off. The independence afforded to the Cap Haitien Board of HDF is largely responsible for its successful start, and the same is envisaged for Les Cayes. SOFIHDES has made a major effort in recent years to finance provincial projects, but difficulties both in securing loan and loan administration in the provinces pose ongoing problems. As for other lenders, FDI has literally no projects in the provinces and has not had significant exposure in the target market. FDI faces many constraints, including its public sector association, its ponderous procedures, its passive approach and a lack of creativity in its product line. A few other private sector institutions have had limited exposure in the provinces, but this has been mostly on a big-name basis.

The conclusion is that although a beginning has been made to lending in the provinces, much potential remains to be tapped, but new and creative mechanisms are needed to stimulate the interest of IFIs in this market.

3. FMG Operating Principles

Based on the recognized difficulties of lending in the provinces, the FMG will emphasize the following principles:

a) Focus on long-term impact and market development.

b) Focus on capital preservation and not profit maximization.

c) Focus on a proactive marketing approach and education by example, to help encourage institutions to undertake activities in the provinces.

d) Focus on meeting the borrowing needs of the client by designing creative lending instruments.

The foregoing require that the FMG have as much built-in flexibility as possible, staying within the limits established by the A.I.D. Policy Paper on Financial Markets Development. The FMG will have to have strong leadership, characterized by good judgment and a persuasive approach, to convince naturally conservative private financial institutions to look to the provinces.

3. FMG Lending Procedures

The FMG will solicit applications from financial institutions to become qualified borrowers from the fund for projects meeting the project criteria discussed above, with an upper limit to be established based on analysis by the FMG Advisory Committee and approved by the HDF Board. The application will include a financial soundness analysis of the borrowing IFI by the FMG. Lending capital loans to IFIs will be approved by the HDF Board and the USAID Mission Director or his designee.

The private institutions will be encouraged to borrow from the Fund by the fact that lending terms will be highly competitive and loan proceeds will not be subject to central bank reserve requirements. Also, financing instruments will be flexible and offer the IFI a risk-sharing opportunity.

Once approved as a qualified borrower with a preset limit, the IFI will submit applications on a project-by-project basis, which will be analyzed by the FMG and its Advisory Committee and submitted for approval by the HDF Board. In the case of an IFI lending to the lower end of the target market (i.e. small and microenterprises), loans will not be approved on a project-by-project basis, but rather on the basis of a negotiated tranche, justified by monthly reporting of loan activities by the IFI.

4. The Product Line

As noted in the Project Description section (II.C.1.), there will be three basic categories of loans, differentiated by size, risk and the complexity of evaluation and monitoring.

Table 4. LOAN PRODUCT CATEGORIES

Type	Risk	Return to the FMG	Demand
No risk sharing	Low	Term deposit rate	Medium
Risk sharing	Highest	Interbank deposit rate	Highest
Microenterprise	Medium	Concessionary	Lowest

In all of the loan categories, variable market-driven interest rates will be used.

a) No Risk-sharing

The no risk-sharing category will be a straight lending operation (similar to the FDI), involving loans to IFIs for on-lending, without any concessions or sharing of risk. The IFI will for internal reasons choose to use the Fund's resources rather than own its deposit base. Examples will be larger institutions wishing to finance projects with substantial provincial impact or with other development or employment objectives and seeking an external long-term funding source.

As there will be no risk to the Fund associated with this type of loan, the evaluation of the loan application will focus on the development objectives and the monitoring requirements, rather than on risk analysis. It is expected that this category will represent a minor share of lending.

A question may be raised as to why the Fund should lend to an IFI which has its own lending capital. The answer is that the IFI wants to match-fund its lending project, to avoid affecting its deposit base. In addition, these funds will not be subject to reserve requirements. Finally, it is important that the Fund retain a diversified portfolio in so far as risk is concerned. By funding IFIs in this manner, the FMG would encourage the IFI to match-fund, would accomplish the objective of provincial involvement and would protect the capital base of the Fund, in addition to building a secure source of interest income.

b) Risk-sharing

This category of loan is where the Fund will share in the risk of a project. Some of the mechanisms, which are described in more detail in Annex C, will include: subordinated debt, pari-passu arrangements on collateral offered, deferred principal payments, graduated interest arrangements, balloon payment loans, revenue bonds, quasi-equity participation, retractable (putable) guarantee, leasing, fixed-rate loans during the start-up phases of a project, restructurings on provincial projects. The goal

will be, not to offer full coverage or guarantee, but just enough to encourage the institution to participate in the risk.

The evaluation and monitoring requirements in this category will have to be among the best in the financial sector, not only to evaluate the risk, but also to protect the assets of the Fund.

c) Microenterprise[8]

This category of loan will be directed to one or more IFIs which will directly address the primary target market of the project. Depending upon the individual institution, this category is likely to involve the provision of capital on concessional terms, as provided for in the AID Policy Paper on Financial Markets Development, August 1988. This assumes that most IFIs in this category are weakly capitalized, have high costs of operation and higher write-offs. The concessions should involve low interest rates, operating grants, and forgiveness of some principal repayments.

The level of evaluation effort will be greater for microenterprise loans than the no-risk sharing loans, but less than for risk sharing loans. Monitoring of these loans by the FMG should be done on a portfolio basis, through monthly reports from the IFI.

5. Other Incentives to Participate

To be successful in encouraging financial institutions to move into the target areas, the FMG will have to be market driven and responsive to the market's changing conditions. Therefore, maximum flexibility and creativity must be employed, which means that the FMG cannot operate effectively under a rigid set of rules or an overly conservative management. If the Fund is to be actively used for its intended purposes, imaginative and aggressive management will be necessary, perhaps along with some incentives or mechanisms to be developed later under the project.

It must be borne in mind that the size of the primary target market (micro, small and medium enterprises in the provinces and term lending) is limited as a result of constraints and macroeconomic conditions described above. Consequently, demand for funds is not expected initially to be high or broad-based. Although the funds will be available to all institutions, it is expected that the early response will be slow and will increase as the project matures and confidence in FMG as an institution grows on the part of the IFIs. It is expected that for at least the first half of the project, SOFIHDES will be the major user of

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[8] See footnote no. 6 on page 12 for a definition of microenterprise in the project context.

the Fund, given that HDF will recieve a grant for its own lending purposes and will not therefore initially be a direct borrower from the Fund. The group of institutions under Sogebank ownership is expected to be the second largest user of the Fund, as this group has shown itself to be the more dynamic of the local IFIs. Little action is expected from the foreign IFIs, with, perhaps, the exception of the Bank of Boston. This low demand is to be expected, as the targeted markets on the low end of the scale are not the natural domaine of private banks, and as a result most of the funds will be used by development oriented IFIs. This suggests that the FMG will have to be prepared to evaluate projects in other primary emphasis areas, which can meet the secondary project objectives of employment and foreign exchange creation.

6. Interest Rate Policy to End Users

The interest rate spread accruing to the IFIs (the difference between their cost of capital and the rate which they charge their customers) is a key determinant of the profitability of IFIs in borrowing from the Fund. IFIs are prohibited from exceeding the current interest rate cap of 22 percent in the rate which they charge their clients. Under present market conditions and the relatively low current inflation rate of approximately 10 percent, the 22 percent ceiling poses no practical constraint. However, if inflation heats up and banks start to be faced with negative real interest rates, they could offset this to some extent with loan origination fees and management charges of 2-3 percent. Persistent inflation above 22 percent would put considerable pressure on the GOH to raise or abolish the interest rate ceiling, which would be a political action as much as an economic decision. Should excessive inflation occur, the FMG, in order to defend against a negative return, would effectively suspend new lending to IFIs by raising its own interest rates to the IFIs to avoid decapitalizing the Fund, thereby lowering the IFIs' spread to an unacceptable level, until either a raise in the legal cap or a reduction in inflation. USAID/Haiti will monitor this situation closely to avoid the practice of negative interest rates leading to decapitalization. Action will include cooperation with the GOH in the form of analytical studies in this project and/or the new Policy and Administrative Reform project (PAR) on inflation, interest rates and monetary policy.

B. Financial Analysis

The Financial Analysis is based on a model that simulates the Fund's and FMG's future operations and seeks to anticipate the demand for funds and the cash flow over a 20-year period. This long simulation period is used to determine the sustainability of the institution with and without grants. A major substantive

point which is not obvious from a quantitative analysis of this type is that even though the Fund could survive, albeit weakly, for a number of years without project grants, it would accomplish no useful development objectives and would have no incentive to risk its capital by becoming involved in pioneer lending in the provinces. To survive without the project, the Fund would be obliged to pursue conservative policies and would tend to limit its lending mainly to solid and well-established urban clients.

This financial analysis comprises the following steps: 1) a demand study, 2) the establishment of a reasonable set of financial and economic assumptions, 3) the definition of fund management rules, and 4) the determination of grant impact through sensitivity analyses.

1. Demand Estimation

The most critical step in establishing the financing level for the Fund is the demand analysis. Although some data on Cap-Haïtien and Les Cayes are available from USAID-commissioned surveys, the Project Paper was prepared without the benefit of a comprehensive survey of microenterprises in the provinces. Lacking detailrd information on the provinces, we devised a crude estimation of credit demand based on the population estimates from the Institut Haïtien de Statistiques et d'Informatique (IHSI) and on microenterprise surveys of Cap-Haïtien and Les Cayes done by Currelly Associates.[9] We selected eleven population centers that are likely to represent the bulk of bankers' interest in the country, and the number of eligible microenterprises has been estimated for each of them based on the number of eligible microenterprises per capita of the known towns. We assumed an average loan size of G12,500 (from HDF figures) and calculated an estimate of the overall potential demand for small loans.

While we do not have a high level of confidence in the demand numbers, we allowed for a changeable "percentage" parameter, which represents the percentage of potential demand that is likely to request credit from the Fund through financial institutions.

2. Assumptions

The financial analysis is based on a set of assumptions that can be modified to perform what-if analyses.

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[9]Currelly Associates, *Haitian Development Foundation: Les Cayes Annex*, February 1991. A similar study was done in 1989 for the Cap-Haïtien Annex.

a) Financial Assumptions - We expect the Fund to make three types of loans: i) those to NGOs will be more lenient, with lower interest rates, longer grace periods, longer maturities, and high write-off rates; ii) those to commercial institutions, where risk would be shared with the Fund; and iii) those with no risk sharing, for which the the terms would be the hardest.

The weight for each type of loan within the portfolio is determined exogenously. We assume a light weight (5 percent) for loans to NGOs, since HDF will receive an initial capital lending grant and would be expected to supply most of the microenterprise loans of the type NGOs normally offer. Risk-sharing will be one of the incentives to borrow from the Fund, and shared-risk loans will constitute 60 percent of the portfolio. Table D.0 in Annex D lists other assumptions.

b) General Assumptions - The exchange rate is assumed to remain at the current G7.5 to the dollar for simplification purposes. A serious forecast of the exchange rate is not feasible here, since at any given time, fluctuations in rate depends on many political imponderables. For the same reason, the rate of inflation is assumed to remain at the 1980s estimated annual average of 10 percent.

3. Financial Model of the Fund and FMG Operations

The Fund will consist of the loan portfolio and the deposits at financial institutions. Therefore, the Fund's revenues will consist of interest on loans and deposits, and of interest on G35 million loaned to SOFIHDES under the current project. The principal repayments from the SOFIHDES account will begin in 1994 and will constitute future capital assets for the Fund. The FMG is the staff that manages the Fund. In return for its services, the FMG receives from the Fund a fee of 2 percent of managed funds and an origination fee of 1 percent from the borrower on each loan it transacts.

Both the Fund and the FMG are eligible to receive grants under this project. The Fund will receive its initial tranche of lending capital (US$1 million in FY 1991) in the form of a grant from the lending capital component of the project, which will provide a total of $4.7 million to the Fund over the life of the project. The FMG will receive an operating grant to help cover its expenses, especially in the early years of operations. While the FMG will manage the Fund as a commercial operation to the maximum extent possible, it must also carry out its development mission, which means forsaking the goal of profit maximization which a strictly commercial institution would pursue. We have applied the following operating rules to the model.

- Available funds must be used first to satisfy the demand for eligible loans.

- When available funds exceed current loan demand, the FMG manager should deposit excess funds in commercial banks to help avoid decapitalization in real terms.

- The FMG is authorized to receive an operating grant to help it through its start-up period when revenues will not cover its expenses. This grant will diminish each year, as interest and fee revenues rise. As a matter of principle, the operating grant should be kept to a minimum to enforce rigor in Fund management. Arrangements can be made for the FMG to borrow from the Fund to meet excess expenses, as the operating grant is phased out.

4. Explanation of Financial Tables

In Annex D, table 1 shows the potential demand for loans in the eleven population centers selected. Table 2 is a chronology of which centers would attract the attention of the financial centers in future years. Table 3 is a worksheet where important intermediate calculations are made. Table 3 depends on tables 4, 5, and 6, where the decomposition of loan payments into their interest and principal components is made. Tables 7 and 8 represent the profit-and-loss and cash flow statements. While a balance sheet is not shown here, the model keeps track of assets, especially cash and deposit balances, in order to make financial management decisions: when and where to draw and invest funds, and when to stop doing so.

5. Scenario Analysis

The financial model used for the Project Paper lends itself to extensive scenario analysis because it can accommodate a broad range of assumptions. However, to avoid discussing an overwhelming combination of possibilities, we will consider two scenarios and two assumptions. The scenarios are "Baseline" (no grants) and "Grants." The assumptions are low demand and high demand (5 percent and 10 percent of potential demand). The four alternatives arising from this range (labeled NG-5, G-5, NG-10, and G-10) are presented below in tables 5 and 6.

The baseline scenario is a situation where the Fund and FMG operate without aid from USAID under this project. A baseline scenario allows us to show explicitly the financial weaknesses of the Fund and FMG, to understand the impact of USAID grants to the Fund and FMG, and to calculate the rate of financial return on those grants.

a) **Baseline: No Grants** Given the Fund's current resources--namely, its bank deposits, its interest revenues on the SOFIHDES account, and the repayment by SOFIHDES of the principal now in that account--it could actually engage in the lending process without external funding. This result is suggested by simulating

Table 5 Demand Analysis (Low Option - 5%)

RESULTS NG-5, No Grants & 5% Demand	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Deposits in Banks, Beg of Yr	*5,219	5,219	8,450	8,450	8,879	9,761	12,426	12,426	13,404	13,404	13,725	13,725	13,725	13,725	13,725	13,375	8,138	2,088	0	0
Cash Available for Loans, Beg of Yr	7,519	7,651	4,101	7,689	9,879	12,497	12,322	14,836	15,907	18,160	19,843	21,713	22,757	22,448	20,198	17,985	20,195	22,266	24,407	26,446
Loan Demand	2,300	2,952	3,653	4,458	5,035	6,021	7,420	8,767	9,897	11,175	12,619	14,252	16,098	18,187	20,549	23,222	26,246	29,668	33,542	37,926
Shortage of Loanable Funds, Beg of Yr															351	5,237	6,051	7,402	9,135	11,481
Drawdown from Depos. to Meet Exc. Loan Demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	351	5,237	6,051	2,088	NO DEP	NO DEP
Shortage of Funds After Drawdowns from Deposits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5,314	9,135	11,481
Cumulative Shortage	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5,314	14,449	25,930
Principal Outstanding on Loans, End of Yr	2,300	5,062	8,101	11,393	14,574	18,119	22,329	26,977	31,731	36,786	42,213	48,142	54,686	61,926	70,012	79,124	89,427	95,760	100,236	105,266
Growth of Principal Outstanding		120%	60%	41%	28%	24%	23%	21%	18%	16%	15%	14%	14%	13%	13%	13%	13%	7%	5%	5%
Cash Surplus (Deficit), FUND	132	(320)	3,588	2,619	3,501	2,490	2,514	2,049	2,253	2,005	1,870	1,044	(309)	(2,250)	(2,564)	(3,026)	(3,979)	53	2,039	(138)
Cash Surplus (Deficit), FMG	(922)	(595)	(726)	(31)	(760)	(366)	(464)	(410)	(520)	(484)	(1,012)	(175)	(1,120)	(1,411)	(1,541)	(2,200)	(1,927)	(2,305)	(2,629)	(1,016)
Cash Surplus (Deficit), FUND & FMG	(790)	(915)	2,862	2,588	2,741	2,124	2,050	1,639	1,733	1,521	858	869	(1,428)	(3,662)	(4,105)	(5,226)	(5,907)	(2,252)	(590)	(1,155)
Beg. Cash Bal. as % of Total Outflows (Preceding Yr)	0.0%	192.3%	60.6%	108.5%	113.1%	139.2%	98.4%	109.8%	99.5%	102.5%	98.9%	91.5%	86.0%	73.1%	49.4%	29.2%	25.6%	23.7%	24.2%	21.9%
Cash Reinvested in Deposits, FUND & FMG	0	3,230	0	429	883	2,665	0	977	0	322	0	0	0	0	0	0	0	0	0	0
INTEGRATED OPERATION (FUND+FMG)																				
FUND Earnings (Losses)	2,432	2,578	6,648	6,665	6,714	6,791	7,085	7,155	7,328	7,438	7,595	7,751	6,144	4,671	5,133	5,621	5,794	5,789	5,883	6,115
FMG Earnings (losses)	(722)	(777)	(776)	(807)	(840)	(870)	(893)	(937)	(994)	(1,068)	(1,170)	(1,268)	(1,376)	(1,493)	(1,623)	(1,784)	(2,031)	(2,409)	(2,786)	(3,158)
Total Earnings	1,710	1,801	5,871	5,858	5,874	5,921	6,191	6,218	6,334	6,368	6,425	6,483	4,768	3,178	3,510	3,838	3,763	3,380	3,097	2,956
Growth Rate		5.3%	226.0%	-0.2%	0.3%	0.8%	4.6%	0.4%	1.9%	0.5%	0.9%	0.9%	-26.5%	-33.3%	10.4%	9.3%	-2.0%	-10.2%	-8.4%	-4.5%
Cumulative Earnings	1,710	3,511	9,382	15,240	21,113	27,035	33,226	39,444	45,778	52,146	58,571	65,054	69,822	73,000	76,511	80,348	84,111	87,491	90,587	93,543

RESULTS: G-5, Grants & 5% Demand	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Deposits in Banks, Beg of Yr	7,519	7,519	10,539	16,163	26,880	39,339	54,777	58,079	62,472	67,414	72,565	77,822	82,297	87,644	91,020	92,161	92,921	92,921	92,113	90,435
Cash Available for Loans, Beg. of Yr	5,250	11,191	15,973	23,644	28,323	20,964	9,780	12,308	14,097	15,769	17,508	19,052	21,449	21,529	21,874	24,344	26,682	28,861	31,863	34,601
Loan Demand	2,300	2,952	3,653	4,458	5,035	6,021	7,420	8,767	9,897	11,175	12,619	14,252	16,098	18,187	20,549	23,222	26,246	29,668	33,542	37,926
Shortage of Loanable Funds, Beg. of Yr																		807	1,678	3,326
Drawdown from Depos. to Meet Exc. Loan Demand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	807	1,678	3,326
Shortage of Funds After Drawdowns from Deposits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cumulative Shortage	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Outstanding on Loans, End of Yr	2,300	5,062	8,101	11,393	14,574	18,119	22,329	26,977	31,731	36,786	42,213	48,142	54,686	61,926	70,012	79,124	89,427	101,075	114,246	129,147
Growth of Principal Outstanding		120%	60%	41%	28%	24%	23%	21%	18%	16%	15%	14%	14%	13%	13%	13%	13%	13%	13%	13%
Cash Surplus (Deficit), FUND	5,566	5,523	11,199	13,234	16,106	5,488	5,829	6,131	6,539	6,797	7,009	6,872	5,299	3,630	3,605	3,277	2,179	2,195	1,059	349
Cash Surplus (Deficit), FMG	999	630	459	363	323	(406)	456	74	101	125	(267)	408	131	101	19	(624)	392	(382)	(173)	(579)
Cash Surplus (Deficit), FUND & FMG	6,565	6,252	11,658	13,597	16,429	5,082	6,285	6,204	6,640	6,922	6,742	7,278	5,429	3,730	3,624	2,653	2,571	1,813	886	(231)
Beg. Cash Bal. as % of Total Outflows (Preceding Yr)	0.0%	185.2%	234.8%	309.5%	299.2%	313.1%	136.6%	140.3%	140.6%	137.7%	134.3%	125.4%	127.4%	115.6%	104.7%	102.8%	96.6%	93.6%	92.1%	87.5%
Cash Reinvested in Deposits, FUND & FMG	0	3,020	5,624	10,717	12,459	15,438	3,301	4,394	4,942	5,151	5,257	4,475	5,347	3,375	1,141	760	0	0	0	0
INTEGRATED OPERATION (FUND+FMG)																				
FUND Earnings (Losses)	7,866	8,389	14,258	16,554	19,288	9,030	10,440	10,773	11,204	11,709	12,250	12,834	11,578	10,551	11,302	11,924	12,576	13,245	13,937	14,659
FMG Earnings (losses)	1,199	580	409	313	273	(151)	(13)	10	37	61	59	58	49	19	(62)	(208)	(336)	(486)	(659)	(857)
Total Earnings	9,065	8,968	14,668	16,867	19,561	8,879	10,426	10,783	11,241	11,769	12,309	12,893	11,625	10,570	11,240	11,716	12,241	12,759	13,278	13,802
Growth Rate		-1.1%	63.5%	15.0%	16.0%	-54.6%	17.4%	3.4%	4.2%	4.7%	4.6%	4.7%	-9.8%	-9.1%	6.3%	4.2%	4.5%	4.2%	4.1%	3.9%
Cumulative Earnings	9,065	18,033	32,701	49,568	69,129	78,008	88,434	99,217	110,458	122,228	134,537	147,429	159,054	169,625	180,864	192,580	204,821	217,580	230,858	244,660

Table 6 Demand Analysis (High Option - 10%)

RESULTS NG-10, No Grants & 10% Demand	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Deposits in Banks, Beg of Yr	2,920	2,920	2,264	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Available for Loans, Beg. of Yr	7,519	5,249	3,066	7,744	7,848	9,907	10,244	11,881	13,250	14,877	16,054	17,437	18,474	19,024	18,443	20,412	20,060	22,896	21,777	25,099
Loan Demand	4,600	5,905	7,306	8,916	10,070	12,043	14,839	17,534	19,794	22,349	25,237	28,503	32,196	36,373	41,098	46,444	52,492	59,337	67,084	75,853
Shortage of Loanable Funds, Beg. of Yr		655	4,240	1,172	2,222	2,136	4,595	5,654	6,544	7,473	9,183	11,066	13,722	17,350	22,655	26,031	32,432	36,441	45,307	50,754
Drawdown from Depos. to Meet Exc. Loan Demand	0	655	2,264	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP	NO DEP
Shortage of Funds After Drawdowns from Deposits	0	0	1,976	1,172	2,222	2,136	4,595	5,654	6,544	7,473	9,183	11,066	13,722	17,350	22,655	26,031	32,432	36,441	45,307	50,754
Cumulative Shortage	0	0	1,976	3,149	5,370	7,507	12,102	17,756	24,300	31,773	40,956	52,021	65,743	83,093	105,748	131,779	164,211	200,652	245,959	296,713
Principal Outstanding on Loans, End of Yr	4,600	10,125	14,227	19,801	24,355	30,016	34,916	40,043	45,276	51,068	56,898	62,732	68,334	73,142	76,208	80,188	82,902	87,636	90,402	95,582
Growth of Principal Outstanding		120%	41%	39%	23%	23%	16%	15%	13%	13%	11%	10%	9%	7%	4%	5%	3%	6%	3%	6%
Cash Surplus (Deficit), FUND	(2,270)	(2,839)	2,414	104	2,059	337	1,637	1,369	1,627	1,178	1,383	1,037	549	(581)	1,969	(352)	2,835	(1,119)	3,322	(1,683)
Cash Surplus (Deficit), FMG	(922)	(709)	(744)	(8)	(759)	(333)	(472)	(372)	(526)	(434)	(1,012)	(124)	(1,138)	(880)	(1,659)	(763)	(2,207)	(301)	(2,888)	(376)
Cash Surplus (Deficit), FUND & FMG	(3,192)	(3,548)	1,670	96	1,300	4	1,165	997	1,101	744	371	913	(59)	(1,461)	310	(1,115)	629	(1,420)	434	(2,059)
Beg. Cash Bal. as % of Total Outflows (Preceding Yr)	0.0%	74.9%	20.3%	80.6%	54.7%	70.6%	52.3%	62.1%	60.3%	61.3%	58.4%	55.0%	54.4%	50.6%	41.7%	44.3%	33.1%	38.2%	26.9%	31.1%
Cash Reinvested in Deposits, FUND & FMG	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INTEGRATED OPERATION (FUND+FMG)																				
FUND Earnings (Losses)	2,330	2,693	6,557	6,475	6,610	6,737	6,867	6,954	7,041	7,186	7,354	7,496	5,848	4,248	4,455	4,625	4,796	4,993	5,204	5,422
FMG Earnings (losses)	(722)	(759)	(794)	(802)	(817)	(836)	(869)	(908)	(962)	(1,024)	(1,121)	(1,218)	(1,344)	(1,510)	(1,741)	(2,007)	(2,311)	(2,612)	(2,992)	(3,368)
Total Earnings	1,608	1,935	5,763	5,673	5,793	5,900	5,999	6,046	6,079	6,163	6,233	6,278	4,504	2,737	2,714	2,618	2,485	2,381	2,212	2,054
Growth Rate		20.3%	197.8%	-1.6%	2.1%	1.9%	1.7%	0.8%	0.6%	1.4%	1.1%	0.7%	-28.3%	-39.2%	-0.9%	-3.5%	-5.1%	-4.2%	-7.1%	-7.1%
Cumulative Earnings	1,608	3,543	9,306	14,978	20,771	26,672	32,670	38,716	44,795	50,958	57,191	63,469	67,973	70,710	73,424	76,042	78,528	80,909	83,120	85,175

RESULTS: G-10, Grants & 10% Demand	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Deposits in Banks, Beg of Yr	7,519	7,519	7,519	8,594	15,886	24,376	36,136	30,180	29,068	27,691	26,240	24,261	21,579	17,556	11,130	1,18[illegible]	0	0	0	0
Cash Available for Loans, Beg. of Yr	5,250	8,973	13,995	23,254	28,129	21,571	8,884	16,422	18,417	20,899	23,258	25,821	28,173	29,948	31,157	34,737	37,971	40,224	43,846	45,475
Loan Demand	4,600	5,905	7,306	8,916	10,070	12,043	14,839	17,534	19,794	22,349	25,237	28,503	32,196	36,373	41,098	[illegible],444	52,492	59,337	67,084	75,853
Shortage of Loanable Funds, Beg. of Yr							5,955	1,112	1,378	1,450	1,979	2,682	4,024	6,425	9,941	11,686	14,521	19,112	23,238	30,378
Drawdown from Depos. to Meet Exc. Loan Demand	0	0	0	0	0	0	5,955	1,112	1,378	1,450	1,979	2,682	4,024	6,425	9,941	1,189	NO DEP	NO DEP	NO DEP	NO DEP
Shortage of Funds After Drawdowns from Deposits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10,497	14,521	19,112	23,238	30,378
Cumulative Shortage	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10,497	25,018	44,130	67,368	97,746
Principal Outstanding on Loans, End of Yr	4,600	10,125	16,203	22,786	29,148	36,238	44,658	53,953	63,462	73,572	84,426	96,285	109,372	123,851	140,025	147,751	154,701	161,774	170,573	179,268
Growth of Principal Outstanding		120%	60%	41%	28%	24%	23%	21%	18%	16%	15%	14%	14%	13%	13%	6%	5%	5%	5%	5%
Cash Surplus (Deficit), FUND	3,348	3,147	8,395	10,001	12,944	1,855	1,583	883	1,104	909	584	(330)	(2,248)	(5,216)	(6,341)	2,024	2,254	3,622	1,628	2,903
Cash Surplus (Deficit), FMG	1,045	702	522	417	373	(355)	419	41	56	61	(349)	392	12	(51)	(164)	(930)	296	(875)	(249)	(1,172)
Cash Surplus (Deficit), FUND & FMG	4,393	3,850	8,917	10,417	13,317	1,500	2,002	924	1,160	970	234	62	(2,237)	(5,267)	(6,505)	1,095	2,549	2,747	1,379	1,731
Beg. Cash Bal. as % of Total Outflows (Preceding Yr)	0.0%	74.9%	115.0%	182.9%	179.2%	195.8%	91.6%	119.3%	114.1%	112.3%	109.1%	103.1%	100.2%	94.8%	87.2%	84.9%	98.4%	97.7%	99.6%	92.6%
Cash Reinvested in Deposits, FUND & FMG	0	0	1,074	7,292	8,490	11,760	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INTEGRATED OPERATION (FUND+FMG)																				
FUND Earnings (Losses)	7,948	8,680	14,514	16,640	19,309	8,939	10,348	10,167	10,434	10,732	11,085	11,411	9,978	8,615	9,053	8,823	9,058	9,403	9,813	10,288
FMG Earnings (losses)	1,245	652	472	367	323	(100)	(0)	(22)	(8)	(3)	(24)	(38)	(70)	(133)	(246)	(514)	(738)	(979)	(1,228)	(1,526)
Total Earnings	9,193	9,332	14,986	17,006	19,632	8,[illegible]	10,348	10,145	10,426	10,729	11,042	11,372	9,908	8,482	8,807	8,309	8,320	8,425	8,585	8,762
Growth Rate		1.5%	60.6%	13.5%	15.4%	-55.0%	17.1%	-2.0%	2.8%	2.9%	2.9%	3.0%	-12.9%	-14.4%	3.8%	-5.7%	0.1%	1.3%	1.9%	2.1%
Cumulative Earnings	9,193	18,525	33,511	50,518	70,150	78,989	89,337	99,482	109,908	120,637	131,679	143,051	152,958	161,440	170,247	178,556	186,876	195,301	203,885	212,648

with the model under assumptions considered reasonable by several persons familiar with the local financial market.

While this institution may be able to survive for 20 years, it would have to carry a chronic loss and cash deficit from the FMG. Over time, the institution would become weaker, with faltering net income growth and a decapitalization in real terms.

More important than the Fund's ability merely to survive without the project grant, is the observation that the Fund would undoubtedly be unable to meet loan demand. Under the conservative demand assumption (5 percent of potential demand as a realistic goal for the Fund), excess loan demand begins in year 16, but it begins in year 2 under the higher demand assumption (10 percent of potential demand). See summary results in the two tables below. **This means that under this scenario, the Fund would be unable to fulfill the development objectives on which the project is founded.**

b) **Grant Scenario** The FMG will receive an institutional support grant, and the Fund a lending capital grant.

The FMG grant would pay all operating and set-up expenses for the first year. Thereafter, a phase-down would occur, whereby FMG earnings would cover an increasingly larger share of operating costs each year. In principle, 80 percent of budgeted FMG outlays will be financed by the grant in the second year and 60, 40, and 20 percent, respectively, would be covered in the three succeeding years. As a practical matter, some adjustments may have to be made in this formula to conform to the reality of the situation, but the FMG must pursue with some rigor the question of controlling operating costs, in order to become self-sufficient by the end of the project. The budgeted operating grant totals US$770,000 (G5.8 million at G7.5/US$1) over the five years of the project.

With modest loan demand (5 percent of total demand), the FMG operating grant alone (i.e. without the accompanying lending capital grant) would still not prevent the FMG from running into net income losses and cash deficits from year 5 onward; nor would it be enough to liberate the capital necessary to match loan demand.

The lending capital grant to the Fund (US$ 4.7 million) over the life of the project would reverse the FMG's chronic cash deficit and totally eliminate the shortage of lending capital during the 20-year period under the modest demand assumption (G2.3 million lent in the first year). Outstanding principal grows at least at 13 percent a year, and no serious cash flow problem occurs for the integrated operation, although the FMG runs into its own cash flow problems in year 18 and on. The net income of the

integrated operation is always positive, but it grows weakly (4 percent) at the end of the 20-year period.

If we assume demand to be twice as strong (10 percent of overall demand)--with G4.6 million to be lent in the first year--the grants to the Fund and FMG also eliminate the FMG's negative Baseline performances in the 20-year simulation period.

The most dramatic effect of the grants is the reduction of excess loan demand under the high demand assumption. Thus, the loan portfolio increases tremendously as compared to the Baseline scenario under the high demand assumption.

5. Internal Rate of Financial Return on Grants

The internal rate of return (IRR) is calculated from the difference between the aggregated (Fund+FMG) net cash flows, with and without grants. The difference between the two cash flow streams shows the grants' impacts. The cost to the project of producing this difference is the sum of the lending capital grant and operating grant amounts in each year.[10]

Under the modest demand assumption, the IRR is not defined because the net returns series is always positive (i.e. no sign switches).[11] Under the stronger demand assumption, there are many sign switches: this implies the existence of many (mathematical) solutions, i.e. of many IRRs. The plausible solution is an IRR of 6.1 percent. While this may appear to be a modest return, another financial indicator must also be considered, especially in the light of the development objectives of this project: the size of the loan portfolio. Under high demand, the grants enable the loan portfolio to double over the years, compared to the high demand Baseline scenario (see the "outstanding principal" item in the summary tables). The economic analysis in the next section examines the ramifications of this point.

When these well-known behaviors of IRR occur (multiple IRRs, or undefined IRRs), a present value calculation may provide a better appreciation of the financial impact. The present value analysis shows that the grants' financial impact <u>in terms of cash flow, or net income</u>, is more pronounced under modest demand conditions than under stronger demand. This is explained by the development priority of the Fund: the Fund must make capital available to development loans even if investing its capital in bank deposits or safer commercial ventures is more attractive financially. It

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[10]In a strict sense, the initial cost is larger, due to the additional costs of setting-up the project. This additional start-up cost is not considered in the calculation.

[11]The IRR is not defined either for the net income streams under both demand scenarios.

can exercise its safer financial options only under conditions of weak demand. The summary tables show that under weak demand bank deposits remain at higher levels than under strong demand; conversely, the loan portfolio is lower under weak demand than high demand.

The fact that strong incentives must be offered to the IFI borrower from the Fund (as explained in previous sections) directly implies:

- Less profitable conditions to the Fund either because interest rates offered by the Fund will be lower than the bankers' usual cost of funds, or because the Fund will share risks with the financial institutions, a solution which will raise the write-off rate.

- A greater weight in the Fund's portfolio for loans with these soft conditions.

The foregoing observations recognize the reality that commercial banks do not engage in development loan activities, because commercial banks are interested only in financial performance and development loans are not financially attractive. On the other hand, the impact of these development loans transcends the financial aspect; under strong demand conditions, the project's capital grants increase the Fund's loan portfolio and therefore increase job creation and economic activities. This is why it is often the case that the economic rate of return--which internalizes the project's broader ramifications on the economy--is higher than the financial rate of return. This fuller impact is dealt with in the next section.

6. Conclusion

Although the present and future lending capital of the Fund could permit it to survive for at least 20 years without project grants, the institution would become progressively weaker financially, would be unable to meet loan demand, and would not be able to meet any meaningful development objectives. The operating and lending capital grants significantly improve the institution's financial performance, although the Fund's objective of subordinating optimal financial performance to the development objective will yield a lower return than would be possible without the development mandate, during periods when loan demand is higher. The weaker performance of financial returns on development loans, however, is compensated by the wider economic and social impact of lending for development activities, made possible by the lending capital grant under the project. **Without these resources and the accompanying technical assistance, it is safe to say flatly that the systematic extension of credit to the provinces will not take place.**

C. Economic and Social Analysis

In order to assess the potential demand by microenterprises for loans, the fundamental piece of information is the number of microenterprises in the country, especially those eligible for credit. Section C and Annex D describe our estimation of this number for eleven population centers.

We have assumed that only a small percentage of that potential could be addressed by the Fund for two reasons. First, HDF is the most important supplier of credit for the kind of loans this project emphasizes--provincial and microenterprise credit. Yet, HDF will receive an additional grant under this project and will therefore not need to acquire Fund capital in the near future. Secondly, even for other loans that lead to job creation, the remainder of the Haitian financial market would need incentives to borrow from the Fund, especially in the current liquid market.

Consequently, we have used two demand assumptions: one where the Fund will meet 5 percent of total potential demand, and another where it will meet 10 percent. These percentages correspond to G2.3 million and G4.6 million in the first year. This number was judged realistic by bankers consulted by the design team, but they insisted that the Fund would still have to offer incentives not found elsewhere in the commercial market to attract institutional borrowers. For these reasons, we have limited ourselves to a modest range of demand assumptions.

1. Economic Benefits of the Project

a) Economic Activities and the Fund

The first obvious benefit of the project is that it would create the Fund, a financial institution likely to be viable into the foreseeable future. This institution exists now to a limited extent, but does not engage in lending operations, and without this project, it would be of no value in achieving anything developmentally useful. In the financial analysis, it was shown that if the institution were to engage in lending activities with its current resources and to receive no project capital grant, it could survive for 20 years or more, but would grow weaker with time, and, of course, would achieve none of the objectives of the project.

If, in addition to creating a fully active Fund, the project also provides operating grants to the Fund, the latter's financial position would be strengthened. While the model attributes a greater cash flow impact to grants under the low loan demand assumption, cash flow performance decreases as the demand for Fund loans increase, a paradoxical result stemming from the Fund's development mission, as explained at the end of the preceding Financial Analysis.

In addition to the financial aspect of the Fund's operation, however, one must consider another insight generated by the model: under "strong" loan demand conditions (10 percent of potential demand), the grants to the Fund and FMG enable the loan portfolio (after write-off allowances) to increase significantly.[12] The grants make the outstanding principal asset of the institution much greater than they would have been without the grants. The difference increases over the years until the portfolio of the grant-scenario institution becomes twice as large as that of the no-grant-scenario institution at the end of the simulation period.

A larger loan portfolio translates into job creations and increased economic activity. Assuming that grant money--which is akin to base or "fresh" money--would be injected for the first time into the economy when loans are made by the Fund and that loan proceeds are used to create or expand productive activities, then each grant dollar would increase national output by a factor of up to three or four times the value of the loan, the approximate value of base-money velocity in Haiti. Therefore, we could realistically expect a grant-based loan to have an impact on GNP of twice to three times its actual amount.

The preceding section's summary tables also show that under the low loan demand assumption, capital shortages take place only in year 16 (versus year 2 under the 10 percent demand assumption). Hence, the loan portfolios with and without grants do not change until year 16, at which time the grantee institution is more prepared financially to meet the demand, and its portfolio grows more than that of the no-grant institution.

Therefore, under low demand, the marginal impact of the grants to the Fund and FMG is greater on one type of financial performance--net cash flow and net income--rather than on portfolio size. Under greater demand, the opposite is true, leading to more job creation.

b) Income Distribution

The "down and out" emphasis of the project should allow not only greater possibilities for microentrepreneurs, but also a higher probability of employment for the average unemployed person, especially in the provinces.

c) Catalytic Function

The PPED component of the project will contribute to bringing together formal lenders with borrowers in the provinces. Its most successful outcome may be to change permanently attitudes

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[12]See the "Principal Outstanding" item in the Summary tables in Annex D.

that are now holding back economic activities. PPED could be a catalyst by scouting for bankable projects that would not have easily come to the attention of commercial lenders. Furthermore, by facilitating the loan application process, it will encourage commercial bankers to lend to clients who are otherwise ignored.

Similarly, the institutional support component will introduce improvements in the operation of the financial market, in the form of standardized and more efficient practices, which will permeate to the provinces.

2. Social Impact

The main social impact of the project is the positive effect lending activity will have on employment and incomes, especially in provincial areas. The 2-3 times multiplier effect of loans on GNP has been noted above. Women will be major beneficiaries, both as entrepreneurs who receive loans directly and as employees of businesses assisted under PPED and the institutional support component. In HDF's current program, more than one-third of the 3,300 jobs created through loans have been filled by women. Under the new project, with its provincial focus, this level is expected to be easily exceeded, especially with the participation of FHAF, which lends exclusively to women. In all, some 10,000 new jobs are expected to be created as a result of the project, in which at least 300-400 businesses will receive loans and scores of others will be reached by PPED and TA assistance.

Better income distribution stemming from provincial activities makes a positive long-term contribution to national output in many ways, not the least of which is that it curtails unwanted migration to Port-au-Prince and encourages infrastructural improvements in the provinces, as well as closer links between agribusinesses and their agricultural suppliers. Bringing a measure of relative prosperity to the provinces also decreases the probability of civil strife and disruptive social incidents in those areas, through a better distribution of employment opportunities outside the capital area.

The main negative impact of the project is some displacement of the traditional moneylenders, whose higher interest rates partly reflect the greater risk associated with their type of loans. To what extent their high rates imply some monopoly or oligopoly power is not clear, however. In any case, their collective income as moneylenders is likely to decrease as a result of the spreading of formal credit markets.

A second impact is on depositors. Part of the grant money made available to the capital market through the Fund's bank deposits will increase the supply of loanable funds. The immediate effect on depositor returns is negative, although ex ante it is not possible to know the extent without some estimates of the

interest elasticity of the supply of loanable funds. In any case, the downward effect on interest rates is likely to be minor, because of the relatively small size of the $5 million injection nationwide over a five year period (plus HDF's $2 million lending capital fund).

3. Conclusion

This project should have a lasting positive impact on the economy, especially in the provinces, without encountering significant disadvantages. The total impact of the project will extend well beyond any balance sheet calculation, in that it will provide many provincial enterpreneurs for the first time not only with access to credit and also to sources of information and technology to facilitate business investment. The project is intended to be a catalyst for change, but the extent of its success, beyond microenterprise lending by HDF itself, will ultimately depend on how well Haitian bankers respond to the new incentives offered by the Fund. The project's impact in the provinces will also be affected by the response of bankers to the increased number of proposals for provincial projects resulting from PPED activities.

D. Institutional Analysis

1. Choice of HDF

The Haitian Development Foundation (HDF) is seen as the institution best suited to implement this project, even though it will require changes to its organizational structure and additional financial and staff resources to carry out the new initiatives planned. The HDF is already active in the microenterprise lending field and in 1989 successfully opened its first provincial lending operation in Cap Haitien and is about to open its second in Les Cayes. Past difficulties in management and operations have been largely overcome, and steady progress has been made in making the institution viable and sustainable. Among all the private credit institutions in Haiti, HDF has taken the lead in pursuing microenterprise lending in the provinces. This initiative will be directly supported by the project, leading to a stronger HDF with a solid base in the provinces from which to expand in the future.

2. Present Status of HDF

Seven years ago when USAID's soon-to-be-completed project with HDF began, the operation was shaky at best and technically insolvent. Gradually over the life of the project, the operation has turned around and become at least operationally self-sufficient. This means that the cash expenses can be covered from cash revenues, even though capital equipment replacement and

provision for loan losses can not yet be covered by earnings. The operation presently has about 900 clients in Port-au-Prince and Cap Haitien and about 15 million gourdes (US$2 million) in loans. HDF is presently preparing for the opening of its second provincial branch in Les Cayes.

The Price Waterhouse evaluation of HDF in March 1991 pointed out a number of issues relevant to implementation of this project. Since this evaluation took place just after the return of the USAID-financed expatriate Technical Assistant to the project, some of the issues raised by the evaluation were already in the process of being addressed by the TA. Major issues raised by this evaluation are discussed briefly below. The Executive Summary of the Price Waterhouse study is attached as Annex G.

The evaluation raises the interrelated issues of financial management, capitalization and sustainability. At the time of the evaluation in March 1991, non-productive loans had reached 35 percent of HDF's portfolio. A concerted effort to recover delinquent loans has since been implemented by HDF's management, resulting in the highest revenues ever for the institution over the last two months (April and May, 1991). HDF's target is to return to a level of 80 percent of its portfolio on a current basis. HDF's Action Plan, already approved by the HDF Board, calls for an increase in the interest rate and fee income to enhance operational revenues and help protect against decapitalization.

The issue of improving internal documentation and procedures has been resolved in part by a strengthening of the Credit Department and upgrading its computerized records. HDF's Executive Director has temporarily assumed direct supervision of this division to oversee these improvements. Since the return of the expatriate Technical Assistant, a planned increase in the number of computer applications is underway, which will reduce the workload of the account managers.

To address the issue of the restructuring of HDF and the Board, the present Board will engage the services of its legal counsel to rewrite the statutes of the institution, in order to change its structure along the lines described in Annex F. One objective is to seek board members from among private sector institutions and associations, to offer a broader oversight perspective. Another is to facilitate management of the Fund, independent of HDF's own operational lending program, through a separate management unit and Advisory Committee. Per Price Waterhouse's recommendation, the Fund is no longer referred to as a "Trust", since this concept is not recognized in Haitian law.

The issue of how to handle the low-income shelter lending program may have been overtaken by events. At this writing, the MEDA experimental pilot program appears to be less viable than

originally envisioned, since funds from the BCI project earmarked for this pilot have been declined by MEDA. Nevertheless, MEDA, using PL 480 local currency funds, is undertaking at least 35-40 low-income shelter loans to families with monthly incomes of $300. The performance of these loans may be a reliable indicator of the effectiveness of the antichresis lending concept described in section II.C.1. If results are at all favorable, the FMG will encourage mortgage lending institutions like BCI and SOGEBEL to reduce their minimum income requirements for shelter lending.

With respect to the principal Price Waterhouse conclusions and recommendations, the majority of the issues are now being dealt with by HDF and will be implemented as a direct result of this project.

3. Future Structure

The internal structure of HDF will change significantly over the next year, partly to improve the efficiency of its ongoing operations and partly to accommodate the new initiatives introduced by the project. Initial changes will result in the organizational chart in Figure 1.

Figure 1. Revised Transitional Structure of HDF

The institution will be split into two major sections, one managing the microenterprise program and the PPED component; and the other dealing with the capital lending and institutional support operations. The two groups will function independently, but will be housed in the same location to economize on logistics. The expanded functions of HDF will add a dynamic dimension to the institution and will enhance HDF's stature and image as a genuine national development institution.

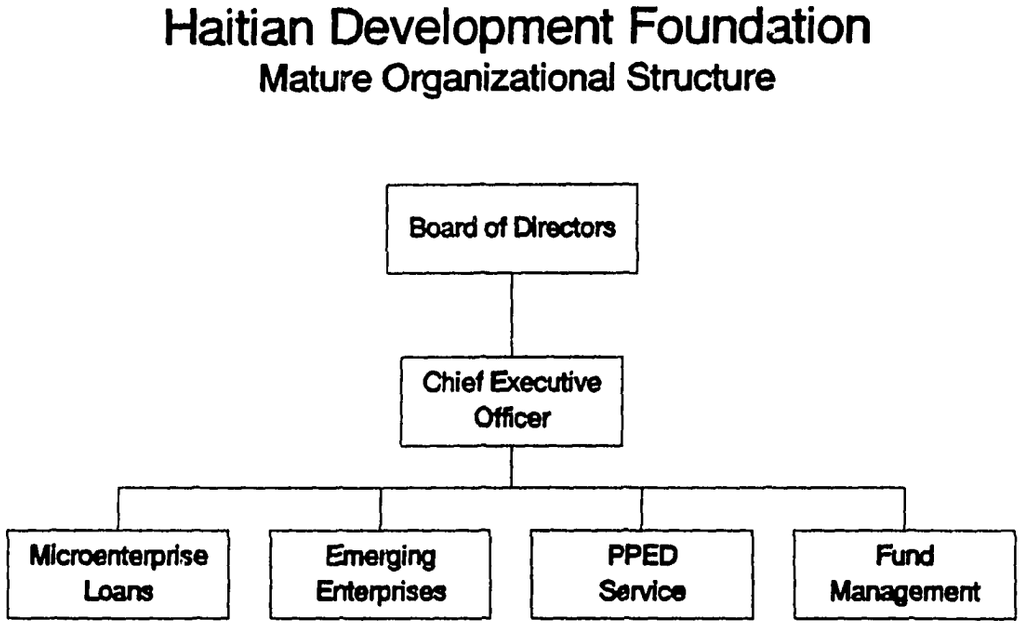
The FMG will ultimately be responsible to the HDF Board of Directors, but will conduct most of its business independently, under the direction of an experienced and energetic General Manager, who will be able to operate freely in the private sector and be an influential member of the financial community. Technical judgments on loan applications will be rendered by the Advisory Committee, consisting of several qualified financial professionals (bankers, businessmen, members of business associations, etc.), who would be remunerated for their time on the basis of a schedule approved by the Board of Directors.

The parallel structure to the FMG Advisory Committee on the operating side of the HDF will be the Microenterprise Advisory Committee, which will include some members of the present Board who will provide continuity during the transition period. This will also cover the PPED service, which will be closely coordinated with HDF's existing provincial operations and the Institutional Support Unit. The two arms of HDF will operate independently, but will be brought together by a common Board of Directors. The increase in size will probably oblige HDF to find a larger headquarters, and relocation costs could be borne from the support grant. However, since HDF's present office rental cost is very modest, larger quarters, if carefully chosen, could be afforded under its operating budget.

The mature institution which the HDF will eventually become will evolve along the following lines indicated in Figure 2.

The evolved structure is self-explanatory, the main difference being the inclusion of a Chief Executive Officer (CEO), who will oversee the operations of the different elements. The Fund Management function would continue to maintain operational autonomy with respect to the regular lending operation of HDF. The Institutional Support function will no longer continue after the project, since it exists to implement the TA, training and studies under the project. The timing for the revised organization is open-ended, but it is most likely to coincide with the end of the project, when HDF will be expected to be fully self-sustainable on both a management and financial basis.

Figure 2. Eventual Structure of HDF



V. IMPLEMENTATION PLAN

The principal implementing agency for this project will be the Haitian Development Foundation. Details of the institutional arrangements and the respective roles of the various elements of HDF and their relations with other participating financial institutions are fully described in Section II.C.1, Detailed Project Description and Section IV.D., Institutional Analysis and its corresponding annex (E). This section will be devoted to implementation arrangements and procedures not addressed elsewhere.

A. Grant Mechanism

Since this is entirely a private sector project, there will be no Project Agreement with the Government of Haiti (GOH). The principal obligating instrument will be a Cooperative Agreement with the Haitian Development Foundation which will encompass both the capital fund, to be operated by HDF's autonomous Fund Management Group, and the project institutional support component, comprising technical assistance, training and studies. The mechanism will be a Handbook 13 Cooperative Agreement with a private non-governmental organization, non-competitively selected on the basis of predominant capability. A justification for a

non-competitive award has been approved by the USAID/Haiti Grant Officer and is attached as Annex F. The basis for negotiating the Cooperative Agreement will be a written proposal submitted by HDF in response to USAID's Invitation for Application and developed in close cooperation with OPE and the project design team.

The initial tranche of the capital fund will be granted to HDF as presently legally constituted. As described in section III.A., the capital grant will be in two parts: 1) a grant to HDF for loan capital for its own microenterprise lending program, and 2) a grant to establish "The Fund", to be administered by a separate entity within the HDF, to be loaned to IFIs for relending to their private clients. Operation of The Fund will require the creation of the Fund Management Group (FMG), including the staffing of the full-time technical positions in the FMG, as described in the Institutional Analysis. Some of the TA funds available to HDF will be directly immediately to establishing the legal and operational environment necessary for the FMG to function.

B. Contracting and Procurement Plan

Both long-and short-term technical assistance will be provided under the project. Two of the three long-term positions will actually involve a continuation of the TA currently being provided to HDF and APB, but will be recompeted under the new project. Personal services contracts will be used for the long-term positions, as follows:

Table 7. Long-term PSC Positions

Long-term T/A	PSC With	Duration (yrs)
HDF Microenterprise Advisor	HDF	5
Banking Policy Advisor	HDF	2
Capital Fund Advisor	HDF/FMG	2
Project Management		
OPE Project Officer (US)	USAID/H	2
OPE Project Officer (Haitian)	USAID/H	4

The three international TA positions will serve, respectively, as advisors to the HDF microenterprise operation, the Professional Bankers' Association, and the HDF Fund Management Group. The Project Management PSCs will work in the USAID Office of Private Enterprise and will oversee the start-up and implementation of the PED project, in addition to the closeout of the two credit projects terminating in FY92. At a time when the new project has been successfully launched and is running smoothly, it is planned

to phase out the U.S. PSC position in OPE and to continue the project officer role with the Haitian PSC position. Ideally, this position would be filled by a locally recruited U.S.-trained MBA of Haitian nationality with banking and/or microenterprise lending experience. However, recognizing the difficulty in finding such a person on the local job market, the budget covers the more expensive alternative of recruiting an "international" Haitian from off-shore. If no suitable Haitian can be found, the third option is to continue project management in OPE with an American or Third Country National PSC with a financial or credit background.

Short-term TA, training and studies to be undertaken by the project will be arranged and managed by a locally hired Institutional Support Specialist, attached to the Fund Management Group. For this purpose, HDF will receive a technical assistance grant, to be disbursed in segments as needed. Short-term TA requirements and training needs will be developed by the support specialist, along with identification of appropriate sources and proposed timing. Regular training sessions, seminars and similar activities will be contracted to a suitable local institution, such as the Center for Management and Productivity (CMP), which has undertaken a wide range of training programs under USAID/H auspices. Similarly, short-term TA and selected surveys, studies and analyses will be contracted either locally or in the U.S. through firms or individual consultants, based on informal competition. USAID/OPE can assist in making contact with U.S.-based consultants, but actual contracting will be by HDF. One reason that some TA funds are being retained outside the HDF Cooperative Agreement is to permit buy-ins to centrally-funded projects, such as the AID/PRE Financial Sector Development Project (FSDP), under which Price Waterhouse as prime contractor provides a broad range of services to assist financial institutions in developing countries to strengthen their regulatory framework and to upgrade and standardize accounting and auditing practices. TA funds retained outside the HDF grant will also finance evaluations, the final close-out audit and any other TA activities where HDF funding might not be appropriate.

The limited range of off-shore commodities (mostly office equipment and two vehicles) will be procured directly by HDF, in accordance with procedures established under the current HDF project. Aside from shelf items, the procurement source will be the United States (Code 000).

C. Monitoring, Evaluation and Auditing Plan

1. Monitoring

Continuous project monitoring will be performed by the USAID Office of Private Enterprise. Under the guidance of the OPE Chief, who is a direct-hire A.I.D. officer, monitoring

responsibility for PED will initially fall to the U.S. PSC project officer. It is planned that a local-hire or internationally recruited Haitian professional will join OPE and be trained to take over this function, at which time the U.S. position can be phased out in the second or third year of the project. The OPE project officer will maintain contact with both the FMG and microenterprise units of HDF on virtually a daily basis initially and on a least a weekly basis once operating procedures are fully in place. He/she will assist the institutional support specialist in identifying TA and training needs and sources and in making implementation arrangements. The OPE monitor will follow closely the activities of PPED and other HDF provincial activities, including periodic visits to HDF provincial branches. At headquarters, the monitor will attend HDF Board of Directors meeting on a selective basis and will review HDF's monthly financial reports. Finally, the FMG's decisions regarding lending capital loans to IFIs will be reviewed and approved in writing by the Chief of OPE.

2. Evaluations

Two major external evaluations are planned: one at the approximate mid-point in late 1993 or early 1994 and the second near the end of the project in 1996, to assess the project's effectiveness and to consider the question of possible follow-on activities in the credit area. A total of $92,000 has been budgeted for these two evaluations.

The mid-term evaluation is particularly important as a vehicle for determining appropriate mid-course corrections, both in project strategy and in operating procedures. Accordingly, the mid-term evaluation will examine such questions as:

- what has been the level of demand for loans in general, and especially in the provinces. What are the constraints on demand and how can they best be alleviated?

- to what extent have borrowing institutions observed criteria for on-lending? What are average loan sizes and borrower profiles? What percentage of clients are first-time borrowers, women, microentrepreneurs, and provincial operators, respectively?

- how many provincial businesses has PPED aided and how effective are PPED's interventions? How many clients have subsequently received loans for initiatives related to PPED assistance?

- what has been the practical impact of short-term the TA provided and studies undertaken under the project? To what extent have emerging recommendations been implemented?

- has HDF made steady progress in improving its operational self-sufficiency regarding microenterprise lending and its provincial programs? What steps need to be taken in the second half of the project to ensure HDF's self-sustainability after the project?

3. Audits

Since this is a financial project, annual audits of HDF will be performed by a local independent accounting firm and funded directly by HDF, in addition to the internal audit functions of HDF (see institutional analysis). The project provides $122,000 for an external close-out audit. No pre-award Audit will be required, since HDF is a current A.I.D. grantee and has been audited within one year of the initial obligation under this project.

D. Schedule of Events

The following is an illustrative schedule of events for the first year of the project, showing major actions and their likely sequence, with approximate dates.

Action	Date
HDF's proposal for HB13 grant received	June 10, 1991
Project Paper authorized in field	June 15, 1991
Grant negotiated with HDF	June 20, 1991
Grant Agreement signed with HDF	June 25, 1991
Contract signed for long-term TA with APB	June 25, 1991
Contracts signed for long-term TA with HDF	July 31, 1991
HDF by-laws revised to create FMG and PPED units	September, 1991
HDF opens les Cayes branch	October, 1991
HDF meets CPs to initial disbursement of fund	October, 1991
Initial short-term TA begins re settling up PPED	November, 1991
Initial loan disbursements approved by FMG	December, 1991
HDF submits 1st year TA plan for inst. support	January, 1992
First analytical study is undertaken	February-March,
PPED provincial reconnaissance surveys undertaken	February-April

Training sessions begin under CMP	March, 1992
HDF opens branch in third provincial town	September, 1992
First annual audit of HDF and Fund	October, 1992

E. Special Terms and Conditions

Since the Cooperative Agreement with HDF is a support grant under the provisions of Handbook 13, no conditions precedent to disbursement or covenants are appropriate. However, since A.I.D. will have a substantial involvement in the execution of the work performed under the Cooperative Agreement, the CA will reflect several terms and conditions under which HDF will seek to operate in the execution of the project under the Cooperative Agreement.

1. The HDF will make the necessary adjustment to its by-laws to permit the creation of the Fund Management Group, as described in this Project Paper and in the Cooperative Agreement;

2. The HDF will establish the Fund Management Group, including the placement of a director and the naming of an Advisory Committee;

3. The Fund Management Group of HDF will set interest rates to borrowing institutions (IFIs) at a competitive level and will maintain a flexible policy with respect to negotiating interest rates and other incentives, such as risk-sharing arrangements with eligible IFIs, in order to ensure effective participation in the Fund. The long-term management goal of the FMG will be capital preservation and the pursuit of its development objectives, but not profit maximization. Accordingly, the FMG will seek to avoid negative interest rates in real terms, which would lead to decapitalization.

4. The FMG will seek to cover its operating costs from its interest rate spread and the 2 percent annual fee on the volume of funds managed and the 1 percent loan origination fee charged to its IFI borrowers. The FMG operating grant provided under the project is intended to supplement fee income in the early part of the project where start-up costs are high and the volume of funds managed relatively low.

5. HDF will seek to maintain its current operational self-sufficiency (the ability to cover cash operating costs with earnings) and to attain full self-sustainability by the end of the project (defined as complete coverage of operating costs, replacement of fixed assets, loan loss provisions and interest charges on acquisition of new lending capital).

PROVINCIAL ENTERPRISE DEVELOPMENT

PROJECT PAPER ANNEXES

USAID/Haiti, June 1991

ANNEXES

A. Logical Framework
B. PID Approval Messages
C. Technical Analysis
D. Financial Analysis
E. Institutional Analysis
F. Justification for Non-Competitive Award
G. Price Waterhouse Executive Summary
H. Scopes of Work for Long-Term Advisors
I. Statutory Checklist

LOGICAL FRAMEWORK

PROVINCIAL ENTERPRISE DEVELOPMENT PROJECT
521-0223

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
Goal: To stimulate private sector growth, especially in the provinces, and to improve the well-being of the population through employment and income generation	-Increased level of private investment -Increased level of employment -Decrease in social tensions	-GOH National Accounts -Central Bank Annual Statistics	GOH will pursue macroeconomic and monetary policies which will encourage investment and savings. Regulatory and legal environment in Haiti will support growth of private enterprise and private financial institutions (IFIs). Inflation will continue at approx. same rate of 1980s (10-15%); or if rate excelerates, GOH will remove interest rate cap of 22%.
Purpose: To expand access to credit throughout Haiti, especially in provincial towns.	EOPS: 3-5 IFIs receive FMG loans 10,000 jobs created thru loans under project HDF achieves self-sustainability and can continue operations w/o further grant capital or instit support HDF has active lending operations in 4-6 provincial towns HDF firmly established as primary microlending institution in Haiti and has loaned to 250 microenterprises	-Financial records of IFIs -Accounts of HDF Fund Mgt Group -Accounts of HDF Microenterprise program -Project evaluations	Availability of credit at market rates will open up new business opportunities in provincial areas. FMG will capture 5-10% of demand for lending in provincial towns. Development financing institutions and NGOs will increasingly seek lending in the provinces Incentive and risk-sharing options offered by FMG will induce at least some participation by private commercial banks in project target markets.

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Outputs: 1. A financial market established at the provincial level for private financial institutions to provide term credit at market rates to small, mid-sized and emerging businesses.	Quantitative Indicators: Fund managed by FMG will have a portfolio of 25-30 million Gds in more than 200 loans. 60-70% of FMG loans go to provincial or emerging firms	-FMG loan records	HDF will build up to full self-sustainabililty and will end its need for grant capital funding during life of project.
2. Capability developed within the Haitian Development Foundation a) to manage a large capital fund, b) to meet the credit and counseling needs of its expanding client base in the capital and several major provincial towns and c) to operate as a self-sustaining development financing institution.	HDF portfolio of small and microenterprise loans will grow to 35 million gds. 300-400 businesses will receive loans from HDF HDF's revenues will cover its operating expenses, capital replenishment and loan loss provisions	-IFI loan reporting to FMG	FMG will achieve self-sustainability by end of project, as support grant phases out. An unmet potential financial market exists in the provinces which this project will tap.
3. A model established for ongoing provincial private enterprise development initiatives in several major provincial centers, to assist and motivate new and expanding enterprises by providing a range of technical and information services, leading to the identification, formulation and execution of bankable entrepreneurial initiatives.	Under PPED, 6 baseline studies of major Haitian provincial towns undertaken 10-15 outreach interventions with develoment institutions 40 pre-feasibility studies and 25 full analyses completed, resulting in at least 20 new or expanded businesses in the provinces, creating 1000 jobs	-PPED TA & training records -evaluations -interviews with businesses which PPED has assisted	PPED can find and train specialists in promotion of new enterprises in provinces and will find enterpreneurs responsive to innovative ways to pursue new opportunities.
4. Management capability of Haitian financial institutions strengthened and their access to pertinent financial and market information improved through technical assistance, training and analytical studies of constraints, opportunities and operating practices.	5-6 major financial studies completed 150 pers/wks of training 80-100 pers/wks of short-term TA in technical, financial, accounting & computer services	-Findings of feasibility studies project evaluations	Participating IFIs and the Central Bank will be receptive to the analysis, findings and recommendations emerging from the short-term TA, training and policy studies financed by the project.

Inputs	Implementation Project costs ($000)			
	FY 1991	LOP	FMG & HDF Accounting records	Qualified persons can be found to serve on FMG Advisory Board, assisted in part by HDF's new authority to offer compensation to Board members.
Lending Capital Grant	1,000	4,700		
HDF Capital Grant	1,000	2,000		
FMG Operating Grant	262	783	USAID Controller records	A qualified director can be recruited to run the FMG.
Technical Assistance				
PPED	235	1,147		
Instit. Support L/T TA	428	1,532		
S/T TA, Training & Studies	220	898	OPE monitoring	Suitable long- and short-term TA can be recruited in a timely manner.
Project Management	138	726		
Evaluation/Audits	-0-	214		
Total	3,283	12,000	Annual audits	Appropriate training can be arranged thru CMP and/or APB.

ANNEX

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E.O. 12356: N/A
TAGS:
SUBJECT: PROVINCIAL ENTERPRISE DEVELOPMENT PROJECT
(521-0023)

REF: (A) PORT-AU-PRINCE 03929 (B) STATE 133244

LAC BUREAU HAS REVIEWED REF (A) RESPONSE TO ISSUES RAISED IN LAC REVIEW OF THE PRIVATE ENTERPRISE DEVELOPMENT PID AND FINDS COMMENTS SATISFACTORY. MISSION CAN USE ITS DELEGATED AUTHORITY TO APPROVE PP AND AUTHORIZE PROJECT. BAKER
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ACT: AID/W INFO: AID/W (P) ANNEX B

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E.O. 12356: N/A
TAGS:
SUBJECT: AD HOC REDELEGATION OF AUTHORITY NO. 1181.91.25

REF: PORT AU PRINCE 06732

1. PURSUANT TO REDELEGATION OF AUTHORITY NO. 1181 FROM THE ASSOCIATE ASSISTANT TO THE ADMINISTRATOR FOR MANAGEMENT, I HEREBY REDELEGATE TO THE MISSION DIRECTOR, USAID/HAITI, THE AUTHORITY TO SIGN A COOPERATIVE AGREEMENT WITH THE HAITIAN DEVELOPMENT FOUNDATION UNDER THE PROVINCIAL ENTERPRISE DEVELOPMENT PROJECT FOR AN AMOUNT NOT TO EXCEED 3.5 MILLION DOLLARS.

2. THE AUTHORITY REDELEGATED HEREIN IS TO BE EXERCISED IN ACCORDANCE WITH THE REGULATIONS, PROCEDURES, AND POLICIES PROMULGATED WITHIN A.I.D. IN EFFECT AT THE TIME THIS AUTHORITY IS EXERCISED. THIS AUTHORITY MAY BE EXERCISED BY PERSONS PERFORMING THE FUNCTIONS OF THE MISSION DIRECTOR IN AN ACTING CAPACITY.

3. PLEASE FORWARD COPIES OF SIGNED DOCUMENTS AND MEMORANDUM OF NEGOTIATION TO MS/PPE. REFERENCE BOTH THIS AD HOC NO. AND COOPERATIVE AGREEMENT NO. WHEN

FORWARDING REQUESTED DOCUMENTS.

4. THE ACTION IS SUBJECT TO CLEARANCE BY THE REGIONAL LEGAL ADVISOR.

5. SIGNED: JAMES D. MURPHY, CHIEF, PLANNING POLICY AND EVALUATION STAFF.

6. NOTE THE REQUIREMENT IN PARAGRAPH 3 ABOVE. A COPY OF THE MEMORANDUM OF NEGOTIATION MUST BE SENT TO MS/PPE WITH THE SIGNED DOCUMENTS. KIMMITT
BT
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INFO RUEHTG / AMEMBASSY KINGSTON 4307
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FOR LAC/DR, JEFF EVANS; KINGSTON FOR RLA

A.I.D. 12355: N/A
SUBJECT: HAITI CREDIT AND FINANCIAL MARKETS (521-2223)

REF: STATE 133244

1. THIS MESSAGE IS IN RESPONSE TO THE ISSUES POSED IN REFTEL ARISING FROM THE PID REVIEW OF SUBJECT PROJECT, WHICH IS NOW TITLED PROVINCIAL ENTERPRISE DEVELOPMENT TO REFLECT THE PROJECT'S CENTRAL FOCUS. PARAGRAPH NUMBERS TRACK THOSE OF REFTEL FOR CROSS-REFERENCING CONVENIENCE. THE FINAL PARAGRAPH, NO. 10, REQUESTS THE BUREAU TO DELEGATE AUTHORITY TO THE MISSION FOR FIELD APPROVAL OF THE PROJECT.

2. AVOIDANCE OF DECAPITALIZATION IN VIEW OF INTEREST RATE CAP OF 22 PERCENT - THE INCREASE IN INFLATION AND THE RISE IN THE DOLLAR PREMIUM PREDICTED BY MANY AFTER THE ELECTION LAST DECEMBER HAS NOT MATERIALIZED. THE DOLLAR PREMIUM IS NOW LOWER THAN DURING THE PERIOD FOLLOWING THE ELECTION. THE INFLATION RATE IN HAITI, WHICH HISTORICALLY IS QUITE ACCURATELY REFLECTED IN CHANGES IN THE DOLLAR PREMIUM, IS CURRENTLY RELATIVELY LOW (ESTIMATED BY THE PROFESSIONAL BANKERS' ASSOCIATION AT NO MORE THAN 10 PERCENT), BECAUSE OF REDUCED DEMAND IN THE ECONOMY. CURRENT LENDING ESTABLISHED BY MARKET CONDITIONS IS AT INTEREST RATES SEVERAL POINTS BELOW THE 22 PERCENT CEILING (17-20 PERCENT). COMMERCIAL BANKS AND DEVELOPMENT LENDING INSTITUTIONS ARE KEENLY INTERESTED IN AVOIDING A NEGATIVE INTEREST RATE AND WILL BEGIN CHARGING FEES AND COMMISSIONS TO SUPPLEMENT INTEREST EARNINGS, IF THEY ARE UP AGAINST THE 22 PERCENT CEILING, AS THEY WERE IN 1990. THERE ARE NO LEGAL RESTRICTIONS ON THE CHARGING OF SUCH FEES, ASIDE FROM INTERNAL BANK AUDIT REQUIREMENTS THAT THEY BE JUSTIFIED BY THE NATURE OF THE LOAN OR THE BORROWER OR BY MARKET CONDITIONS. THE RAISING OR REMOVAL OF THE CEILING IS A VERY POLITICAL ISSUE, WHICH THE ARISTIDE GOVERNMENT WILL NOT UNDERTAKE LIGHTLY. ONLY STEADY AND COORDINATED PRESSURE FROM BOTH THE FINANCIAL AND DONOR COMMUNITIES IS LIKELY TO MOVE THE GOH TO TAKE ACTION. HOWEVER, PRESENT LENDING CONDITIONS WILL NOT LEAD TO DECAPITALIZATION IN THE NEAR- OR MID-TERM, EXCEPT IN

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THE [illegible] MISSIVE LOAN DEFAULTS. [illegible] HDF'S CAN AND WILL USE A [illegible] FEES TO MAINTAIN A FAVORABLE S BEAD [illegible] THE COST OF CAPITAL AND EARNINGS FROM LENDING. THIS FEES CAN ALSO BE APPLIED TO COVER THE ADDED RISK AND FOLLOW-UP COSTS OF DEALING WITH FIRST-TIME PROVINCIAL BORROWERS, IF THE 22 PERCENT CAP REMAINS. IF THE CEILING IS RAISED OR REMOVED, THE PROVINCIAL MARKET SHOULD BE ABLE TO BEAR SOMEWHAT HIGHER INTEREST RATES, SINCE THESE ENTREPRENEURS HAVE NO BORROWING ALTERNATIVE, EXCEPT USURIOUS MONEYLENDERS. THE ULTIMATE SAFEGUARD AGAINST A NEGATIVE INTEREST RATE AND POTENTIAL DECAPITALIZATION IS THE ABILITY OF THE MISSION TO INSTRUCT THE LOAN MANAGEMENT ENTITY TO CUT OFF TRANCHES OF LENDING CAPITAL, SHOULD CIRCUMSTANCES WARRANT.

3. AVOIDANCE OF POSSIBLE CONFLICT OF INTEREST WITH HDF AS BOTH TRUSTEE AND BORROWER - WE INITIALLY PROPOSED HDF AS TRUSTEE BECAUSE OF ITS EXPERIENCE IN MANAGING THE SOFINDES TRUST AND BECAUSE THE ROLE SEEMED TO BE IN KEEPING WITH HDF'S POSITION IN THE DEVELOPMENT COMMUNITY IN HAITI. TO BE ELIGIBLE TO RECEIVE THE CAPITAL FUND IN GRANT FORM, THE TRUST ENTITY MUST BE, OR BE ATTACHED TO, A RECOGNIZED, REGISTERED NON-PROFIT ORGANIZATION. THIS WOULD SEEM TO RULE OUT ALL OF THE OTHER LOCAL FINANCIAL INSTITUTIONS AS A HOME FOR THE CAPITAL FUND, SINCE FOR A COMMERCIAL ENTERPRISE, SUCH AS A BANK, TO RECEIVE THE GRANT, IT MUST CREATE A NEW FOUNDATION AS AN AFFILIATE FOR THIS PURPOSE. ASIDE FROM THE ISSUE OF ESTABLISHING A NEW LEGAL ENTITY, WHICH IS VERY TIME-CONSUMING IN HAITI, INFORMAL CONTACTS INDICATE THAT IT IS UNLIKELY THAT OTHER COMMERCIAL INSTITUTIONS WOULD BE INTERESTED IN THIS ROLE, IN VIEW OF THE DEVELOPMENT NATURE OF THE PROGRAM INVOLVING RESTRICTIVE CRITERIA AND THE IMPLIED ADMINISTRATIVE BURDEN, COMPENSATED BY WHAT THE BANKS PERCEIVE AS A RELATIVELY MODEST FEE FOR THE WORKLOAD INVOLVED. WE ALREADY HAVE A CONSIDERABLE INSTITUTIONAL INVESTMENT IN HDF AND HAVE SPECIFICALLY STUDIED ITS SUITABILITY TO SERVE AS MANAGER OF THE CAPITAL FUND OF THE NEW PROJECT. THE RECENTLY COMPLETED PRICE WATERHOUSE ASSESSMENT EVALUATED HDF'S STRENGTHS AND WEAKNESSES AND RECOMMENDED A NUMBER OF ACTIONS TO

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ENHANCE THE FOUNDATION'S MANAGEMENT CAPACITY.

AMONG THE PRICE WATERHOUSE RECOMMENDATIONS IS THAT AN INDEPENDENT ENTITY BE ESTABLISHED WITHIN HDF WHICH WOULD MANAGE THE TRUST. THE ONLY ACTION WHERE A POSSIBLE CONFLICT OF INTEREST MIGHT ARISE IS IN THE PROCESS OF ALLOCATING LENDING CAPITAL AMONG FINANCIAL INSTITUTIONS, WHICH WILL EVENTUALLY INCLUDE HDF ITSELF, WHEN HDF IS NO LONGER ELIGIBLE FOR GRANT FUNDING OF LENDING CAPITAL AND BEGINS TO BORROW FROM THE TRUST. THE PLACEMENT OF LENDING CAPITAL AMONG COMPETING INSTITUTIONS WILL BE APPROVED BY A TRUST MANAGEMENT COMMITTEE, FULLY INDEPENDENT OF HDF'S REGULAR OPERATING MANAGEMENT. THE TRUST COMMITTEE WOULD COMPRISE BANKING PROFESSIONALS, CAPABLE OF FULL LOAN ANALYSIS AND CHOSEN TO ENSURE INFORMED IMPARTIALITY IN THE ALLOCATION PROCESS. AS AN ADDED MEASURE OF CONTROL, PROPOSED LENDING CAPITAL TRANCHES WILL ALSO HAVE TO BE APPROVED BY USAID/HAITI, DOCUMENTED BY THE SIGNATURE OF THE MISSION DIRECTOR OR THE CHIEF OF THE OFFICE OF PRIVATE ENTERPRISE (OPE). WE BELIEVE THIS PROCEDURE AVOIDS A CONFLICT OF INTEREST WITHIN HDF BY SEPARATING THE MANAGEMENT OF THE TRUST AND ALLOCATION OF CAPITAL FUNDS FROM THE OPERATIONAL LENDING ARM OF HDF.

4. SAVINGS AND TERM DEPOSITS - HAITI HAS NO SPECIFIC POLICY CONSTRAINTS ON MOBILIZATION OF SAVINGS, AND IN FACT COMMERCIAL BANKS MAKE FREQUENT USE OF TERM DEPOSITS TO HOLD A PORTION OF THEIR SAVINGS AND FREE DEPOSITS, BECAUSE OF THE LOWER RESERVE REQUIREMENT IMPOSED ON TIME DEPOSITS BY THE CENTRAL BANK. FOR THESE BANKS, LARGE INSTITUTIONAL DEPOSITORS SUCH AS PENSION FUNDS AND INSURANCE COMPANIES PROVIDE STABLE LEVELS OF DEPOSITS WHICH THE BANKS USE TO FINANCE A PORTION OF THEIR LONG-TERM LOANS. SAVINGS GENERATED BY THE HAITIAN MORTGAGE BANK (BCI) TOTAL MORE THAN DOLS 1.[illegible] MILLION. THE CHARTERS OF HDF AND SOFIHDES DO NOT PERMIT RECEIVING DEPOSITS OR SAVINGS FROM CLIENTS, BUT BOTH CAPITAL AND REFLOWS NOT NEEDED FOR CURRENT LENDING ARE NORMALLY KEPT IN TIME DEPOSITS IN COMMERCIAL INSTITUTIONS TO MAXIMIZE RETURN. FOR SOFIHDES, AN ADDITIONAL SOURCE OF FUNDS IS SUBSCRIBED CAPITAL FROM SHAREHOLDERS, WHICH CAN BE EXPANDED AS FURTHER NECESSARY.

5. STUDIES - PER SECTION III.F. OF PID (PP 13-14), THE PP'S ECONOMIC, FINANCIAL, TECHNICAL AND INSTITUTIONAL ANALYSES WILL SERVE TO ESTABLISH FULL PROJECT FEASIBILITY. IN ADDITION, THE PROJECT ITSELF WILL UNDERTAKE VARIOUS STUDIES AIMED AT IMPROVING DATA COLLECTION AND ANALYSIS IN THE FINANCIAL SECTOR, INCLUDING CAPITAL NEED PROJECTIONS, RISK ASSESSMENT, INTEREST RATES, MONEY SUPPLY, ETC. THE PP WILL PRESENT A GENERAL FRAMEWORK AND RATIONALE FOR THE STUDIES COMPONENT OF THE PROJECT.

6. INSTITUTIONAL STRENGTHENING - THE PP WILL BE AS SPECIFIC AS POSSIBLE REGARDING TECHNICAL ASSISTANCE AND

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INSTITUTIONAL TRAINING TO BE PROVIDED [illegible] LONG- AND SHORT-TERM TRAINING WILL BE OFFERED TO THE STAFF OF THE INSTITUTIONS ASSISTED AND [illegible] OF THE PROJECT. SOME PRACTICAL ON-THE-JOB TRAINING (ACCOUNTING, COMPUTER SKILLS, ETC.) WILL BE OFFERED DIRECTLY WITHIN THE INSTITUTION, AND SHORT COURSES WILL BE PROVIDED THROUGH THE CENTER FOR MANAGEMENT AND PRODUCTIVITY (CMP) AND THE PROFESSIONAL BANKERS' ASSOCIATION (ABA). NATURALLY, CARE WILL BE TAKEN TO AVOID DUPLICATION OF TRAINING OFFERED BY OTHER DONORS. TRAINING AIMED AT STRENGTHENING AID-ASSISTED FINANCIAL INSTITUTIONS AND AT INCREASING THE EFFICIENCY OF THE BANKING SECTOR THROUGH STANDARDIZATION AND MODERNIZING PROCEDURES WILL DIRECTLY SERVE PROJECT OBJECTIVES. TO THE EXTENT PRIVATE COMMERCIAL BANKS PARTICIPATE IN ELEMENTS OF THE TRAINING PROGRAM, COST SHARING ARRANGEMENTS WILL BE WORKED OUT.

7. FINANCIAL ANALYSIS - AS INDICATED IN THE PID, A FINANCIAL ANALYSIS WILL BE INCLUDED IN THE PP TO DEMONSTRATE THE FINANCIAL SUSTAINABILITY OF THE LENDING PROGRAM AND THE PPED PROGRAM.

8. PARTICIPATION OF PRIVATE BANKS - LENDING CAPITAL BY
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WILL BE ALLOCATED AMONG ELIGIBLE LOCAL FINANCIAL INSTITUTIONS BY THE TRUST'S INDEPENDENT LOAN COMMITTEE. PRIVATE COMMERCIAL BANKS WILL BE ELIGIBLE TO BORROW LOAN FUNDS FROM THE TRUST ON THE SAME BASIS AS AID-ASSISTED DEVELOPMENT INSTITUTIONS LIKE SOFIHDES, FDF AND BCI, ON THE UNDERSTANDING THAT THEY MUST OBSERVE PROJECT CRITERIA FOR ON-LENDING, I.E. LOANS FOR DEVELOPMENTALLY ORIENTED ACTIVITIES, WITH EMPHASIS ON SMALL AND PROVINCIAL BASED ENTERPRISES. INSTITUTIONS WHICH CAN MOST EFFECTIVELY IMPLEMENT LOANS MEETING THESE CRITERIA WILL RECEIVE FAVORABLE CONSIDERATION FOR LENDING CAPITAL ALLOCATION. IF COMMERCIAL BANKS SHOW RELUCTANCE TO BECOME INVOLVED WITH SMALLER, HIGHER RISK LOANS, ESPECIALLY IN THE PROVINCES, THIS WILL BE REFLECTED IN THE LEVEL OF THEIR PARTICIPATION. ALTHOUGH WE ARE NOT ASSIGNING A SECONDARY PRIORITY TO THESE BANKS, WE EXPECT THAT DEVELOPMENTALLY ORIENTED FINANCIAL INSTITUTIONS WILL BE MORE COMFORTABLE WITH PROJECT LENDING CRITERIA STRESSING SMALLER AND PROVINCIAL ENTERPRISES.

9. PPED - PRELIMINARY ANALYSIS SUGGESTS THAT THE PROJECT'S PROVINCIAL TA COMPONENT (PPED) WILL BE A LOW-COST AND COST-EFFECTIVE MECHANISM TO TRANSFER KNOW-HOW TO PROVINCIAL BUSINESSES ON PROJECT DEVELOPMENT AND CREDIT ACCESS. ALTHOUGH THE START-UP COSTS IN VARIOUS PROVINCIAL AREAS WILL BE BORNE UNDER THE PROJECT, A FEE STRUCTURE FOR SPECIFIC SERVICES RENDERED TO INDIVIDUAL FIRMS WILL BE INTRODUCED, LEADING TO FULLER COST RECOVERY BY THE END OF THE PROJECT, AFTER WHICH PPED'S MAIN FUNCTION AS A CATALYST TO PROMOTE PROVINCIAL LENDING MAY HAVE BEEN LARGELY FULFILLED. WITH PPED, THE PROJECT WILL NOT LEAVE BEHIND A STAFF-HEAVY INSTITUTION WITH UNFUNDED RECURRENT COSTS. IF STILL DEEMED TO BE NEEDED, PPED COULD CONTINUE AS AN ARM OF HDF'S PROVINCIAL BRANCHES ON A FEE BASIS, OR COULD BECOME AFFILIATED WITH THE LOCAL CHAMBER OF COMMERCE. ALTERNATIVELY, CONSULTANTS WHO WORKED FOR PPED COULD CONTINUE TO OFFER THEIR SERVICES PRIVATELY TO LOCAL BUSINESSES AS DEMAND DICTATES. IN ANY CASE, A.I.D. FUNDING FOR PPED WILL CEASE BY THE PACD OF THIS PROJECT. EVEN IF PPED DOES NOT CONTINUE FURTHER AS A DISCRETE ENTITY, THE STANDARDS AND PROCESSES ESTABLISHED UNDER PPED WILL BECOME RECOGNIZED NORMS TO SERVE AS MODELS FOR PROVINCIAL ENTERPRISES. THE METHODOLOGY FOR PPED WILL BE FURTHER EXPLAINED IN THE PP, ALONG WITH ANALYSIS AIMED AT DEMONSTRATING THE VIABILITY OF THE PROGRAM.

10. BUDGET - WITH AN FY91 OBLIGATION OF UP TO DOLS 3.4 MILLION AVAILABLE FOR THIS PROJECT, TO BE DIVIDED BETWEEN LENDING CAPITAL AND TECHNICAL ASSISTANCE, ALL PROJECT BUDGET REQUIREMENTS WILL BE MET FOR AT LEAST THE FIRST EIGHTEEN MONTHS.

11. THIS RESPONSE HAS SOUGHT TO ADDRESS ALL OF THE AREAS OF CONCERN EXPRESSED IN REFTEL. THE PRINCIPAL ISSUES OF INFLATION AND INTEREST RATES AND POSSIBLE

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CONFLICT OF INTEREST BY HDF WERE INITIALLY RAISED IN THE FIELD AND HAVE BEEN UNDER CONSIDERATION WHILE EVALUATION BY OPG, HDF AND THE PRICE WATERHOUSE ASSESSMENT. WE ARE CONFIDENT THAT THE SOLUTIONS WHICH WE ARE PROPOSING ARE APPROPRIATE AND WORKABLE. PROCEDURES AND RATIONALE FOR THE TRUST ARRANGEMENT, RELENDING CRITERIA, THE INTEREST RATE AND FEE STRUCTURE, AND INSTITUTIONAL RELATIONSHIPS WILL BE FULLY COVERED IN THE PP.

12. THE MISSION REQUESTS THE LAC BUREAU TO PROCEED IMMEDIATELY WITH THE ANTICIPATED DELEGATION OF AUTHORITY TO PERMIT THE MISSION TO APPROVE THE PROJECT PAPER AND AUTHORIZE THE PROJECT. PREPARATION OF THE PP IS NOW WELL UNDERWAY. TIME IS OF THE ESSENCE TO COMPLETE THE DESIGN AND AUTHORIZATION PROCESS BY THE JUNE 15 TARGET, IN ORDER TO EXECUTE A THIRD QUARTER FY 81 OBLIGATION. A CN IS BEING SUBMITTED BY SEPTEL.

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ANNEX B

ACT: AID-4 INFO: AMB DCM (P)

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E.O. 12356: N/A
TAGS:
SUBJECT: CREDIT AND FINANCIAL MARKETS PROJECT
(521-0223)-LAC REVIEW OF PID

1. LAC HAS COMPLETED REVIEW OF SUBJECT PID AND REQUESTS LENGTHY DELAY IN ADVISING MISSION OF RESULTS OF PID REVIEW. LAC APPROVES PID BUT MISSION MUST ADVISE LAC ON HOW IT PROPOSES TO RESOLVE ISSUES NOTED BELOW IN PID FOR LAC TO DETERMINE WHETHER PROJECT PAPER MUST BE REVIEWED IN AID/W OR WHETHER MISSION CAN EXERCISE EXISTING DELEGATION OF AUTHORITY TO APPROVE PP AND AUTHORIZE PROJECT. KEY ISSUES ARE FOR-TERM CREDIT CAN BE SUSTAINABLE WHEN INFLATION RATE OF TWENTY PERCENT PLUS FEES AND ADMINISTRATIVE COSTS INDICATES REVOLVING FUND WILL QUICKLY DECAPITALIZE WITH INTEREST RATE CEILING OF 22 PERCENT; AND APPARENT CONFLICT OF INTEREST IN HAVING HDF BE TRUSTEE AS WELL AS BENEFICIARY OF TRUST. OTHER ISSUES NOTED BELOW ALSO NEED RESOLUTION FOR PROJECT TO BE APPROVED. REQUEST MISSION CABLE PROPOSED RESOLUTION FOR BUREAU REVIEW AND DECISION

2. PID NOTES THERE IS AN INTEREST RATE CEILING OF 22 PERCENT, THAT INFLATION IS 23 PERCENT AND RATE IS EXPECTED TO INCREASE AND THAT INTERMEDIATE LENDERS WILL HAVE TO PAY A FEE TO THE TRUSTEE ON LOANS. GIVEN THIS SITUATION, AND RECOGNIZING THAT LENDERS WILL INCUR COSTS OF ADMINISTERING LOANS, IT SEEMS APPARENT THAT TERM LOANS WILL BE SUBSIDIZED, THE REVOLVING FUND WILL DECAPITALIZE, CREDIT WILL BE RATIONED TO LOW RISK BORROWERS AND THE TERM CREDIT PROGRAM WILL BE A SHORT TERM PALLIATIVE RATHER THAN RESULTING IN ANY LASTING SOLUTION TO THE CREDIT PROBLEM. THUS, IT DOESN'T APPEAR THAT THE CREDIT PROGRAM CAN BE JUSTIFIED. THE MISSION SHOULD ADVISE HOW THE PROGRAM WILL BE REVISED TO REGULATE THIS PROBLEM AND EFFECT A SOLUTION TO THE LACK OF TERM CREDIT FOR THE PROPOSED DISADVANTAGED CLASS OF BORROWERS.

3. HDF IS PROPOSED AS THE LIKELY TRUSTEE OF LOAN FUNDS AND IS ALSO EXPECTED TO BE A BORROWER OF THE FUNDS. HOWEVER PID RECOGNIZES A POSSIBLE CONFLICT OF INTEREST PROBLEM AND INDICATES THIS WILL BE EXAMINED DURING PROJECT DEVELOPMENT. LAC BELIEVES THIS CONFLICT IS REAL AND

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[illegible] IS FOR [illegible] TO PLAY BOTH ROLES AND THAT [illegible] WHO [illegible] ENTITY TRUSTEE OR FUND ADMINISTRATOR. [illegible] THE FEE PROPOSED FOR THE TRUSTEE [illegible] WITH [illegible] WAY TO MITIGATE AGAINST HIGH TRUSTEE FEES IS TO HAVE RESPONSIBLE TRUSTEES COMPETE TO ADMINISTER FUNDS. THE MISSION SHOULD ADDRESS HOW IT PROPOSES TO RESOLVE THE CONFLICT OF INTEREST PROBLEM AND ENSURE TRUSTEE FEES ARE REASONABLE. THE MISSION SHOULD [illegible] THE INTER EVALUATION OF RDO/C'S PLANT PROGRAM BE THE ROLE OF TRUSTEES FOR LESSONS LEARNED.

4. FOR INTERMEDIARIES TO HAVE A SUSTAINABLE TERM CREDIT PROGRAM THEY MUST ALSO HAVE A SUSTAINABLE SOURCE OF INCOME, I.E., TERM DEPOSITS. IN HAITI THERE APPEARS TO BE POLICY CONSTRAINTS TO THE MOBILIZATION OF SUCH SAVINGS. HOW WILL INTERMEDIARIES BE ABLE TO HAVE A SUSTAINABLE SOURCE OF LONGER TERM FUNDS TO SUPPORT A SUSTAINABLE TERM CREDIT PROGRAM?

5. THE PROJECT IS PREMISED ON A SERIES OF STUDIES WHICH MAY HAVE BEEN SUPERSEDED BY SUBSEQUENT EVENTS. THE MISSION SHOULD REEXAMINE THESE STUDIES, DETERMINE WHETHER THEY REMAIN VALID, AND UPDATE THEM IF THEY ARE NOT.

6. INSTITUTIONAL STRENGTHENING. PP SHOULD INCLUDE AN ADMINISTRATIVE AND MANAGEMENT NEEDS ASSESSMENT OF THE INSTITUTIONS TO BE STRENGTHENED. WE WISH TO ENSURE THAT [illegible] TO BE UNDERTAKEN IS NOT DUPLICATIVE OF THAT PROVIDED BY THE INSTITUTIONS THEMSELVES OR BY OTHER DONORS. PCI AND FOFIADES APPARENTLY HAVE WELL ESTABLISHED MANAGEMENT TRAINING PROGRAMS. FOR THOSE INSTITUTIONS WHICH ARE PROVIDING SUCH TRAINING, THE MISSION SHOULD DETERMINE WHETHER AID OR THE INSTITUTION SHOULD DO THE TRAINING UNDER THE PROGRAM AND WHETHER IT IS POSSIBLE TO SHARE THE TRAINING COSTS. THE PP SHOULD ALSO DEMONSTRATE MORE FULLY HOW OUR TRAINING PROGRAM WILL RELATE TO THE PROJECT OBJECTIVES.

7. FINANCIAL ANALYSIS. PID NOTES AN ECONOMIC ANALYSIS [illegible] BE COMPLETED. BUREAU REQUESTS THAT THIS BE [illegible] BY A FINANCIAL ANALYSIS, PARTICULARLY FOR [illegible] INSTITUTIONS WHICH WILL BE PARTICIPATING IN THE PROGRAM.

8. PRIVATE BANKS. PP SHOULD CLARIFY THAT PRIVATE SECTOR BANKS WILL HAVE EQUAL POWER TO COMPETE FOR THESE FUNDS. PID SEEMS TO IMPLY THAT PRIVATE BANKS ARE [illegible]

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[illegible] PED

[illegible] FOR PARTICIPATION IN THE PROGRAM.

[illegible]. PED. PE SHOULD EXPAND ON [illegible] NEED TO REALIZE [illegible] AND HOW IN WILL BECOME SELF-FUNDING. THE [illegible] INDICATE THAT AID WILL BE [illegible] CURRENT [illegible] COSTS OF PED WHEN IT WILL BE [illegible] FUNDS [illegible] LIMIT. PLEASE CLARIFY AND JUSTIFY IF THIS I [illegible].

10. [illegible] TO [illegible] DISCONTINUATION OF FINANCES AND [illegible] PLANNING FOR START-UP, PLEASE SHOULD BOTH [illegible] YEAR INCREMENT EQUAL TO EIGHTEEN MONTHS OF PROJECT [illegible].

11. CONCLUSION. PROP SEA PROJECT WILL PROVIDE [illegible] WITH CONSOLIDATION OF ACTIVITIES IN THIS SECTOR AND [illegible] POTENTIAL FOR RESOLVING SOME IMPORTANT [illegible] PROBLEMS. THE PROPOSAL [illegible] HOWEVER RAISES [illegible] NUMBER OF ISSUES WHICH APPEAR TO BE CRITICAL TO [illegible] IF IT CAN BE CONSIDERED WITHIN FIRST PRIORITY [illegible] CORE POLICY CONSTRAINTS. BECAUSE OF THE [illegible] OF THE [illegible] THE BUREAU APPROVES THE [illegible] THE MISSION TO DEVELOP THE PD. [illegible] THE [illegible] PROGRAM [illegible] IF USAID CAN ARRANGE FOR PD AND AUTHORIZE [illegible]. HOWEVER, MISSION MUST [illegible] LIST OF HOW IT PROPOSES TO RESOLVE THE ISSUES [illegible]. [illegible]

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ANNEX C. TECHNICAL ANALYSIS

I. Introduction

One of the objectives of this project is to assist in the development of Haiti, through the financing of small and medium entrepreneurs in the provinces.

This objective will be met in part by creating a new mechanism, the Fund Management Group (FMG), which will be the implementing institution for lending to financial institutions. The FMG will be a branch operation of the HDF and will use the funds from this project to onlend to qualified applicants as well as managing the funds presently in the SOFIHDES/HDF (see Institutional Analysis for more details).

The FMG will be responsible for recommending for Board and USAID approval, IFI's as potential borrowers of the fund and once the IFI is approved, recommend for Board approval the loans submitted by the IFI for financing. The FMG will also be the coordinating unit for the development and implementation of other project activities namely, the PPED, the institutional support (T/A), training programs for the financial sector and financial sector studies.

II. Operational Issues

A number of issues have arisen which affect the organization and operations of the FMG. These include:

A. The Issue of Risk

The Haitian financial system has always enjoyed a relatively healthy liquidity, and contrary to popular belief, funds for term lending have never really been the limiting factor in the financing of development-oriented projects. The issue is really one of risk. The higher risk of financing development oriented projects is generallly associated with three factors:

a) an unfavorable macroeconomic environment;

b) the absence of an effective legal system;

c) the fact that lenders have a tendency to avoid dealing with unknown organizations or businesses without a proven track record.

Two other constraints to lending in the provinces are the lack of infrastructure, such as electricity, shipping facilities, roads and business services and the difficulty in executing proper loan administration procedures. The implication is that in order to encourage IFIs to lend in the provinces, the

institution doing the encouraging (the FMG in this case) must be willing and able to share in the risk of the project.

B. Manager of a Pool of Funds

USAID with this project and the SOFIHDES/HDF trust, will have a sizeable pool of funds to manage. In the latter there is presently around 7.5 million G ($1 million) and about 2.2 million G ($300,000) will be added each year until the principle repayments start in 1994 at a rate of 3.68 million G ($490,000), which will at maturity in 2003 total about 63 million G ($8.4 million) and this does not include the interest earned on the funds received during that period (see Financial Analysis for exact figures). Add to this the $7.2 million that this project will add and the fund could eventually surpass 112.5 million G ($15 million). As a result, the mechanism which will be set up now will have to be designed in such a way that it will be everlasting and as an added benefit can continue to be used by USAID and other donor agencies as the implementing unit for credit projects. The size of this Fund allows a certain amount of flexibility which can assist in the preservation of the capital of the Fund. By being able to diversify its holdings and thereby diversify its risk, the FMG can intentionally allocate a portion of the funds under management to finance higher risk projects and focus on as-of-yet untapped markets, eg. emerging enterprises.

C. Loan Demand

The size of the primary target market (micro, small and medium enterprises in the provinces and term lending) is limited due to the aforementioned barriers and the history of lending in this country. As a result, demand for funds is not expected to initially be high or from numerous IFIs. Although the funds will be available to all institutions, it is expected that the response will be slow and grow as the project matures, mostly through the building up of the IFIs confidence in the FMG. It is expected that SOFIHDES will be the major user of the Fund, given that HDF will receive a grant for their lending purposes and initially will not be a direct borrower from the Fund. The group of institutions under Sogebank ownership is expected to be the second largest user of the Fund, as this IFI has shown itself to be the more dynamic of the local IFIs. Little action is expected from the foreign IFIs with the sole exception of maybe the Bank of Boston. This low demand is to be expected, as the markets targeted are not the regular domains of the private sector IFIs and as a result most of the funds will be used by development oriented IFIs. This also has the implication that the FMG will have to be prepared to evaluate projects in other areas, which can meet the secondary objectives of job and foreign exchange creation.

D. Pooling of the Technical Assistance

There are presently 4 USAID-financed TAs in the financial sector in Haiti. This project will consolidate all TAs who serve the financial sector and reduce the number to three, including the advisor to the the FMG. This will give the project a coordinated effort towards the financial sector and will offer to all institutions a powerful "think-tank" which can only improve the impact of USAID in this all important sector. In the beginning this group can be used to deal with the problems and issues of developing the fund management mechanism. In addition, by having all of the T/A's in one area, the exchange of timely information on the financial sector in general will be invaluable.

E. Negative Real Interest Rates

The interest rate spread accruing to the IFIs (the difference between their cost of capital and the rate which they charge their customers) is a key determinant of the profitability of IFIs in borrowing from the Fund. IFIs are prohibited from exceeding the current interest rate cap of 22 percent in the rate which they charge their clients. Under present market conditions and the relatively low current inflation rate of approximately 10 percent, the 22 percent ceiling poses no practical constraint. However, if inflation heats up and banks start to be faced with negative real interest rates, they could offset this to some extent with loan origination fees and management charges of 2-3 percent. Persistent inflation above 22 percent would put considerable pressure on the GOH to raise or abolish the interest rate ceiling, which would be a political action as much as an economic decision. Should excessive inflation occur, the FMG, in order to defend against a negative return, would effectively suspend new lending to IFIs by raising its own interest rates to the IFIs to avoid decapitalizing the Fund, thereby lowering the IFIs' spread to an unacceptable level, until either a raise in the legal cap or a reduction in inflation.

As a matter of policy, commercial banks will not, except for short periods, continue to lend at a rate below the recognized rate of inflation. Term lending would effectively come to a halt during such periods of inflation, unless the interest rate cap were lifted or a range of new fees were added to supplement interest income. USAID/Haiti will monitor this situation closely to avoid the practice of negative interest rates leading to decapitalization.

F. Conflict of Interest

The issue of possible conflict of interest, with HDF being both lender and potential borrower from the Fund, is a concern

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which has been addressed in the design of the project. Any conflict of interest is avoided at the outset by allocating to HDF initial lending capital for its own use in grant form. Therefore, during this period, it would not be competing with other IFIs to borrow from the Fund. In addition, by having an Advisory Board made up of representatives of the business and financial sectors, the FMG can claim genuine autonomy in its decision-making process, independent of the operational (i.e. the microenterprise lending) side of HDF. The final control against possible conflict of interest is that all major decisions on allocation of lending capital will be approved by the Director of USAID/Haiti, or his designate.

III. Target Market

The ultimate target markets for the funds will be:

1. Smaller (micro) entrepreneurs in the provincial centers.
2. Larger projects which have substantial provincial impact.
3. Micro-entrepreneurs in the capital area.
4. Other development projects.

The specific sectors in which activities will be financed are the traditional individually owned micro-businesses such as: iron working, woodworking, tailoring, baking, artisanal production, mechanical, block making, hardware, restaurant, dry cleaning, shoe production, pharmacy, beauty salons, etc. Low cost housing will also be included in the target market, but will require additional investigation and testing before any concerted action can be taken.

In addition to lending to the lower end of the borrowing market, the FMG will entertain the financing of larger projects, which have substantial development impact, either in or out of the province. This presents certain advantages from both a diversification and impact upon development standpoint. An example would be the financing of agro-industries who will use the loan proceeds to finance the production of their raw materials by farmers in the provinces. However, direct loans to smaller farmers and loans for consumption purposes will not be entertained.

This market will be accessed through the IFI's, who are either already operating in this market, or wish to enter this market and will include all commercial banks, development banks and NGO's. The Fund will not lend directly to the ultimate borrower, but will actively undertake a marketing campaign to encourage ultimate borrower, to go through their banks to use the Fund.

IV. History of Activity in the Target Market

History has shown that the Haitian financial sector has most always

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enjoyed a healthy liquidity position. Even so, the financing of higher risk operations has been limited and when done, done so on a name basis. The limiting factor according to many documented reports and concurred with by the authors of this PP is one of risk and not one of supply of funds. Neither lending for productive purposes (agriculture, industry, construction and trade) nor lending in the provinces has amounted to a significant portion of the private sector debt in Haiti.

In 1986 the figures from the BRH show that 94.79% of private sector credit was in the Département de l'Ouest (Port-au-Prince). In addition, lending for productive purposes, as a percentage of the total commercial banks portfolios are summarized in Table 1.[1]. For 1988, the data also shows that of the commercial bank's portfolio, less that 1% was in agricultural loans, 14% in industry, 4% in construction and the remainder in commercial and personal loans, for a total of only 19% of the lending in the productive ares. Finally, the financial system offers services to 8-10,000 corporate and personal borrowers and to around 200,000 depositors, however, 75% of these are found in the area of Port-au-Prince and recent figures from the BRH indicate that 75% of the outstanding private sector credit is to 10 major Haitian family groups.

Further blurring of the scenario is due to the common practice of"evergreening" (rolling over lines of credit). With this practice, the term element of risk is also neither considered in the pricing of a loan and nor in the pricing of the deposits, to the detriment of the depositor and the benefit of the IFI. This practice and the presence of a stable savings and institutional (pensions and insurance funds) deposit base has allowed the banks to remain unsophisticated in their pricing policies.

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[1] The data for the years 1983 to 1986 is from the report completed by DFC in 1987 and the data for 1988 was obtained from the report by Delatour in 1989. The latter has been adjusted for non-performing assets.

Table 1. TERM CREDIT USES IN COMMERCIAL BANKS			
Year	For All Productive Uses		Industry Only
	Medium & Long Term	Long Term Only	Long Term Only
1983	13.0%	4.8%	1.4%
1984	13.9%	4.3%	1.2%
1985	10.2%	3.4%	1.3%
1986	12.0%	5.3%	1.8%
1988	25.0%	12.0%	n/a

This lack of exposure of the financial sector in the provinces and for productive purposes, is due to three interrelated issues, which have combined to result in a scarcity of viable and bankable projects. The first is the generally poor macroeconomic environment which has been prevalent in this country throughout the 1980's and has actually suppressed investment in general, let alone in the provinces, where infrastructural services are not as reliable as in the capital. The second is the inefficient legal framework in which the financial institutions must operate. This relates to the identification, registration, and protection of collateral offered by clients for financing from the IFI's. The third issue is that of the unknown borrower. The banking system in general does not like to deal with persons unknown to them, which has resulted in the entire financial system competing for the business of a handful of families (50).

Where projects in the provinces have been financed, they were so because of the usually solid and well-known investors behind them. Commercial banks do have some branches in the provinces however, little lending activity is carried out from these branches rather, they act mostly as clearing houses for activities between the provinces and the capital. The following banks have branches in the provinces: Banque de l'Union Haitienne (Cayes and Cap Haitien), Banque Nationale de Crédit (Cayes, Cap Haitien, Jacmel, Gonaives, St. Marc) and the Banque Nationale de Paris in Cap Haitien.

Two cases of limited lending success in the provinces involve the two USAID projects, HDF and SOFIHDES. The HDF opened a branch in Cap Haitien in the fall of 1989 and to date has 111 borrowing accounts, with a total portfolio in excess of 1.1 million gourdes ($150,000). A recent study of Cayes has prompted the HDF to begin the process of opening a second branch in that provincial city. The author of the study points out that if HDF wishes to open branches in other provincial cities, that the Cap Haitien model

which is being used for the situation in Cayes, has to be adapted before being used in other cities due to the changing mix of business, population and financial activity from city to city, introducing yet another element of risk in the goal to increase activity in the provinces. This will add another dimension of risk to the future efforts of HDF in this area and as such will require special attention and effort.

SOFIHDES, since 1988, has financed 14 projects in the provinces for a total of 10.3 million gourdes ($1.4 million) of which the majority (10) were in the agribusiness sector (6.1 million gourdes or $812,000). This activity accounted for over 50% of the portfolio growth of the institution since 1988. Additional internal data from SOFIHDES shows that for the same 4 years, agribusiness projects analyzed totalled 37.9 million Gds ($5.0 million), of which 25.3 percent (9.6 Million Gds or $1.3 million) were actually financed. Of the projects analyzed (37.9 million gourdes), 59.8 percent (22.7 million Gds or $3.0 million) were in the provinces and of those projects eventually financed, 54 percent were in the provinces. These results suggest that, firstly, although there are a plethora of good ideas, only a few are really bankable, with traditional banking practices (term loans backed by tangible security). Secondly that once an institution has developed the proper risk analysis techniques, that bankable projects can emerge, even with traditional banking practices. From this one can only conclude that with more sophisticated financial instruments, more of these projects could have been financed. Finally that the agribusiness sector offers a window of opportunity for an institution wishing to encourage investment in the provinces.

On the public sector side of the equation, the GOH has through three institutions, financed the target market, namely, le Bureau de Crédit Agricole (BCA), la Banque Nationale de Devéloppement Agricole et Industriel (BNDAI) and a World Bank supported, discounting operation le FDI. The experience of the two former institutions has not been that good. BCA carries on lending on a very limited basis and support from both IBD and AID has been withdrawn. The BNDAI was put into receivership and the portfolio is presently being managed by the BRH, on a collection basis only.

The Fonds de Developpement Industriel (FDI) has been in operation for about 10 years and has a portfolio of around $9 million. The products that were available were a rediscounting alternative for the commercial banks, a partial guarantee mechanism, technical assistance and foreign currency at the official rate of 5:1, when the market rates were at times 7:1. Their upper lending limit is $500,000 and as such their exposure in both the provincial markets and the lower end of the borrowing market is negligible. As a result it is not the exposure of FDI in the targeted market of this project that is important, but rather what were the problems encountered by FDI in trying to convince the private sector IFIs,

the same market as for this project, to participate in the development of the country. Although a detailed evaluation is in the stages of preparation, there are some preliminary indications. FDI had limited flexibility in their product range, they were providing dollars at subsidized rates which probably sent the wrong signal to the market and finally, FDI is a public sector institution. In a discussion with the General Manager of FDI, it was confirmed that in order to get out more to the target market, more risk sharing through appropriate financial instruments would be required. This of course does not preclude an efficient risk identification and analysis effort.

One of the conclusion that can be drawn from the foregoing is that the analysis of, acceptance of and management of risk, are the limiting factors, after those mentioned above (macroeconomic situation, weakness of the legal system, name lending) to financing activities in the provinces and over the longer period. It is imperative that if an institution is to undertake this type of lending, that they either have a presence in the provinces or have sufficient knowledge and the tools to enable them to properly assess the risk in the project to be financed. If they are not located in the provinces, then they will need a well diversified portfolio, in order to offset not only the higher risk of doing business in the provinces but also the higher cost of monitoring.

The conclusion is that flexibility, creativity and the ability to share in the risk is the way to maximize the potential activity in this area. In order for an institution to attain its objectives of assisting this target market, it must have the flexibility to meet the demands of projects on a case by case basis, creative enough to actually increase the risks of success and experienced to be able to monitor and evaluate the situation on an ongoing basis. In the past, trying to encourage provincial expansion through classic instruments such as term loans secured by tangible collateral, has seen limited success. The institution must meet the demands of the market and not try to make the market fit their rules.

V. Product Types

Given the foregoing analysis, there will be three basic types of loans and are separated by the skills required to evaluate and monitor the loans and in part by the risk-reward relationship:

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Table 2. LOAN PRODUCT CATEGORIES			
Type	**Risk**	**Return to the FMG**	**Demand**
No risk sharing	Low	Term deposit rate	Medium
Risk sharing	Highest	Interbank deposit rate	Highest
Micro-enterprise	Medium	Concessionary	Lowest

In all of the loan categories, the interest rates to the ultimate borrower will be market driven and will, within the limits of the law maintain a positive real interest rate. Variable rates will be maintained, however, fixed rates should be made available in certain cases (start up periods), but with a premium to be added which is commensurate with the risk involved.

A. No Risk Sharing

The no risk sharing category, will be a straight lending operation, involving loans to IFI's for onlending, without any concessions or sharing of risk. The IFI, for internal reasons, will choose to use the Funds resources rather than own their deposit base, drawn by the certainty of the source over the period of the loan. The question could be asked "Why should the Fund lend to the IFI when the IFI has its own funds to on-lend?". The answer is that the IFI wants to match fund the project, thereby not affecting their deposit base. In addition, these funds will not be subject to reserve requirements. The examples will be larger institutions who wish to finance projects with substantial provincial impact or other development projects and desire a long term guaranteed funding source, but feel that the risk involved is acceptable to them. Finally it is important that the Fund retain a diversified portfolio insofar as risk is concerned. By funding IFIs in this manner, the FMG would encourage the IFI to match fund, would accomplish the objective of provincial involvement and would protect the capital base of the Fund, in addition to having a secure source of interest income. The IFI's that would fall into this category would be the commercial banks and SOFIHDES. These would be longer term loans (5 - 10 years) returning around term deposit rates of interest, which would take into account the spread required by the institution to operate, especially in the case of making provincial loans, as they normally have a higher operating cost associated with them. It is expected that demand for this type of funding will be somewhere between the other two categories due to the following:

1) Most institutions will have a lower cost of funds than those offered by the fund and given that they will feel comfortable with the risk associated with the project, they could use their own funds to the limit that their historical stability of funds will not be disturbed, and

2) Historically, the financial system has always been in a liquid position and there has been always been a reluctance to lend to development oriented projects, due to the risk associated with this activity and this situation is expected to continue.

3) This is the type of facility that would be used by a non-deposit gathering institution.

As their will not be any risk associated with this loan, the evaluation of the project will focus on the development objectives to be attained and the monitoring requirements will require regular reporting on repayment history and interim progress reports.

B. Risk Sharing

This category of loan is where the Fund will share the risk in a project. When the projects are developed and approved for funding by the IFI, an application will be sent to the FMG, who will ensure that the loans meet the objectives and determine what type of risk sharing mechanism would be appropriate for the particular project. This will obviously involve negotiation with the IFI, will require flexibility and a solid financial technical capacity on the part of the FMG. Some of the mechanisms envisaged will include:

- subordinated debt: (junior debt), which is the act of taking an inferior position to other creditors, usually compensated for this position through either/or interest rate or aspects of control;

- pari-passu arrangements on collateral offered: where there is not enough collateral to adequately cover the debt, but confidence in the positive outcome of the project is acceptable, creditors share equally in the collateral, even though complete coverage may not be available;

- deferred principle payments: a creditor accepts to wait until the end of a loan to recoup principle, usually involving premium payments for the additional risk;

- graduated interest arrangements: interest rates will increase as the maturity increases, reducing pressure on cash flow at the outset of the project;

- balloon loans: a loan in which the principle payment may come totally or partially at the maturity of the loan;

- revenue bonds: repayments are to come as a percentage of cashflow from the project;

- quasi-equity participation: the FMG takes a stake in the operation, which starts off as equity, but reverts under pre-

specified conditions to a loan.

- retractable (putable) guarantee: whereby the FMG will offer a partial guarantee, for which the premium is renegotiated on an annual or regular basis;

- leasing: the Fund can purchase equipment and lease it to the client, which has the impact of leaving the other borrowing capacity of the client for other funds such as an operating loan.

These are just a sampling of the financing instruments available and it should be the initial task of the FMG to come up with others. The goal will be, not to offer a total coverage (100% guarantee), but just enough to encourage the institution to participate in the risk. The average return on this category of loan should be higher than the other two (around inter-bank rate), but the possibility of losses will also be greater.

Demand for this category should be the highest, if properly marketed, as the risk sharing option will be attractive for the IFI (assuming that development activity will increase overtime). Furthermore, as increased risk involves longer terms of repayment, reflows will not come as rapid as the no risk category. Finally, loan restructuring on provincial projects should be available through the FMG.

The evaluation and monitoring requirements in this category will have to be among the best in the financial sector, not only to evaluate the risk, but also to protect the assets of the Fund.

C. Micro-enterprise

This category of loan will be to an IFI who will be directly addressing the primary target market of this project. Depending upon the individual IFI's case, this category may involve concessions, as provided for in the AID Policy Paper on Financial Markets Development, August 1988. This assumes that most IFI's in this category are weakly capitalized, have high costs of operation and higher writeoffs. Although, the average maturity of the loans from the IFI's to the clients will be about 2-3 years, the loans from the Fund to the IFI will carry an average term of 10 years, with a grace period (5 years). Due to the relatively short maturity of the IFI's loans to the client (funds are available for relending) and the lack of IFI's operating in this market, the initial demand for funds for this type of lending will be lower than for the other categories. The IFI that will use this source first and the most will most likely be the HDF itself, as it is the best positioned to do so.

The concessions should involve low interest rates, direct fixed asset and operating grants, and forgivable principle portions,

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assuming that self sustainability can be shown to be eventually achieved. As is pointed out in the Financial Markets Policy Paper, the operating grants cannot exceed the operating costs of the institutions. These concessions are justified given that these institutions are at the heart of the objective of this project and because this type of lending, as a standalone activity, is both high risk and high cost.

Evaluation will require greater effort than the no-risk sharing, but less than the risk sharing and the monitoring should be done on a portfolio basis, through monthly reports from the IFI.

D. Other Products

To be able to encourage the institutions to move into the target areas, the FMG will have to be market driven, thereby implying flexibility and creativity. Thus, the Fund may be required from time to time, to use other products, not aforementioned and this should be encouraged, assuming of course, that they comply with the AID Policy Paper on Financial Markets Development, August, 1988. For instance, the FMG could consider providing financing for mortgage operations, by buying the performing portfolios of the mortgage institution (collateralized mortgage obligations), which could eventually lead into other operations such as the purchase of term loan receivables.

VI. Portfolio Diversification

In order to achieve the objectives of increasing the productive business activity in the provinces, the FMG will have to balance AID policy, sustainability, capital preservation, risk exposure and fluctuations in demand.

Although AID policy states (AID Policy Paper on Financial Markets Development, August 1988):

> *"A.I.D. funds provided to financial institutions should carry an interest rate that (1) is at least equal to the cost of local, nonconcessional sources of capital; (2) approximates the cost of lendable resources of comparable maturities from the local private capital market (if such resources exist); and (3) is based on the appropriate rate to the ultimate borrowers."*

it goes on to say:

> *"A.I.D. needs to make more realistic determination of the costs of carrying out A.I.D. required activities when developing credit projects. If it is necessary to make adjustments (concessions assistance) in the terms of A.I.D.'s assistance to the IFI to hedge agreed-upon risk (although not necessarily the total risk) or cover the costs arising from meeting A.I.D.'s programmative objectives, then the value of the adjustments shall be equal to, but not greater than, the actual costs incurred by the IFI." As a footnote: "These costs generally include the costs of analyzing and monitoring*

loans and maintaining a loan loss-reserve. The adjustments to A.I.D.'s assistance generally include grants, reduced interest rates, or extended grace periods. Programmatic objectives may include making credit available to private enterprises that would not be able to obtain formal financing in the absence of A.I.D. support (additionally), encouraging an IFI to provide term loans, or providing services to a borrower that are not normally part of a loan agreement (such as business advisory services)...."

As shown in the discussion on the history of lending to the provincial and small business market, in order to get IFI's to venture into these traditionally high risk areas, they will need the proverbial carrot. Given the past history in Haiti, this will require an concerted effort on the part of the fund management to ensure that the fund is well publicized and has the ability to be creative in its approach to financing and especially in risk sharing. This balancing act will be greatly facilitated by a built in flexibility to react to market demands, by innovative leadership and through diversification of the Funds assets.

Using only the funds from the project to onlend and the funds in the SOFIHDES/HDF trust as only deposit instruments on the inter-bank market, will help to ensure that the fund has revenues to cover off operational expenses, once it reaches its critical mass. By further diversifying the use of the loan funds between the three aforementioned lending categories, at least a minimum positive rate of return can be maintained (after write-offs) for the lending activities of the Fund. Given this diversification, capital preservation and a return on assets close to or greater that inflation should be reasonable target objectives. This will by no means be an easy task and will require constant monitoring, projecting and analyzing of risk.

VII. The Procedures

The application forms for funding from institutions will be developed by the FMG and distributed to the financial sector. The application process will be a two stepped one, whereby the institution will apply to be a borrower of funds and a total upper limit will be established and then as projects arise, they will be presented to the FMG on an individual basis.

In the initial step, the FMG should look at the financial soundness of the institution including a total ratio analysis and a history of repayment through the interbank market and will recommend a course of action to the Board. The Board will concur or withhold concurrence on the recommendation. The application will then be forwarded to the Director, USAID for final concurrence. Assuming all parties agree, the institution will then be eligible to receive funds (up to a prescribed limit, determined through the application process and adjusted depending upon the availability of funds). A contract binding the HDF and the institution will then be signed,

indicating the responsibilities of each party and stipulating the guidelines for the uses of the funds. As the Fund may become oversubscribed to, a clause should be placed in the contract that would enable the maximum limit to be lowered should the availability of funds become limited.

Once the projects have been received, analyzed and approved by the institution, they can be submitted to the FMG for appraisal, who will recommend a course of action for the Board's concurrence. If the situation is favorable, then the FMG will ask the Accounting Service of the HDF to issue a cheque in favor of the institution, who will receive it concurrent with their signature of the legal documentation, binding the institution and the HDF, outlining the specific purposes of the funds, the details of the repayment, the collateral taken and the monitoring requirements. The procedure described above is for "vanilla" loans where no risk-sharing arrangements, grants or other concessions are required. However, as mentioned earlier, to encourage the institutions to lend in the provinces, concessions will have to be made and as a result the contracts and follow-up, although standardized, will also have a tendency to be unique to each project and as a result, this will involve a more complex and detailed contractual arrangement, with more follow-up procedures.

Monitoring requirements of the projects will vary, however, at least monthly reports should be received on an institutional basis, reviewing the status of the loans. Interest and principle payment should be made to the Fund by the institution on a six month basis. Interest will be calculated on the dispersed amounts for the past six months and any principle collected by the institution from the project will be forwarded to the FMG. It will be the FMG's responsibility to bill the institution and allow them 30 days for payment.

In the case of institutions lending to small and micro enterprises, the approval of these loans will be on a block basis, supported by a monthly dispersement and repayment report.

In the case of HDF applying for a loan from the Fund, the request will follow the normal channels, but will require the approval signature of the USAID Mission Director or his designate.

ANNEX D

FINANCIAL ANALYSIS

This section describes the financial operation of the FUND and FMG. We have built a model that embodies the FUND and FMG future management rules in order to simulate their operations and anticipate the nature of the difficulties to be encountered over a twenty-year period. In doing so, the model has identified the impact of a USAID grant to the FUND under this project, especially with respect to the long-run sustainability of the institution.

The financial analysis performed with this model has gone through the following steps:

- A demand analysis
- The establishment of a reasonable set of assumptions regarding the three types of loans to be made (each loan type has its interest rate level, term, grace period, and write-off rate than can be changed over time)
- The establishment of assumptions regarding general economic conditions
- The definition of fund management rules
- The determination of grant impacts through sensitivity analyses.

1. Demand Analysis

The most critical step in establishing the financing level for the FUND is the demand analysis. Ideally, the Project Paper should have been preceded by a thorough survey of micro-enterprises in the provinces. In order to estimate the potential demand for funds, such a survey would have indicated the number of existing enterprises and their expressed needs for credit (and, in extremis, the interest elasticity of loan demand from financial market data).

The survey results would have been useful not only in assessing the validity of the project at the project paper stage, but also as a valuable information repository for HDF and other financial institutions interested in the micro-enterprise market or in provincial extension. Indeed, it appears that some local banks used to serve exclusively the Port-au-Prince market have recently commissioned their own surveys of the potential for credit in the provinces.

Lacking thorough information on the provinces, the Project Paper team devised a crude estimation of credit demand based on the population estimates from the Institut Haïtien de Statistiques et

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d'Informatique (IHSI) and on J. Currelly's micro-enterprise surveys of Cap-Haïtien and Les Cayes.[1]

a. **IHSI Data.** IHSI has forecasted the Haitian population at a disaggregated level until the year 2005. Its information base consists of the 1982 Census data and of subsequent surveys of birth and death rates.

b. **Currelly's Surveys.** Of Currelly's two surveys, only the Cap numbers were retained for the present analysis, because the number of micro-enterprises per capita in Cayes was considered unusually high relative to the remainder of the country. Currelly estimated at 272 the total number of Cap's enterprises eligible for credit under this project's criteria. Currelly also estimated Cap-Haïtien's population. His mean number of approximately 250,000 in 1989 is much higher than IHSI's 160,000 for the same year.

c. **Pooling Both Sources of Information.** We have adopted IHSI population figures both because they are consistent with the widely accepted 6.4 million national estimate and because they are the only ones available at a disaggregated level nationwide.

We have selected eleven population centers on the criterion that their populations each exceed the 150,000 mark in 1990. These population centers are towns and their surroundings, formally known as "arrondissements" bearing the same name as the town. From IHSI projections for 1996 and 2001, we have interpolated and extrapolated population figures for 20 years, ranging from 1992 to 2011 (see table 1 below).

The per capita ratio implied by the 272 eligible enterprises in Cap was extended to the remaining eleven population centers.

Finally, from HDF's experience in Cap and Port-au-Prince, we assumed the average loan size per enterprise to be G12,500, an assumption which can be easily modified in the model. Based on the above assumptions, table 1 shows the <u>potential</u> demand for loans in each center.

d. **Anticipated Chronology of Provincial Demand.** It seems reasonable to expect the demand for FUND loans to be gradual. Table 2 presents a scenario on how some of the eleven centers would come into the scope of consideration of financial institutions. The proximity and easy access to Croix-des-Bouquets from Port-au-Prince naturally leads to their being grouped together from the first year onward. Cap-Haïtien and Cayes will also be part of the potential demand during the first year of the project, given their already significant exposure to formal credit.

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[1]Currelly Associates, <u>Haitian Development Foundation: Les Cayes Annex</u>, February 1991. A similar study was done in 1989 for the Cap-Haïtien Annex.

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We have added Saint-Marc, Leogane and Jacmel as demand centers likely to be considered next by financial institutions since they enjoy good road access to Port-au-Prince. Table 2 also includes three other population centers that could be approached by lending institutions after the end of the project: Gonaïves, Port-de-Paix, and Dessalines.

2. Assumptions

The financial analysis is based on a set of assumptions. They can be easily modified in the spreadsheet to perform what-if analyses.

a. **Financial Assumptions.** We expect the FUND to make three types of loans. Those to NGOs will be more lenient, with lower interest rates, longer grace periods, longer maturities, and high write-off rates. Those to commercial institutions, where risk would be shared with the FUND; and those with no risk sharing, for which the grace period and write-off rates would be the shortest.

The weight for each type of loans within the loans portfolio is determined exogenously (an endogenous determination based on the achievement of a particular objective was not worth the effort at this point). We assume a light weight (5 percent) for loans to NGOs since HDF is likely to receive a lending grant and since we would expect most of the demand for NGO loans to originate from HDF. As we anticipate risk sharing to be an incentive to borrow from the FUND, shared-risk loans constitute 60 percent of the portfolio.

Table E.0 lists other assumptions, including equipment life, the portfolio weights of the three loan types, and USAID grants to the FUND.

b. **More General Assumptions.** The exchange rate is assumed to remain at the current G7.5 to the dollar for simplification purposes: a serious forecast of the exchange rate is not warranted here, since, at this time, that rate depends on many political imponderables. For the same reason, the rate of inflation is assumed at the estimated 1980s annual average of 10 percent.

3. Financial Model of the FUND and FMG Operations

For analytical purposes, it is useful to distinguish between the FUND and the FMG (Fund Management Group). The FUND will consist of the loan portfolio and the deposits owned by the FUND at financial institutions. Therefore, the FUND's revenues will consist of interests on loans and deposits; of interests on G35 million now held at SOFHIDES; and of the principal repayments from the SOFHIDES account.

The FMG is the staff that manages the FUND. In return for its services, the FMG receives from the FUND 2 percent of managed

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funds. The FMG also charges an origination fee of 1 percent on each loan it makes. Table 3 describes the FMG's operating expenses as well as its expenses for fixed assets acquisition.

Both the FUND and the FMG are eligible to receive grants under this project. The FUND receives lending grants from the lending capital component of the project. The FMG receives operating grants from the institutional component to help pay operating and setup expenses.

While the FMG will manage the FUND as a commercial operation as much as possible, it will also carry out its development mission. We have assumed the following operating rules to be followed and have thus made them part of the model.

- Available funds must be used first to satisfy the demand for eligible loans.

- When available funds are in excess of loan demand, the FMG manager should be free to deposit them in commercial banks to help avoid decapitalization in real terms.

- However, before investing excess cash into deposits, the FUND manager should also abide by another fund management rule: the cash surplus should be in excess of anticipated outflows in the near future, and for simplification purposes, we assume anticipated outflows to be similar to those of the preceding year.

- If the FMG revenues do not cover its expenses, it is allowed to draw from the FUND to cover its cash deficit (a rule that should be further refined to prevent abuses).

- If the FUND runs into liquidity problems, it can also borrow from the FMG or draw from its deposits at commercial institutions.

4. Methodology

We implemented the model on a Lotus spreadsheet, where the first table states all the assumptions. Then, table 1 shows the potential demand for loans in the aforementioned eleven population centers. Table 2 is a chronology of which centers would attract the attention of the financial centers in future years.

Table 3 is a worksheet where important intermediate calculations are made to feed into the summary tables. Table 3 depends on tables 4, 5, and 6 where the decomposition of loan payments into their interest and principal components is made. These tables are built with an array of "IF Statements" and intermediate "index" tables which enable them to accommodate general conditions (grace periods, terms, etc.) for scenario analysis.

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Tables 7 and 8 represent the profit-and-loss and cash flow statements. While a balance sheet is not shown here, the model keeps track of assets, especially cash and deposit balances, in order to make the financial management decisions: when and where to draw and invest funds and when to stop doing so.

5. Scenario Analysis

We chose a 20-year simulation period in order to investigate the long-term financial sustainability of the FUND.

We start with a baseline scenario where the FUND and FMG operate without aid from USAID. A baseline scenario allows us to spell out the nature of the FUND's financial weakness, to better understand the impact of USAID grants, and to calculate the rate of financial return on grants to the FUND and FMG. Finally, the baseline scenario will also be useful in the economic analysis.

a. **Baseline: No Grants.** For the first two years, the FUND starts lending operations with its own deposits now held in commercial banks. In 1994, it can count on the repayment of principal from the SOFHIDES account to generate more lending capital.

Under this no-grant scenario, if loan demand is modest--for example, at 5 percent of potential, which amounts to G2.3 million in the first year--the 2 percent management fee and the 1 percent loan origination fee paid to the FMG do not suffice to cover the latter's operating and set-up expenses over the entire 20 years period.[2] Rather than borrow from outside, the FMG compensates for its shortfalls by drawing from the FUND's resources, as mentioned earlier. Nevertheless, despite these chronic income losses and cash deficits by the FMG, the "integrated" operation (FUND and FMG) could survive for approximately twenty years into the future.[3]

However, it is clear that the FUND would be becoming weaker with time under this modest demand scenario. The integrated operation's net income growth falters; it also runs into chronic cash flow problems after year 10, which means that it has to draw from its liquid assets for the remaining ten years. The outstanding principal balance grows more sluggishly with time, ending at a growth rate of 4 percent at the end of the period.

Doubling the percentage of potential loan demand to 10 percent--

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[2]This scenario will be labeled NG5 for "No Grant and 5 percent of potential demand." Similarly, we will consider scenarios NG10, G5 and G10.

[3] Demand originates initially from Port-au-Prince, Croix- des-Bouquets, Cap and Cayes, and, later on, from additional centers, per table 2.

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demand would be at G4.6 million during the first year--improves financial performance, but does not change the above conclusion: cash flow problems are postponed by a few years; the outstanding principal's growth rate is at about 6 percent at the end of the period, which is still under the assumed rate of inflation (10 percent average).

Another weakness is apparent: even under the modest 5 percent demand scenario, NG5 (see the preceding footnote for key to abbreviations), the FUND cannot adequately meet the demand for loans from years 16 onward. The lack of lending capital results in a cumulative unmet demand of 51 million gourdes at the end of the 20-year period. By doubling the 5 percent scenario to 10 percent of potential demand (NG10), unmet demand begins in year 2 and persists thereafter. The cumulative shortage amounts to G324 million at the end of the 20-year period.

These results suggest that the usefulness of a USAID grant would consist not in saving the institution from bankruptcy in the near future; but rather in allowing the institution to improve its financial position and survive longer.

b. **Grant Scenario.** We have assumed in this second scenario that the FMG will receive an institutional support grant under this project, and that the FUND will receive a lending capital grant.

The FMG grant would pay all operating and set-up expenses for the first year. Thereafter, a phase-out would occur, whereby 80 percent of budgeted FMG outlays will be financed by the grant in the second year. In the next 3 years, 60, 40, and 20 percent would be covered. This grant sums up to US$770,000 (G5.8 million) over the five project years.

With modest loan demand (5 percent), the FMG grant alone would still not prevent the FMG to run into net income losses and cash deficits from year 5 onward; neither would it be enough to liberate the capital necessary to match the capital shortage due to loan demands (although unmet demand begins to occur only in year 18).

By adding a US lending capital grant of US$5.2 million to the FUND during the project's life--with all other assumptions held equal--the shortage of lending capital would be totally eliminated over the 20 projection years under the 5 percent demand scenario (G5). Outstanding principal grows at least at 13 percent a year, and no serious cash flow problem occurs for the integrated operation, although the FMG runs into its own cash flow problems in year 18 and on. The net income of the integrated operation is always positive, but it grows weakly (4 percent) at the end of the 20-year period.

Under the 10 percent scenario (G10), however, the grants are not enough to enable the institution to meet the greater loan demand: cumulative lending capital shortage would be approximately G97 million over the 20-year period, but unmet demand only occurs in

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the 16th year onward. Outstanding principal is highest relative to the other scenarios, but grows below inflation in the later years of the simulation period (6 percent).

6. Internal Rate of Financial Return on the FUND and FMG Grants

The internal rate of return (IRR) should be calculated over the 20 year simulation period, from the difference between the aggregated (FUND+FMG) net cash flows, with and without grants: the difference between the cash flow streams shows the grants' impacts. The cost to the project of producing this difference is the sum of the lending capital grant and operating grant amounts in each year.[4] By subtracting the grants series from the difference in net cash flow series, we obtain the stream of net returns.

For the G5 scenario, the net returns series has no change of signs; hence, the IRR is not defined.[5] For the G10 scenario, there are many sign switches, which implies the existence of many solutions: the most plausible is 6.1 percent, which is not high by project standards. The same conclusion emerges from a present value analysis: the financial impact of the grant is more visible under modest demand conditions.

This is explained by the development priority of the FUND: with excess demand for loans, the FUND must convert its deposits and cash balances into loans, although its capital could earn more in bank deposits than in the targeted activities, where write-offs contribute to capital erosion.

7. Conclusion

Given the FUND's current resources--namely, its bank deposits, its interest revenues on the SOFHIDES account, and the repayment by SOFHIDES of the principal now in that account--it could actually engage in the lending process without external aid. This result is suggested by simulating with the model under assumptions considered reasonable by several persons familiar with the local financial market.

While the new institution seems to be able to survive for twenty years, it would have to carry a chronic loss and cash deficit from the FMG. Over time, the institution would become weaker as shown by the feeble--relative to inflation--growth rate of its stock of

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[4]In a strict sense, the cost is larger due to the additional costs of setting-up the project. These additional factors will not be considered here.

[5]An alternative would have been to calculate the IRR on the net income streams; similarly to the G5 scenario, however, the IRR is not defined.

outstanding principal in the later years of the simulation period. The autonomous institution also shows a small and faltering net income growth.

Equally important is the observation that the FUND would likely be unable to meet the demand for its capital half the time during the next 20 years. This appears to be true under the G5 conservative demand scenario, and does more so under stronger demand.

The lending capital grant to the FUND (US$ 4.7 million) over the life of the project would reverse the FMG's chronic cash deficit and enable the FUND to meet the loan demand postulated by our modest demand scenario (G2.3 million lent in the first year). If we assume demand to be twice that of the previous scenario--G4.6 million in loans in the first year--the grants to the FUND and FMG also eliminate negative FMG performances over 20 years, compared to the baseline scenario. Over 20 years, these grants would also reduce the backlog of unmet demand compared to the 10 percent baseline scenario.

Assumptions

Scenario 2: USAID GRANT TO FUND AND FMG Assmption: 10% of Potential Demand

ASSUMPTIONS	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Depreciation Period on Equipments	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Term on NGO (HDF, MEDA) Loans (Yrs)	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
* * Shared-Risk Loans	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
* * Loans with no Shared Risk	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Grace Period, NGO (Yrs)	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
* * Shared Risk	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
* * No Shared Risk	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Rate of Return, NGO	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
* * * Shared Risk	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
* * * No Shared Risk	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
* * * Inter-Bank Loans	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
* * * Deposits	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Write-off, NGO 1/	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
* Shared Risk	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
* No Shared Risk	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Average Inflation	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Potential Loan Demand Met by Fund	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Exchange Rate (G/US$)	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Threshold for Cash Reinvestment	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Loan Origination Fee, NGO	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Loan Origination Fee, Risk Sharing Loans	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Loan Origination Fee, No Risk Sharing	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
OPERATING EXPENSES	822	967	1,063	1,170	1,287	1,415	1,557	1,713	1,884	2,072	2,279	2,507	2,758	3,034	3,337	3,671	4,038	4,442	4,886	5,375
Salaries	465	712	783	861	947	1,042	1,146	1,260	1,387	1,525	1,678	1,845	2,030	2,233	2,456	2,702	2,972	3,269	3,596	3,956
General Manager + Assistant in 2nd Yr Onward	350	585	644	708	779	856	942	1,036	1,140	1,254	1,379	1,517	1,669	1,836	2,020	2,222	2,444	2,688	2,957	3,253
Accounting/Auditing Services	25	28	30	33	37	40	44	49	54	59	65	71	78	86	95	104	115	126	139	153
Secretary	70	77	85	93	102	113	124	136	150	165	182	200	220	242	266	292	322	354	389	428
Support	20	22	24	27	29	32	35	39	43	47	52	57	63	69	76	84	92	101	111	122
Rent	45	50	54	60	66	72	80	88	96	106	117	128	141	155	171	188	207	227	250	275
Utilities	30	33	36	40	44	48	53	58	64	71	78	86	94	104	114	125	138	152	167	183
Office Supplies	12	13	15	16	18	19	21	23	26	28	31	34	38	41	46	50	55	61	67	73
Travel	20	22	24	27	29	32	35	39	43	47	52	57	63	69	76	84	92	101	111	122
Other (Board Meetings, Repairs, & Misc.)	250	138	151	166	183	201	221	244	268	295	324	357	392	432	475	522	574	632	695	764
OUTLAY FOR OFFICE EQUIPMENT 1/	250					319					407					520				
LOAN SIZES, Cap-Haitien	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Port-de-Paix	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Gonaives	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Dessalines	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Saint-Marc	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Croix-des-Bouquets	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Port-au-Prince	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Leogane	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Jeremie	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Cayes	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Jacmel	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
WEIGHTS in PORTFOLIO, NGOs	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Shared Risk	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
No Shared Risk	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Management Fee (Loan Funds)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Management Fee (Money Market Operations)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
USAID Grant to FUND (US$ 000)	700	750	1,000	1,250	1,500															
USAID Grant to FMG (US$ 000)	250	175	145	115	65															

Table D.1

Potential Demand for Loans in the Eleven Most Important Population Centers (G 000)

Population Centers	1992 Year 1	1993 Year 2	1994 Year 3	1995 Year 4	1996 Year 5	1997 Year 6	1998 Year 7	1999 Year 8	2000 Year 9	2001 Year 10	2002 Year 11	2003 Year 12	2004 Year 13	2005 Year 14	2006 Year 15	2007 Year 16	2008 Year 17	2009 Year 18	2010 Year 19	2011 Year 20
Cap-Haitien																				
Population 1/	160,857	165,054	169,360	173,779	178,313	182,955	187,739	192,637	197,663	202,820	208,112	213,541	219,113	224,830	230,695	236,714	242,890	249,227	255,730	262,402
Est. Microenterpises 2/	272	279	286	293	301	309	317	325	334	343	351	361	370	380	390	400	410	421	432	443
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	3,306	3,833	4,326	4,883	5,511	6,221	7,021	7,925	8,945	10,096	11,396	12,862	14,518	16,366	18,495	20,875	23,562	26,594	30,017	33,880
Port-de-Paix																				
Population 1/	163,729	167,300	170,887	174,550	178,292	182,114	186,018	190,006	194,072	198,240	202,48[illegible]	206,830	211,284	215,793	220,419	225,144	229,971	234,901	239,936	245,080
Est. Microenterpises 2/	277	283	289	295	301	308	314	321	328	335	342	349	357	364	372	380	388	397	405	414
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	3,458	3,885	4,365	4,905	5,511	6,192	6,957	7,817	8,783	9,868	11,088	12,458	13,998	15,727	17,671	19,855	22,306	25,065	28,183	31,843
Gonaives																				
Population 1/	178,031	181,593	185,225	188,930	192,709	196,564	200,496	204,506	208,597	212,770	217,026	221,367	225,795	230,311	234,918	239,617	244,410	249,299	254,286	259,372
Est. Microenterpises 2/	301	307	313	319	325	332	339	345	352	359	367	374	381	389	397	405	413	421	429	438
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	3,758	4,217	4,732	5,309	5,956	6,683	7,499	8,413	9,440	10,592	11,884	13,334	14,960	16,786	18,833	21,131	23,709	26,602	29,847	33,499
Dessalines																				
Population 1/	293,136	299,148	305,284	311,545	317,935	324,455	331,110	337,901	344,831	351,903	359,121	366,486	374,003	381,673	389,501	397,490	405,642	413,962	422,452	431,118
Est. Microenterpises 2/	495	505	516	526	537	548	559	571	582	594	607	619	632	645	658	671	685	699	713	726
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	6,188	6,947	7,798	8,754	9,827	11,031	12,383	13,901	15,605	17,517	19,664	22,075	24,780	27,817	31,228	35,053	39,350	44,172	49,586	55,663
Saint-Marc																				
Population 1/	221,740	226,333	231,022	235,808	240,693	245,679	250,769	255,962	261,266	266,678	272,203	277,842	283,597	289,472	295,469	301,590	307,838	314,213	320,724	327,368
Est. Microenterpises 2/	374	382	390	398	407	415	424	432	441	450	460	469	479	489	499	509	520	531	542	553
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	4,681	5,256	5,901	6,626	7,440	8,353	9,379	10,530	11,823	13,275	14,905	16,735	18,790	21,097	23,688	26,596	29,862	33,529	37,646	42,268
Croix-Des-Bouquets																				
Population 1/	302,307	306,537	310,826	315,175	319,585	324,057	328,591	333,189	337,851	342,578	347,372	352,232	357,161	362,158	367,226	372,364	377,575	382,858	388,215	393,647
Est. Microenterpises 2/	511	518	525	532	540	547	555	563	571	579	587	595	603	612	620	629	638	647	656	665
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	6,382	7,119	7,940	8,856	9,878	11,018	12,289	13,707	15,289	17,053	19,021	21,216	23,664	26,395	29,441	32,838	36,627	40,853	45,567	50,826

Table D.1

Potential Demand for Loans in the Eleven Most Important Population Centers (G 000)

Population Centers	1992 Year 1	1993 Year 2	1994 Year 3	1995 Year 4	1996 Year 5	1997 Year 6	1998 Year 7	1999 Year 8	2000 Year 9	2001 Year 10	2002 Year 11	2003 Year 12	2004 Year 13	2005 Year 14	2006 Year 15	2007 Year 16	2008 Year 17	2009 Year 18	2010 Year 19	2011 Year 20
Port-au-prince																				
Population 1/	1,461,805	1,518,871	1,578,165	1,639,774	1,703,788	1,770,300	1,839,410	1,911,217	1,985,827	2,063,350	2,143,899	2,227,593	2,314,554	2,404,910	2,498,793	2,596,341	2,697,696	2,803,011	2,912,435	3,026,131
Est. Microenterprises 2/	2,469	2,565	2,665	2,769	2,878	2,990	3,107	3,228	3,354	3,485	3,621	3,762	3,909	4,062	4,220	4,385	4,556	4,734	4,919	5,111
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	30,861	35,272	40,314	46,076	52,662	60,190	68,794	78,627	89,566	102,712	117,364	134,174	153,354	175,274	200,328	228,954	261,892	299,089	341,853	390,718
Leogane																				
Population 1/	294,348	294,790	295,232	295,675	296,119	296,563	297,008	297,454	297,900	298,347	298,795	299,243	299,692	300,142	300,592	301,043	301,495	301,947	302,400	302,854
Est. Microenterprises 2/	497	498	499	499	500	501	502	502	503	504	505	505	506	507	508	508	509	510	511	511
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	6,214	6,846	7,542	8,308	9,153	10,083	11,108	12,237	13,481	14,851	16,361	18,024	19,856	21,875	24,096	26,543	29,247	32,220	35,495	39,103
Jeremie																				
Population 1/	182,225	184,533	186,870	189,237	191,634	194,061	196,519	199,008	201,529	204,082	206,667	209,284	211,935	214,619	217,338	220,091	222,878	225,701	228,560	231,455
Est. Microenterprises 2/	308	312	316	320	324	328	332	336	340	345	349	353	358	362	367	372	376	381	386	391
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	3,847	4,285	4,774	5,317	5,923	6,598	7,350	8,187	9,120	10,159	11,316	12,606	14,042	15,642	17,424	19,409	21,620	24,084	26,828	29,884
Cayes																				
Population 1/	253,881	257,348	260,863	264,426	268,038	271,699	275,409	279,171	282,984	286,849	290,767	294,738	298,764	302,844	306,981	311,174	315,424	319,732	324,099	328,525
Est. Microenterprises 2/	429	435	441	447	453	459	465	471	478	484	491	498	505	511	518	526	533	540	547	555
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	5,360	5,976	6,664	7,430	8,285	9,238	10,300	11,485	12,806	14,279	15,922	17,753	19,795	22,072	24,611	27,441	30,598	34,117	38,042	42,417
Jacmel																				
Population 1/	240,083	242,844	245,637	248,462	251,320	254,210	257,134	260,091	263,082	266,108	269,168	272,264	275,395	278,562	281,766	285,008	288,284	291,600	294,953	298,346
Est. Microenterprises 2/	405	410	415	420	424	429	434	439	444	449	455	460	465	470	476	481	487	492	498	504
Est. Average Loan Size in Gourdes 3/	12.5	13.8	15.1	16.6	18.3	20.1	22.1	24.4	26.8	29.5	32.4	35.7	39.2	43.2	47.5	52.2	57.4	63.2	69.5	76.4
Total Loans	5,068	5,639	6,275	6,982	7,768	8,643	9,617	10,700	11,905	13,247	14,739	16,399	18,247	20,302	22,589	25,134	27,965	31,116	34,621	38,521
Total: Potential Loans Each Year	79,214	89,275	100,630	113,446	127,915	144,250	162,697	183,531	207,064	233,650	263,690	297,636	336,003	379,275	428,404	483,845	546,540	617,451	697,664	3,412
Number of Enterprises	6,337	6,493	6,653	6,819	6,989	7,165	7,347	7,534	7,728	7,927	8,133	8,346	8,565	8,791	9,025	9,266	9,515	9,773	10,038	10,313

1. Total population in the city and its "arrondissement." Source: Institut Haïtien de Statistiques et d'Informatique (IHSI).
2. Adaptation from J. Currelly, "Outreach Plan for the Haitian Development Foundation Pilot Project: The Cap Haitien Annex." Currelly's assessed number of eligible and interested microenterprises is divided by IHSI's population estimate for Cap; then, for each population center, this ratio is multiplied by the population figure to obtain a crude estimate of the number of microenterprises.
3. HDF's current average loan is between G12,500 and G25,000.

Table D.2

Anticipated Potential Demand Facing Future HDF Annexes (G 000)

HDF Centers Ready for Operation	1992 Year 1	1993 Year 2	1994 Year 3	1995 Year 4	1996 Year 5	1997 Year 6	1998 Year 7	1999 Year 8	2000 Year 9	2001 Year 10	2002 Year 11	2003 Year 12	2004 Year 13	2005 Year 14	2006 Year 15	2007 Year 16	2008 Year 17	2009 Year 18	2010 Year 19	2011 Year 20
Port-au-Prince (Including Service To the Croix-des-Bouquets Area)	37,243	42,390	48,254	54,932	62,540	71,206	81,083	92,335	105,155	119,785	136,415	155,390	177,018	201,889	229,769	261,801	298,319	339,952	387,420	441,543
Cap-Haitien	3,396	3,833	4,326	4,883	5,511	6,221	7,021	7,925	8,945	10,[illegible]	11,396	12,862	14,518	16,388	18,495	20,875	23,562	26,594	30,017	33,880
Cayes	5,360	5,976	6,664	7,430	8,285	9,238	10,300	11,485	12,806	14,2[illegible]	15,822	17,753	19,795	22,072	24,611	27,441	30,598	34,117	38,042	42,417
Leogane		6,846	7,542	8,308	9,153	10,083	11,108	12,237	13,481	14,[illegible]	16,361	18,024	19,856	21,875	24,098	26,548	29,247	32,220	35,495	39,103
Jacmel			6,275	6,982	7,768	8,643	9,617	10,700	11,905	13,247	14,739	16,399	18,247	20,302	22,589	25,134	27,965	31,116	34,221	38,521
Saint-Marc				6,626	7,[illegible]	8,353	9,379	10,530	11,823	13,275	14,905	16,735	18,790	21,097	23,688	26,586	29,862	33,529	37,648	42,269
Total Potential Demand During Project	45,998	59,045	73,060	89,161	100,697															
HDF Centers In Operation After Project																				
Gonaives						6,683	7,469	8,413	9,440	10,592	11,884	13,334	14,960	16,786	18,833	21,131	23,709	26,602	29,847	33,489
Port-de-Paix							12,383	13,901	15,605	17,517	19,664	22,075	24,780	27,817	31,226	35,053	39,350	44,172	49,586	55,663
Dessalines								7,817	8,763	9,858	11,088	12,458	13,998	15,727	17,671	19,835	22,308	25,065	28,163	31,643
Total Potential Demand for NEW HDF Annexes						6,683	19,882	30,131	33,828	37,977	42,636	47,868	53,738	60,330	67,731	76,039	85,367	95,839	107,596	120,796
ToTal Potential Demand after Project						120,429	148,360	175,344	197,944	223,491	252,373	285,030	321,961	363,731	410,980	464,436	524,920	593,367	670,836	758,528

Table D.3

Financial Worksheet
Scenario 2: USAID GRANT TO FUND AND FMG Assmption: 10% of Potential Demand

	1992 Year 1	1993 Year 2	1994 Year 3	1995 Year 4	1996 Year 5	1997 Year 6	1998 Year 7	1999 Year 8	2000 Year 9	2001 Year 10	2002 Year 11	2003 Year 12	2004 Year 13	2005 Year 14	2006 Year 15	2007 Year 16	2008 Year 17	2009 Year 18	2010 Year 19	2011 Year 20
PORTFOLIO OPERATIONS: PROJECT LOANS																				
Potential Demand for Project Loans	45,998	59,045	73,060	89,161	100,697	120,429	148,390	175,344	197,944	223,491	252,373	285,030	321,961	363,731	410,980	464,436	524,920	593,367	670,836	758,528
Demand That Could Be Met by Fund	4,600	5,905	7,306	8,916	10,070	12,043	14,839	17,534	19,794	22,349	25,237	28,503	32,196	36,373	41,098	46,444	52,492	59,337	67,084	75,853
Loans Made, Subject to Cash Availability	4,600	5,905	7,306	8,916	10,070	12,043	14,839	17,534	19,794	22,349	25,237	28,503	32,196	36,373	41,098	35,947	37,971	40,224	43,848	45,475
NGO Loans	230	295	365	446	503	602	742	877	990	1,117	1,262	1,425	1,610	1,819	2,055	1,797	1,899	2,011	2,192	2,274
Shared-Risk Loans	2,760	3,543	4,384	5,350	6,042	7,226	8,903	10,521	11,877	13,409	15,142	17,102	19,318	21,824	24,659	21,568	22,783	24,135	26,304	27,285
Loans with no Risk Sharing	1,610	2,067	2,557	3,121	3,524	4,215	5,196	6,137	6,928	7,822	8,833	9,978	11,269	12,731	14,384	12,581	13,290	14,079	15,348	15,916
Interest Revenue on Loans	210	676	1,215	1,808	2,420	3,059	3,793	4,629	5,516	6,442	7,430	8,502	9,678	10,978	12,422	13,582	14,278	14,958	15,715	16,539
NGO	8	26	50	78	111	147	190	241	297	358	424	495	572	655	747	831	901	970	1,039	1,107
Shared Risk	138	453	834	1,269	1,737	2,235	2,794	3,419	4,077	4,764	5,504	6,308	7,187	8,155	9,227	10,111	10,714	11,271	11,855	12,453
No Shared Risk	64	197	331	461	573	677	808	969	1,143	1,320	1,503	1,700	1,919	2,168	2,449	2,620	2,664	2,718	2,822	2,979
Principal Recovery	0	372	1,187	2,277	3,705	4,959	6,430	8,249	10,465	12,526	14,756	17,111	19,642	22,530	25,705	29,148	32,096	34,443	36,537	38,339
NGO	0	3	0	0	17	41	71	110	155	212	233	309	470	587	690	802	928	1,082	1,217	1,349
Shared Risk	0	3	308	732	1,295	2,025	2,908	4,016	5,417	6,536	7,748	9,070	10,508	12,159	13,984	15,882	17,915	19,537	21,123	22,637
No Shared Risk	0	372	881	1,545	2,393	2,893	3,450	4,124	4,892	5,778	6,725	7,673	8,664	9,784	11,051	12,484	13,255	13,843	14,197	14,353
Write-offs	0	7	48	104	180	266	370	501	665	801	952	1,116	1,295	1,500	1,721	1,956	2,195	2,390	2,579	2,753
NGO	0	0	0	0	3	6	11	16	23	32	42	55	70	88	103	120	139	159	183	202
Shared Risk	0	0	31	73	129	202	291	402	542	654	775	907	1,051	1,216	1,396	1,586	1,791	1,954	2,112	2,264
No Shared Risk	0	7	18	31	48	58	69	82	98	116	134	153	173	196	221	250	265	277	284	287
Net Principal Recovery	0	365	1,139	2,173	3,525	4,692	6,059	7,749	9,802	11,725	13,804	15,995	18,347	21,031	23,984	27,192	29,900	32,053	33,958	35,586
NGO	0	0	0	0	15	35	60	93	132	180	240	314	399	499	586	682	787	903	1,034	1,147
Shared Risk	0	0	276	658	1,165	1,822	2,617	3,615	4,875	5,882	6,973	8,163	9,457	10,943	12,567	14,276	16,123	17,584	19,010	20,374
No Shared Risk	0	365	863	1,515	2,345	2,836	3,381	4,041	4,794	5,663	6,590	7,519	8,490	9,589	10,830	12,234	12,990	13,566	13,913	14,066
Net Principal Outstand., End of Yr	4,600	10,125	16,203	22,786	29,148	36,236	44,658	53,953	63,462	73,572	84,426	96,285	109,372	123,851	140,025	147,751	164,701	181,774	170,573	179,268
Loans to NGOs	230	525	891	1,338	1,820	2,378	3,044	3,906	4,633	5,531	6,499	7,542	8,687	9,891	11,255	12,250	13,228	14,178	15,158	16,098
Loans with Risk Sharing	2,760	6,303	10,349	14,925	19,616	24,744	30,650	37,044	43,546	50,543	58,107	66,362	75,426	85,407	96,512	102,726	108,176	113,500	119,530	125,180
Loans with No Shared Risk	1,610	3,297	4,963	6,525	7,712	9,118	10,963	13,104	15,282	17,498	19,820	22,381	25,277	28,553	32,258	32,775	33,300	34,096	35,885	38,010
OTHER OPERATIONS																				
Principal Outst., Beg. of Yr, SOFHDES	38,636	38,636	38,636	34,956	31,276	27,596	23,916	20,236	16,556	12,876	9,196	5,516	1,836							
Principal Payment from SOFHDES	0	0	3,680	3,680	3,680	3,680	3,680	3,680	3,680	3,680	3,680	3,680	1,836							
Principal Balance, End of Yr, SOFHDES	38,636	38,636	34,956	31,276	27,596	23,916	20,236	16,556	12,876	9,196	5,516	1,836	(0)							
Deposits in Fin. Institut., Beg. of Yr	7,519	7,519	7,519	8,594	15,886	24,376	36,136	30,180	29,068	27,891	26,240	24,261	21,579	17,556	11,130	1,189	0	0	0	0
Deposits in Fin. Institut., End of Yr	7,519	7,519	8,594	15,886	24,376	36,136	30,180	29,068	27,891	26,240	24,261	21,579	17,556	11,130	1,189	0	0	0	0	0
Interbank Lending																				
Balance on Other Operations, End of Yr	46,155	46,155	43,550	47,182	51,972	60,052	50,416	45,624	40,567	35,436	29,777	23,415	17,556	11,130	1,189	0	0	0	0	0
Revenue from Other Operations	2,684	2,684	2,592	2,515	3,060	3,725	4,717	3,938	3,643	3,321	2,992	2,610	2,204	1,756	1,113	119	0	0	0	0
Interest Revenue, SOFHDES	1,932	1,932	1,840	1,656	1,472	1,288	1,104	920	736	552	368	184	46	0	0	0	0	0	0	0
Interest Revenue on Deposits	752	752	752	859	1,589	2,438	3,614	3,018	2,907	2,769	2,624	2,426	2,158	1,756	1,113	119	0	0	0	0
Interest Revenue on Inter-Bank Loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fund Managmt Fee (2% of Portf. Balances)	198	299	424	635	922	1,259	1,472	1,579	1,742	1,910	2,065	2,266	2,448	2,619	2,762	2,902	3,005	3,185	3,323	3,498
Loan Origination Charges, NGOs	2.3	3.0	3.7	4.5	5.0	6.0	7.4	8.8	9.9	11.2	12.6	14.3	16.1	18.2	20.5	18.0	19.0	20.1	21.9	22.7
" " " , Shared Risk	27.6	35.4	43.8	53.5	60.4	72.3	89.0	105.2	118.8	134.1	151.4	171.0	193.2	218.2	246.6	215.7	227.8	241.3	263.1	272.8
" " " , No Shared Risk	16.1	20.7	25.8	31.2	35.2	42.2	51.9	61.4	69.3	78.2	88.3	99.8	112.7	127.3	143.8	125.8	132.9	140.8	153.5	159.2

1/ One utility Vehicle (G100,000), three computers, a dot matrix and a laser printer, and a copier.

Table D.4

Repayment of Principal and Interests on NGO Loans, First Twenty Years (G 000s)

1. Payments: Principal + Interests

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Payments for Loans Contracted in Yr 1	8	16	16	16	33	33	33	33	33	33	33	33	33	33						
" " " " " 2		10	21	21	21	42	42	42	42	42	42	42	42	42	42					
" " " " " 3			13	26	26	26	52	52	52	52	52	52	52	52	52	52				
" " " " " 4				16	31	31	31	63	63	63	63	63	63	63	63	63	63			
" " " " " 5					18	35	35	35	72	72	72	72	72	72	72	72	72	72		
" " " " " 6						21	42	42	42	86	86	86	86	86	86	86	86	86	86	
" " " " " 7							26	52	52	52	106	106	106	106	106	106	106	106	106	106
" " " " " 8								31	61	61	61	125	125	125	125	125	125	125	125	125
" " " " " 9									35	69	69	69	141	141	141	141	141	141	141	141
" " " " " 10										39	78	78	78	159	159	159	159	159	159	159
" " " " " 11											44	88	88	88	180	180	180	180	180	180
" " " " " 12												50	100	100	100	203	203	203	203	203
" " " " " 13													56	113	113	113	229	229	229	229
" " " " " 14														64	127	127	127	259	259	259
" " " " " 15															72	144	144	144	293	293
" " " " " 16																63	129	129	129	259
" " " " " 17																	66	133	133	133
" " " " " 18																		70	141	141
" " " " " 19																			77	153
" " " " " 20																				80
Total	8	26	50	78	123	188	261	350	452	569	706	864	1,042	1,243	1,437	1,633	1,827	2,032	2,258	2,458

2. Interest Portion of Annual Payments (NGOs)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	8	16	16	16	15	14	13	11	10	8	6	5	3	1						
2		10	21	21	21	20	18	17	15	13	11	8	6	3	1					
3			13	26	26	26	25	23	20	18	16	13	10	7	4	1				
4				16	31	31	31	30	28	25	22	19	16	13	9	5	1			
5					18	35	35	35	34	31	28	25	22	18	14	10	6	2		
6						21	42	42	42	41	37	34	30	26	22	17	12	7	2	
7							26	52	52	52	50	46	42	37	32	27	21	15	8	2
8								31	61	61	61	59	54	49	44	38	31	25	17	10
9									35	69	69	69	67	61	56	49	43	36	28	20
10										39	78	78	78	75	69	63	56	48	40	32
11											44	88	88	88	85	78	71	63	54	45
12												50	100	100	100	96	88	80	71	61
13													56	113	113	113	109	100	90	80
14														64	127	127	127	123	113	102
15															72	144	144	144	138	127
16																63	129	128	128	121
17																	66	133	133	133
18																		70	141	141
19																			77	153
20																				80
	8	26	50	78	111	147	190	241	297	358	424	495	572	655	747	831	901	970	1,039	1,107

3. Principal Reduction (NGOs)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	0	0	0	0	17	19	20	21	23	24	26	25	30	32	0	0	0	0	0	0
2		0	0	0	0	22	24	25	27	29	31	34	36	39	41	0	0	0	0	0
3			0	0	0	0	27	29	32	34	36	39	42	45	48	51	0	0	0	0
4				0	0	0	0	33	36	38	41	44	47	51	55	59	62	0	0	0
5					0	0	0	0	38	41	43	47	50	54	57	62	66	70	0	0
6						0	0	0	0	45	48	52	56	60	64	69	74	79	84	0
7							0	0	0	0	56	60	64	69	74	79	85	91	97	103
8								0	0	0	0	66	71	76	81	87	93	100	107	115
9									0	0	0	0	74	80	85	92	98	105	113	121
10										0	0	0	0	84	90	96	103	111	119	128
11											0	0	0	0	95	102	109	117	125	134
12												0	0	0	0	107	115	123	132	141
13													0	0	0	0	121	129	139	148
14														0	0	0	0	136	146	157
15															0	0	0	0	154	165
16																0	0	0	0	135
17																	0	0	0	0
18																		0	0	0
19																			0	0
20																				0
Total	0	0	0	0	17	41	71	110	155	212	283	369	470	587	690	802	926	1,062	1,217	1,349

4. New Principal Balance at end of Period (NGOs)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	230	230	230	230	213	194	174	153	130	106	80	51	21							
2		295	295	295	295	273	249	224	197	167	136	102	66	27		0	0	0	0	0
3			365	365	365	365	338	309	277	243	207	168	126	82	34		0	0	0	0
4				446	446	446	446	412	377	338	297	253	205	154	100	41		0	0	0
5					503	503	503	503	466	425	382	335	285	232	174	112	48		0	0
6						602	602	602	602	557	509	457	401	341	277	208	135	55		0
7							742	742	742	742	686	627	563	494	420	341	257	166	68	
8								877	877	877	877	811	740	665	584	497	403	303	196	81
9									990	990	990	990	915	836	750	659	561	455	342	221
10										1,117	1,117	1,117	1,117	1,034	944	847	744	633	514	386
11											1,252	1,252	1,252	1,252	1,167	1,066	957	840	715	581
12												1,425	1,425	1,425	1,425	1,318	1,204	1,081	949	807
13													1,610	1,610	1,610	1,610	1,489	1,360	1,221	1,072
14														1,819	1,819	1,819	1,819	1,662	1,536	1,379
15															2,055	2,055	2,055	2,055	1,901	1,735
16																1,797	1,797	1,797	1,797	1,663
17																	1,899	1,899	1,899	1,899
18																		2,011	2,011	2,011
19																			2,192	2,192
20																				2,274
Total	230	525	891	1,336	1,823	2,364	3,055	3,822	4,657	5,562	6,541	7,598	8,737	9,979	11,358	12,371	13,364	14,337	15,341	16,301

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5. Principal Balance, Beginning of Period (NGOs)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	0	230	230	230	230	213	194	174	153	130	106	80	51	21						
2		0	295	295	295	295	273	249	224	197	167	136	102	66	27		0	0	0	0
3			0	365	365	365	365	338	309	277	243	207	168	126	82	34		0	0	0
4				0	446	446	446	446	412	377	338	297	253	205	154	100	41		0	0
5					0	503	503	503	503	466	425	382	335	285	232	174	112	46		0
6						0	602	602	602	602	557	509	457	401	341	277	206	135	55	
7							0	742	742	742	742	686	627	563	494	420	341	257	166	68
8								0	877	877	877	877	811	740	665	584	497	403	303	196
9									0	990	990	990	990	915	836	750	658	561	455	342
10										0	1,117	1,117	1,117	1,117	1,034	944	847	744	633	514
11											0	1,282	1,282	1,282	1,282	1,167	1,066	957	840	715
12												0	1,425	1,425	1,425	1,425	1,318	1,204	1,081	949
13													0	1,610	1,610	1,610	1,610	1,489	1,360	1,221
14														0	1,819	1,819	1,819	1,819	1,682	1,536
15															0	2,055	2,055	2,055	2,055	1,901
16																0	1,787	1,787	1,787	1,787
17																	0	1,[illegible]	1,[illegible]	1,[illegible]
18																		0	2,011	2,011
19																			0	2,192
20																				0
Total	0	230	525	891	1,336	1,823	2,384	3,055	3,822	4,657	5,562	6,541	7,598	8,737	9,979	11,359	12,371	13,364	14,337	15,341

Table D.5

Repayment of Principal and Interests on Shared– Risk Loans, First Twenty Years (0 000s)

1. Payments: Principal + Interests

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Paymts for Loans Contracted in Yr 1	138	276	567	567	567	567	567	567	567											
" " " " " 2		177	354	729	729	729	729	729	729	729										
" " " " " 3			219	438	900	900	900	900	900	900	900									
" " " " " 4				267	535	1,099	1,099	1,099	1,099	1,099	1,099	1,099								
" " " " " 5					302	604	1,241	1,241	1,241	1,241	1,241	1,241	1,241							
" " " " " 6						361	723	1,484	1,484	1,484	1,484	1,484	1,484	1,484						
" " " " " 7							445	890	1,829	1,829	1,829	1,829	1,829	1,829	1,829					
" " " " " 8								528	1,052	2,161	2,161	2,161	2,161	2,161	2,161	2,161				
" " " " " 9									594	1,188	2,440	2,440	2,440	2,440	2,440	2,440	2,440			
" " " " " 10										670	1,341	2,754	2,754	2,754	2,754	2,754	2,754	2,754		
" " " " " 11											757	1,514	3,110	3,110	3,110	3,110	3,110	3,110	3,110	
" " " " " 12												855	1,710	3,513	3,513	3,513	3,513	3,513	3,513	3,513
" " " " " 13													966	1,932	3,966	3,966	3,966	3,966	3,966	3,966
" " " " " 14														1,091	2,182	4,483	4,483	4,483	4,483	4,483
" " " " " 15															1,233	2,466	5,066	5,066	5,066	5,066
" " " " " 16																1,079	2,157	4,430	4,430	4,430
" " " " " 17																	1,139	2,278	4,680	4,680
" " " " " 18																		1,207	2,413	4,957
" " " " " 19																			1,315	2,631
" " " " " 20																				1,364
Total	138	453	1,140	2,000	3,032	4,259	5,703	7,436	9,494	11,300	13,252	15,377	17,695	20,314	23,190	25,673	28,629	30,808	32,978	35,091

2. Interest Portion of Annual Payments (Shared Risk)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	138	276	261	228	183	153	110	62	18											
2		177	354	335	293	248	197	141	79	23										
3			219	438	414	363	308	244	175	98	29									
4				267	535	505	443	374	297	213	120	35								
5					302	604	571	500	422	338	241	135	40							
6						361	723	662	598	505	402	288	162	48						
7							445	890	841	737	622	495	355	199	59					
8								528	1,052	994	871	735	585	419	236	70				
9									594	1,188	1,122	983	830	660	473	266	79			
10										670	1,341	1,267	1,110	937	746	534	300	89		
11											757	1,514	1,430	1,253	1,058	842	603	339	100	
12												855	1,710	1,615	1,416	1,196	951	681	383	113
13													966	1,932	1,825	1,689	1,360	1,074	769	433
14														1,091	2,182	2,091	1,806	1,525	1,213	869
15															1,233	2,466	2,329	2,041	1,723	1,371
16																1,079	2,157	2,037	1,786	1,507
17																	1,139	2,278	2,152	1,888
18																		1,207	2,413	2,290
19																			1,315	2,631
20																				1,364
	138	453	834	1,268	1,737	2,235	2,794	3,419	4,077	4,764	5,504	6,308	7,187	8,155	9,227	10,111	10,714	11,271	11,865	12,453

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3. Principal Reduction (Shared Risk)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	0	0	306	338	374	413	457	505	549	0	0	0	0	0	0	0	0	0	0	0
2		0	0	393	434	480	531	587	648	704	0	0	0	0	0	0	0	0	0	0
3			0	0	486	538	594	657	726	802	871	0	0	0	0	0	0	0	0	0
4				0	0	594	656	725	801	886	979	1,063	0	0	0	0	0	0	0	0
5					0	0	670	741	819	905	1,000	1,106	1,201	0	0	0	0	0	0	0
6						0	0	802	886	979	1,082	1,196	1,322	1,436	0	0	0	0	0	0
7							0	0	968	1,082	1,207	1,334	1,474	1,629	1,770	0	0	0	0	0
8								0	0	1,167	1,290	1,426	1,576	1,742	1,925	2,091	0	0	0	0
9									0	0	1,318	1,456	1,610	1,779	1,967	2,174	2,381	0	0	0
10										0	0	1,488	1,644	1,818	2,009	2,220	2,454	2,686	0	0
11											0	0	1,680	1,857	2,052	2,268	2,507	2,771	3,010	0
12												0	0	1,896	2,087	2,318	2,582	2,832	3,130	3,400
13													0	0	2,143	2,369	2,618	2,894	3,199	3,535
14														0	0	2,421	2,678	2,958	3,269	3,614
15															0	0	2,736	3,024	3,342	3,694
16																0	0	2,383	2,645	2,923
17																	0	0	2,528	2,794
18																		0	0	2,678
19																			0	0
20																				0
Total	0	0	306	732	1,295	2,025	2,908	4,016	5,417	6,536	7,748	9,070	10,508	12,159	13,964	15,862	17,915	19,537	21,123	22,837

4. Principal Balance, End of Period (Shared Risk)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	2,760	2,760	2,454	2,115	1,741	1,328	871	366		0	0	0	0	0	0	0	0	0	0	0
2		3,543	3,543	3,150	2,715	2,235	1,704	1,118	469		0	0	0	0	0	0	0	0	0	0
3			4,384	4,384	3,897	3,360	2,765	2,109	1,383	581		0	0	0	0	0	0	0	0	0
4				5,350	5,350	4,756	4,100	3,375	2,574	1,688	709		0	0	0	0	0	0	0	0
5					6,042	6,042	5,371	4,631	3,812	2,907	1,906	800		0	0	0	0	0	0	0
6						7,228	7,228	6,424	5,538	4,559	3,478	2,280	957		0	0	0	0	0	0
7							8,903	8,903	7,916	6,824	5,617	4,283	2,809	1,180		0	0	0	0	0
8								10,521	10,521	9,353	8,083	6,637	5,061	3,319	1,394		0	0	0	0
9									11,677	11,677	10,558	9,102	7,493	5,713	3,747	1,573		0	0	0
10										13,409	13,409	11,922	10,277	8,460	6,451	4,231	1,778		0	0
11											15,142	15,142	13,462	11,605	9,553	7,284	4,777	2,006		0
12												17,102	17,102	15,204	13,107	10,789	8,227	5,395	2,266	
13													19,318	19,318	17,174	14,805	12,187	9,293	6,094	2,559
14														21,824	21,824	19,402	16,726	13,768	10,499	6,885
15															24,658	24,658	21,923	18,899	15,557	11,862
16																21,588	21,588	19,175	16,530	13,607
17																	22,783	22,783	20,255	17,461
18																		24,135	24,135	21,457
19																			26,308	26,308
20																				27,285
Total	2,760	6,303	10,380	14,998	19,745	24,948	30,941	37,446	44,088	51,197	58,882	67,269	76,479	86,623	97,909	104,312	109,967	115,454	121,642	127,424

5. Principal Balance, Beginning of Period (Shared Risk)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	0	2,760	2,760	2,454	2,115	1,741	1,328	871	366		0	0	0	0	0	0	0	0	0	0
2		0	3,543	3,543	3,150	2,715	2,235	1,704	1,118	469		0	0	0	0	0	0	0	0	0
3			0	4,384	4,384	3,897	3,360	2,765	2,109	1,383	581		0	0	0	0	0	0	0	0
4				0	5,350	5,350	4,756	4,100	3,375	2,574	1,688	709		0	0	0	0	0	0	0
5					0	6,042	6,042	5,371	4,631	3,812	2,907	1,906	800		0	0	0	0	0	0
6						0	7,226	7,226	6,424	5,536	4,559	3,478	2,280	957		0	0	0	0	0
7							0	8,903	8,903	7,916	6,824	5,617	4,283	2,808	1,180		0	0	0	0
8								0	10,521	10,521	9,353	8,063	6,637	5,061	3,319	1,394		0	0	0
9									0	11,877	11,877	10,559	9,102	7,493	5,713	3,747	1,573		0	0
10										0	13,409	13,409	11,922	10,277	8,480	6,451	4,231	1,778		0
11											0	15,142	15,142	13,482	11,605	9,553	7,294	4,777	2,006	
12												0	17,102	17,102	15,204	13,107	10,789	8,227	5,395	2,266
13													0	19,318	19,318	17,174	14,805	12,187	9,293	6,094
14														0	21,824	21,824	19,402	16,726	13,768	10,499
15															0	24,659	24,659	21,923	18,899	15,557
16																0	21,568	21,568	19,175	16,530
17																	0	22,783	22,783	20,255
18																		0	24,135	24,135
19																			0	26,306
20																				0
Total	0	2,760	6,303	10,380	14,998	19,745	24,948	30,941	37,448	44,088	51,197	58,882	67,269	76,479	86,623	97,909	104,312	109,957	115,454	121,642

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Table D.8

Repayment of Principal and Interests on Loans Without Risk Sharing, First Twenty Years (G 000s)

1. Payments: Principal + Interests

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Paymts for Loans Contracted in Yr 1	64	498	498	498	498															
" " " " " 2		83	624	624	624	624														
" " " " " 3			102	772	772	772	772													
" " " " " 4				125	942	942	942	942												
" " " " " 5					141	1,084	1,084	1,084	1,084											
" " " " " 6						169	1,273	1,273	1,273	1,273										
" " " " " 7							208	1,586	1,586	1,586	1,586									
" " " " " 8								245	1,853	1,853	1,853	1,853								
" " " " " 9									277	2,082	2,082	2,082	2,082							
" " " " " 10										313	2,382	2,382	2,382	2,382						
" " " " " 11											353	2,687	2,687	2,687	2,687					
" " " " " 12												399	3,012	3,012	3,012	3,012				
" " " " " 13													451	3,402	3,402	3,402	3,402			
" " " " " 14														509	3,844	3,844	3,844	3,844		
" " " " " 15															575	4,343	4,343	4,343	4,343	
" " " " " 16																503	3,799	3,799	3,799	3,799
" " " " " 17																	532	4,012	4,012	4,012
" " " " " 18																		563	4,251	4,251
" " " " " 19																			614	4,633
" " " " " 20																				637
Total	64	569	1,212	2,007	2,965	3,571	4,259	5,082	6,035	7,086	8,228	9,372	10,583	11,952	13,500	15,104	15,919	16,981	17,018	17,332

2. Interest Portion of Annual Payments (No Risk Sharing)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	64	114	83	49	16															
2		83	146	106	63	20														
3			102	181	132	78	25													
4				125	221	181	89	31												
5					141	249	181	108	36											
6						169	298	217	129	42										
7							208	367	287	159	51									
8								245	434	318	188	61								
9									277	490	357	212	68							
10										313	553	403	240	77						
11											353	625	455	270	87					
12												399	708	514	305	99				
13													451	797	580	345	111			
14														509	901	655	390	126		
15															575	1,018	741	440	142	
16																503	880	648	385	124
17																	532	940	694	407
18																		563	999	725
19																			614	1,088
20																				637
	64	197	331	481	573	677	808	988	1,143	1,320	1,503	1,700	1,919	2,168	2,449	2,820	2,994	2,718	2,822	2,979

3. Principal Reduction (No Risk Sharing)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	0	372	403	437	470	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2		0	478	518	561	604	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3			0	531	640	694	747	0	0	0	0	0	0	0	0	0	0	0	0	0
4				0	721	782	847	911	0	0	0	0	0	0	0	0	0	0	0	0
5					0	815	883	956	1,029	0	0	0	0	0	0	0	0	0	0	0
6						0	974	1,058	1,144	1,231	0	0	0	0	0	0	0	0	0	0
7							0	1,201	1,301	1,409	1,517	0	0	0	0	0	0	0	0	0
8								0	1,413	1,537	1,665	1,792	0	0	0	0	0	0	0	0
9									0	1,602	1,735	1,880	2,023	0	0	0	0	0	0	0
10										0	1,808	1,959	2,122	2,284	0	0	0	0	0	0
11											0	2,042	2,212	2,396	2,580	0	0	0	0	0
12												0	2,308	2,498	2,707	2,913	0	0	0	0
13													0	2,605	2,822	3,057	3,291	0	0	0
14														0	2,943	3,188	3,454	3,718	0	0
15															0	3,325	3,602	3,902	4,201	0
16																0	2,908	3,151	3,413	3,674
17																	0	3,072	3,329	3,606
18																		0	3,255	3,526
19																			0	3,548
20																				0
Total	0	372	881	1,545	2,393	2,893	3,450	4,124	4,892	5,778	6,725	7,673	8,664	9,784	11,051	12,484	13,255	13,843	14,197	14,353

4. Principal Balance, End of Period (No Risk Sharing)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	1,610	1,238	835	398		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2		2,067	1,589	1,071	511		0	0	0	0	0	0	0	0	0	0	0	0	0	0
3			2,557	1,966	1,326	632		0	0	0	0	0	0	0	0	0	0	0	0	0
4				3,121	2,399	1,618	771		0	0	0	0	0	0	0	0	0	0	0	0
5					3,524	2,710	1,827	871		0	0	0	0	0	0	0	0	0	0	0
6						4,215	3,241	2,185	1,042		0	0	0	0	0	0	0	0	0	0
7							5,194	3,993	2,692	1,283		0	0	0	0	0	0	0	0	0
8								6,137	4,718	3,181	1,516		0	0	0	0	0	0	0	0
9									6,928	5,327	3,592	1,712		0	0	0	0	0	0	0
10										7,622	6,014	4,055	1,933		0	0	0	0	0	0
11											8,833	6,791	4,579	2,183		0	0	0	0	0
12												9,978	7,670	5,172	2,485		0	0	0	0
13													11,269	8,664	5,942	2,784		0	0	0
14														12,731	9,798	6,600	3,148		0	0
15															14,384	11,059	7,457	3,554		0
16																12,581	9,673	6,522	3,108	
17																	13,290	10,218	6,889	3,284
18																		14,079	10,824	7,298
19																			15,348	11,798
20																				15,916
Total	1,610	3,304	4,981	6,556	7,760	9,174	11,032	13,186	15,380	17,613	19,955	22,534	25,451	28,749	32,479	33,024	33,565	34,373	36,168	38,297

5. Principal Balance, Beginning of Period (No Risk Sharing)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	0	1,610	1,238	835	398		0	0	0	0	0	0	0	0	0	0	0	0	0	0
2		0	2,067	1,589	1,071	511		0	0	0	0	0	0	0	0	0	0	0	0	0
3			0	2,557	1,966	1,326	632		0	0	0	0	0	0	0	0	0	0	0	0
4				0	3,121	2,399	1,618	771		0	0	0	0	0	0	0	0	0	0	0
5					0	3,524	2,710	1,827	871		0	0	0	0	0	0	0	0	0	0
6						0	4,215	3,241	2,165	1,042		0	0	0	0	0	0	0	0	0
7							0	5,194	3,993	2,692	1,293		0	0	0	0	0	0	0	0
8								0	6,137	4,718	3,181	1,518		0	0	0	0	0	0	0
9									0	6,828	5,327	3,582	1,712		0	0	0	0	0	0
10										0	7,822	6,014	4,055	1,933		0	0	0	0	0
11											0	8,833	6,791	4,579	2,183		0	0	0	0
12												0	9,978	7,670	5,172	2,465		0	0	0
13													0	11,299	8,684	5,842	2,784		0	0
14														0	12,731	8,788	6,600	3,146		0
15															0	14,384	11,088	7,457	3,554	
16																0	12,581	9,673	6,522	3,109
17																	0	13,290	10,218	6,888
18																		0	14,079	10,824
19																			0	15,348
20																				0
Total	0	1,610	3,304	4,981	6,556	7,760	9,174	11,032	13,186	15,380	17,613	19,955	22,534	25,451	28,749	32,479	33,024	33,565	34,373	36,168

Table D.7

Profit & Loss Statement (Thousands of Current Gourdes)
Scenario 2: USAID GRANT TO FUND AND FMG Assumption: 10% of Potential Demand

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
USAID GRANT TO FUND	5,250	5,625	7,500	9,375	11,250	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
USAID GRANT TO FMG	1,875	1,313	1,088	863	638	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FUND REVENUES (Portfol. Oper. + Grant)	8,144	8,265	14,987	17,378	20,411	10,465	12,190	12,247	12,839	13,443	14,102	14,792	13,718	12,734	13,536	13,681	14,278	14,958	15,715	16,539
Interest Revenues, Loans	210	678	1,215	1,808	2,420	3,059	3,793	4,629	5,518	6,442	7,430	8,502	9,678	10,978	12,422	13,562	14,278	14,958	15,715	16,539
NGOs	8	26	50	78	111	147	190	241	297	358	424	495	572	655	747	831	901	970	1,039	1,107
Shared Risk	138	453	834	1,269	1,737	2,235	2,794	3,419	4,077	4,764	5,504	6,308	7,187	8,155	9,227	10,111	10,714	11,271	11,855	12,453
No Shared Risk	64	197	331	461	573	677	808	969	1,143	1,320	1,503	1,700	1,919	2,168	2,449	2,620	2,684	2,718	2,822	2,979
Interest Revenues, Other Operations	2,684	2,684	6,272	6,195	6,740	7,405	8,397	7,618	7,323	7,001	6,672	6,290	4,040	1,756	1,113	119	0	0	0	0
SOFHIDES (+ Principal Repayment)	1,932	1,932	5,520	5,336	5,152	4,968	4,784	4,600	4,416	4,232	4,048	3,864	1,882	0	0	0	0	0	0	0
Deposits	752	752	752	859	1,589	2,438	3,614	3,018	2,907	2,769	2,624	2,426	2,158	1,756	1,113	119	0	0	0	0
Interbank Lending	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FUND EXPENSES	196	305	473	739	1,102	1,525	1,843	2,079	2,405	2,711	3,037	3,381	3,742	4,119	4,483	4,858	5,220	5,555	5,902	6,252
Loan Write-offs	0	7	48	104	180	266	370	501	663	801	952	1,116	1,295	1,500	1,721	1,956	2,195	2,390	2,579	2,753
Managmt Fee (For All Managed Funds)	196	298	424	635	922	1,259	1,472	1,579	1,742	1,910	2,085	2,266	2,448	2,619	2,762	2,902	3,025	3,165	3,323	3,498
FUND EARNINGS (LOSSES)	7,948	8,680	14,514	16,640	19,309	8,939	10,348	10,167	10,434	10,732	11,065	11,411	9,976	8,615	9,053	8,823	9,058	9,403	9,813	10,288
Growth Rate		9.2%	67.2%	14.6%	16.0%	-53.7%	15.8%	-1.7%	2.8%	2.9%	3.1%	3.1%	-12.8%	-13.8%	5.1%	-2.5%	2.7%	3.8%	4.4%	4.8%
Cumulative Earnings	7,948	16,628	31,142	47,781	67,090	76,029	86,377	96,545	106,979	117,711	128,776	140,187	150,163	158,778	167,830	176,653	185,711	195,115	204,928	215,216
FUND REVENUES (Loan Operations Only + Grant)	5,460	6,301	8,715	11,183	13,670	3,059	3,793	4,629	5,518	6,442	7,430	8,502	9,679	10,978	12,422	13,562	14,278	14,958	15,715	16,539
FUND EXPENSES (" ")	46	155	312	494	699	920	1,179	1,487	1,837	2,171	2,532	2,923	3,351	3,832	4,380	4,834	5,220	5,555	5,902	6,252
Loan Write-offs	0	7	48	104	180	266	370	501	663	801	952	1,116	1,295	1,500	1,721	1,956	2,195	2,390	2,579	2,753
Managmt Fee	46	147	263	390	519	654	809	986	1,174	1,370	1,580	1,807	2,057	2,332	2,639	2,878	3,025	3,165	3,323	3,498
FUND EARNINGS (LOSSES)	5,414	6,146	8,404	10,689	12,971	2,139	2,614	3,142	3,679	4,270	4,899	5,579	6,327	7,146	8,063	8,728	9,058	9,403	9,813	10,288
Growth Rate		13.5%	36.7%	27.2%	21.3%	-83.5%	22.2%	20.2%	17.1%	16.1%	14.7%	13.9%	13.4%	12.9%	12.8%	8.2%	3.8%	3.8%	4.4%	4.8%
Cumulative Earnings	5,414	11,561	19,964	30,654	43,625	45,764	48,377	51,519	55,199	59,469	64,368	69,947	76,274	83,420	91,483	100,211	109,269	118,673	128,486	138,773
FMG REVENUES (+ Grant)	2,117	1,669	1,585	1,586	1,660	1,319	1,621	1,754	1,940	2,133	2,337	2,551	2,770	2,993	3,173	3,281	3,404	3,567	3,762	3,953
Managmt Fee (2% of Managed Funds)	196	298	424	635	922	1,259	1,472	1,579	1,742	1,910	2,085	2,266	2,448	2,619	2,762	2,902	3,025	3,165	3,323	3,498
Loan Origination Charges	46	59	73	89	101	120	148	175	198	223	252	285	322	364	411	359	380	402	438	455
FMG EXPENSES	872	1,017	1,113	1,220	1,337	1,479	1,621	1,778	1,948	2,136	2,361	2,589	2,840	3,115	3,419	3,775	4,142	4,546	4,990	5,479
Operating Expenses	822	967	1,063	1,170	1,287	1,415	1,557	1,713	1,884	2,072	2,279	2,507	2,758	3,034	3,337	3,671	4,038	4,442	4,886	5,375
Depreciation	50	50	50	50	50	64	64	64	64	64	81	81	81	81	81	104	104	104	104	104
FMG EARNINGS (LOSSES)	1,245	652	472	367	323	(100)	(0)	(22)	(8)	(3)	(24)	(38)	(70)	(133)	(248)	(614)	(738)	(979)	(1,228)	(1,526)
Growth Rate		-47.8%	-27.7%	-22.3%	-11.8%	-130.8%	99.8%	*********	64.6%	63.8%	-716.3%	-62.8%	-82.1%	-90.2%	-85.5%	-109.1%	-43.8%	-32.7%	-25.5%	-24.2%
Cumulative Earnings	1,245	1,898	2,369	2,736	3,060	2,960	2,960	2,937	2,929	2,926	2,903	2,865	2,795	2,662	2,417	1,903	1,165	186	(1,042)	(2,568)
INTEGRATED OPERATION (FUND+FMG)																				
FUND Earnings (Losses)	7,948	8,680	14,514	16,640	19,309	8,939	10,348	10,167	10,434	10,732	11,065	11,411	9,976	8,615	9,053	8,823	9,058	9,403	9,813	10,288
FMG Earnings (losses)	1,245	652	472	367	323	(100)	(0)	(22)	(8)	(3)	(24)	(38)	(70)	(133)	(248)	(614)	(738)	(979)	(1,228)	(1,526)
Total Earnings	9,193	9,332	14,988	17,008	19,632	8,839	10,348	10,145	10,426	10,729	11,042	11,372	9,906	8,482	8,807	8,309	8,320	8,425	8,585	8,762
Growth Rate		1.5%	60.6%	13.5%	15.4%	-55.0%	17.1%	-2.0%	2.8%	2.9%	2.9%	3.0%	-12.9%	-14.4%	3.8%	-5.7%	0.1%	1.3%	1.9%	2.1%
Cumulative Earnings	9,193	18,525	33,511	50,518	70,150	78,989	89,337	99,482	109,908	120,637	131,679	143,051	152,958	161,440	170,247	178,556	186,876	195,301	203,885	212,648

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Table D.8

Annual Cash Flow (Thousands of Current Gourdes)
Scenario 2: USAID GRANT TO FUND AND FMG Assumption: 10% of Potential Demand

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
USAID GRANT to FUND	5,250	5,625	7,500	9,375	11,250	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
USAID GRANT to FMG	1,875	1,313	1,088	863	638	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FUND																				
INFLOWS (Including Grant)	8,144	9,350	16,126	19,551	23,936	15,157	18,250	19,995	22,640	25,168	27,906	30,787	32,393	33,776	37,519	40,872	44,179	47,011	49,673	52,126
Interest Revenue, Loans	210	676	1,215	1,808	2,420	3,059	3,793	4,629	5,516	6,442	7,430	8,502	9,678	10,978	12,422	13,562	14,278	14,958	15,715	16,539
Interest Reven., Other (+SOFHIDES Pr.)	2,684	2,684	6,272	6,195	6,740	7,405	8,397	7,618	7,323	7,001	6,672	6,290	4,040	1,756	1,113	119	0	0	0	0
Net Principal Recovery	0	365	1,139	2,173	3,525	4,692	6,059	7,749	9,802	11,725	13,804	15,995	18,347	21,031	23,984	27,192	29,900	32,053	33,958	35,586
Flow from FMG to Compensate FUND Deficit	0	0	0	0	0	0	0	0	0	0	0	0	330	12	0	0	0	0	0	0
OUTFLOWS	4,796	6,202	7,730	9,551	10,992	13,302	16,666	19,113	21,536	24,259	27,322	31,118	34,644	38,992	43,860	38,848	41,925	43,389	48,044	49,222
Loans (Subject to Cash Availability)	4,600	5,905	7,306	8,916	10,070	12,043	14,839	17,534	19,794	22,349	25,237	28,503	32,196	36,373	41,098	35,947	37,971	40,224	43,846	45,475
Management Fee 1/	196	298	424	635	922	1,259	1,472	1,579	1,742	1,910	2,085	2,266	2,448	2,619	2,762	2,902	3,025	3,165	3,323	3,498
Flow from FUND to Compensate FMG Deficit	0	0	0	0	0	0	355	0	0	0	0	349	0	0	0	0	930	0	875	249
CASH SURPLUS (DEFICIT)	3,348	3,147	8,395	10,001	12,944	1,855	1,583	883	1,104	909	584	(330)	(2,248)	(5,216)	(6,341)	2,024	2,254	3,622	1,628	2,903
Cumulative Cash Surplus (Deficit)	3,348	6,495	14,891	24,891	37,835	39,690	41,274	42,156	43,260	44,169	44,753	44,423	42,174	36,958	30,617	32,642	34,895	38,517	40,145	43,049
FMG																				
INFLOWS + GRANT	2,117	1,669	1,585	1,586	1,660	1,379	1,976	1,754	1,940	2,133	2,337	2,900	2,770	2,983	3,173	3,261	4,334	3,567	4,637	4,202
Management Fee	196	298	424	635	922	1,259	1,472	1,579	1,742	1,910	2,085	2,266	2,448	2,619	2,762	2,902	3,025	3,165	3,323	3,498
Loan Origination Fees	46	59	73	89	101	120	148	175	198	223	252	285	322	364	411	359	380	402	438	455
Flow from FUND to Compensate FMG Deficit	0	0	0	0	0	0	355	0	0	0	0	349	0	0	0	0	930	0	875	249
OUTFLOWS	1,072	967	1,063	1,170	1,287	1,734	1,557	1,713	1,884	2,072	2,687	2,507	2,758	3,034	3,337	4,191	4,038	4,442	4,886	5,375
Operating Expenses	822	967	1,063	1,170	1,287	1,415	1,557	1,713	1,884	2,072	2,279	2,507	2,758	3,034	3,337	3,671	4,038	4,442	4,886	5,375
Outlays for Fixed Assets Acquisition	250	0	0	0	0	319	0	0	0	0	407	0	0	0	0	520	0	0	0	0
Flow from FMG to Compensate FUND Deficit	0	0	0	0	0	0	0	0	0	0	0	0	330	12	0	0	0	0	0	0
CASH SURPLUS (DEFICIT)	1,045	702	522	417	373	(355)	419	41	56	61	(349)	392	12	(51)	(164)	(930)	296	(875)	(249)	(1,172)
CASH SURPLUS (DEFICIT), FUND & FMG	4,393	3,850	8,917	10,417	13,317	1,500	2,002	924	1,160	970	234	62	(2,237)	(5,267)	(6,505)	1,095	2,549	2,747	1,379	1,731
Beg. Cash Bal. as % of Total Outflows (Preceding Yr)		75%	115%	183%	179%	196%	92%	119%	114%	112%	109%	103%	100%	95%	87%	85%	98%	98%	100%	93%

ANNEX E. INSTITUTIONAL ANALYSIS

I. INTRODUCTION

This project requires an institution that has NGO status, has some experience in trust fund management and has institutional objectives that are compatible with the objectives of this project. The Haitian Development Foundation (HDF) is identified as an excellent candidate to fulfill the role of the implementing institution, given its experience in the microenterprise sector and its new provincial orientation. In addition to providing the right kind of institutional background for this project, HDF has made considerable progress towards self-sustainability over the course of its present project with A.I.D. However, with the increased responsibility and expanded scope of operation under the new project, HDF will continue to require A.I.D. grant assistance, both for lending capital and operational support during the new project. Such support is planned on a diminishing basis, to permit full self-sustainability by the end of the project. The institutional aspects of the project and the ramifications of the changes which HDF will undergo are discussed in this section.

II. RECENT DEVELOPMENTS

Seven years ago when USAID's present project with HDF began, HDF was technically insolvent. After discussions with HDF, a dynamic new Board was elected and a new agreement with USAID signed to assist the operation in the area of loan funds, technical assistance and operating costs. In 1988, a project evaluation by Robert Nathan Associates concluded that HDF had successfully moved from a state of near collapse to a level of satisfactory performance. As a result, a new agreement was signed covering the same three areas of assistance and establishing the all-important objective of operational self-sufficiency (defined as the ability of the institution to cover all cash operating expenses). As a result, HDF now has 900 clients with about a 15 million gourde ($2 million) portfolio, has established one provincial operation, is about to open a second, and achieved operational self-sufficiency in March of 1990, well in advance of the completion of the project.

The progress made by the institution since 1984 is commendable, given the lack of diversification in their client base, the difficult macroeconomic environment in which they had to operate and the heavy burden of unproductive loans (as a result of activities prior to 1984) that they were obliged to manage during the period.

The HDF has recently undergone (March 1991) a complete evaluation by Price Waterhouse and a copy of the executive summary is attached as Annex G. The essence of the report indicates that the HDF, like other institutions in the sector, is encountering collection and

portfolio quality problems due to the deteriorating macroeconomic conditions in the country. In addition, the evaluation was conducted just after the return of long-term technical assistance to the project, who had already begun to take corrective measures to the issues brought out in the report.

The evaluation pointed out a number of issues relevant to implementation of this project, which will be dealt with item by item, as they appear in the executive summary.

The evaluation raises the interrelated issues of financial management, capitalization and sustainability. The authors point out that:

> "... HDF's assets have been financed through contributions made by donor agencies and not through earnings from operations..."

In view of the fact that HDF has not required operating expense assistance since early 1990, the above quote, while generally correct, is a bit misleading, in that it implies that HDF does not operationally support itself from its revenues, which is no longer the case. The fact is that the present HDF project, which ends in March 1992, has clearly reached the objective stated in the original Project Paper of reaching operational self-sufficiency by the end of the project.

At the time of the evaluation in March 1991, non-productive loans had reached 65 percent of HDF's portfolio, down from historical levels of 80 percent. This was due to the difficult macroeconomic situation and to a lack of follow-up in collections. A concerted effort to recover delinquent loans has since been implemented by HDF's management, resulting in the highest revenues ever for the institution over the last two months (April and May, 1991). HDF's target is to return to a level of 80 percent of its portfolio on a current basis.

The issue of decapitalization of the institution was raised by the evaluators. This is a risk that every institution faces in Haiti and there are three actions which may mitigate this risk:

1. to implement a fee structure which would permit a positive real interest rate to be realized;

2. to increase interest income in the interim to build up reserves.

3. to continue pressure on the government to remove the 22 percent interest rate ceiling, through the USAID Policy Analysis and Reform project, the activities of the APB and analytical studies emerging from the Institutional Support component of this project.

HDF's Action Plan already approved by the HDF Board calls for an increase in the interest rate and fee income to enhance operational revenues.

The issue of improving internal documentation and procedures has been resolved in part by the restructuring of the Credit Administration Department. With the return of the Technical Assistant, a planned increase in the number of computer applications is underway, which will reduce the workload of the account managers.

To address the issue of the restructuring of HDF and the Board, the present Board will engage the services of its legal counsel to rewrite the statutes of the institution. One objective is to seek Board members from among private sector institutions and associations, to offer a broader oversight perspective. Another is to facilitate management of the Fund, independent of HDF's own operational lending program, through a separate management unit and Advisory Board. The time has come for HDF to begin offering some remuneration not only to its Board of Directors, but also to the two Advisory Boards which will be formed under the project. The level of compensation will be nominal and will depend on the actual degree of participation and attendance at Board meetings. This practice is followed by virtually all other financial institutions in Haiti, was recommended by the Price Waterhouse evaluation and is considered necessary to ensure a serious and professional level of effort by members of the Boards, who cannot be expected to perform the rigorous analysis required on a pro bono basis. Board members' honoraria will be paid from HDF revenues, but initially this cost can legitimately be paid from the USAID support grant, as long as budgetary provisions are made to continue payments after the support grant phases out.

Regarding the "trust" management activities, the HDF manages the funds in the SOFIHDES/HDF "trust", which is made up of the interest payments that SOFIHDES has made on the monies borrowed from USAID and will eventually also include the principle repayments. Price Waterhouse has pointed out that the "trust", as is known in the US, does not exist under Napoleonic Code and as a result, the terminology and future arrangements will have to be revised to be consistent with the laws of the country. The amount presently being managed is around 7.5 million gourdes ($1 million) and is deposited in 4 local banks. As the amounts have been relatively small, only passive management on the part of HDF has been necessary. One of the objectives of this project will be to assist the HDF to become a proactive manager of funds, as the size of the capital account grows.

The issue of how to handle the low-income shelter lending program, addressed in some detail in the Price Waterhouse report, may have been overtaken by events. At this writing, the size of the MEDA

experimental pilot program appears to be less than originally envisioned, since funds from the BCI project earmarked for this pilot have been declined by MEDA. Nevertheless, MEDA is undertaking 40-50 low-income shelter loans to families with monthly incomes of $300. The performance of these loans may be a reliable indicator of the effectiveness of the antichresis lending concept described in section II.C.1. of the Project Paper. If such results are at all favorable, the FMG will encourage mortgage lending institutions like BCI and SOGEBEL to reduce their minimum income requirements for shelter lending.

In general, the majority of the issues brought to the fore in the Price Waterhouse evaluation are being dealt with by HDF, and this project will further strengthen HDF in ways consistent with the Price Waterhouse recommendations.

III. ORGANIZATIONAL PROGRESSION

A. Initial Revised Organizational Structure

In order to encompass all of the activities in this project, and more importantly, to become a true development foundation, the HDF will require a more involved and active Board, strong leadership and a solid financial position. The long term objective is to establish a foundation that can take a leadership role in the development activities of this country. This approach was actually first suggested in a report completed for USAID/OPE in 1989[1]. As the author points out:

> *"The main purpose of the foundation is to act as a catalyzer for the flow of financial services and resources from the formal to the informal sector; as well as for the constant improvement of formal sector institutions and for the gradual incorporation of the informal into the formal sector. .... Typically, it will bring together an otherwise hopeless borrower with an otherwise distrustful lender."*

Before going into more specific detail, it would be helpful to depict the existing and initial proposed organizational structure of the HDF:

The structure in its entirety is the initial organization of the HDF at the beginning of this project. The restructuring will start with the rewriting of the statutes, reflecting the major change of the make up of the Board. The goal will be to create an organization that will marshall existing resources and bridge the gap between the formal and informal sectors. Rather than use paid-up members of the Foundation on the Board, private sector

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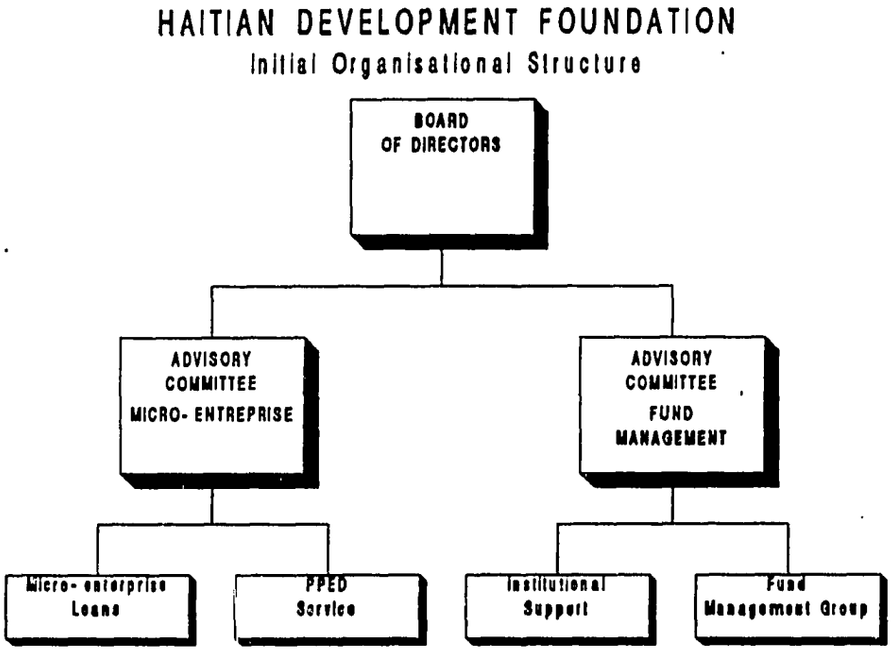
[1] The idea was first presented in a report done for USAID/OPE in 1989 by C.J.J. Bovet, entitled, Haiti Financial Sector Assessment.

Figure 1. Revised Transitional Structure of HDF



institutions/associations will be asked to take an active interest in development by appointing a member from that institution or association to the HDF Board. They in turn will delegate on a rotating annual or bi-annual basis, members to the Board. The institutions that will be asked to participate will be the Association Professionnel des Banques (APB), Association des Industries d'Haiti (ADIH), Chambre Franco-Haitien de Commerce (CFHC), Chambre de Commerce d'Haiti (CCH), Haitian American Chamber of Commerce (HAMCHAM), Association des Producteurs Agricoles (APA), Centre de Management et Productivité (CMP) and 2-4 businessmen.

Once the Board has been selected, two sub-committees will be formed, called Advisory Boards, one to oversee the microenterprise lending activities and the other to oversee the FMG. The former would be made up of some of the present Board members to ensure continuity across the change in structure and to keep the microenterprise activities on track. The latter should include members of the financial and business communities. The HDF will have to deal with the issue of leadership, and this is where the project can play an important role. The operation of the FMG will require the leadership of a strong individual as chief executive, an experienced person who is highly regarded and able to market the operation to the other financial institutions, and who has the technical capability to assist in the development and implementation of tailor-made financial instruments. Such an individual will obviously have to be adequately remunerated to keep

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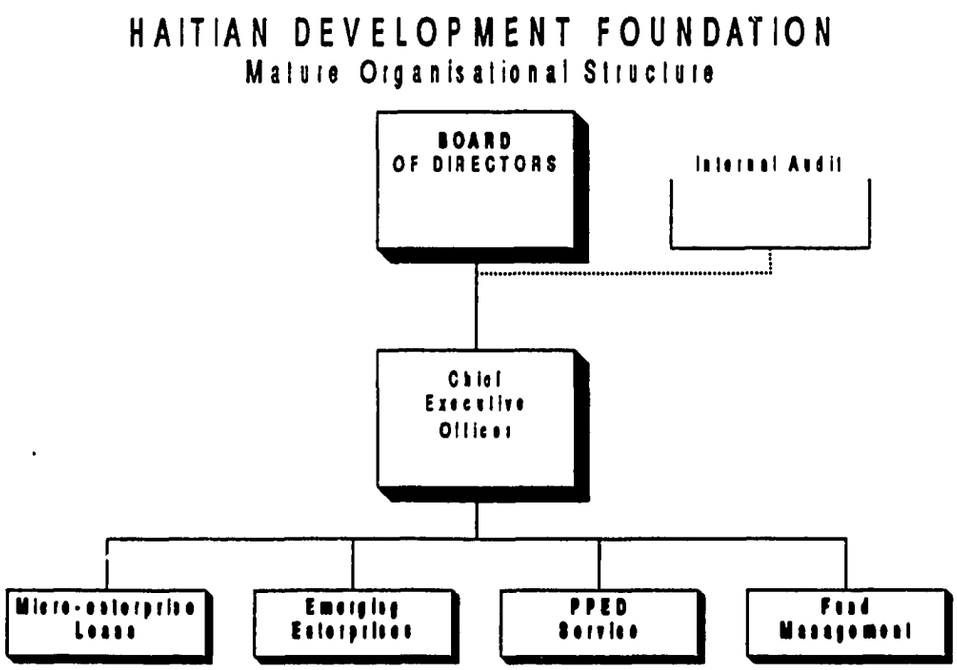
him (her) motivated to remain with the institution for several years. This position could eventually become the CEO for the entire HDF. This will leave the overall Board free to pursue other matters, including the objectives of the Foundation and the strategy to realize these objectives, as well as other important promotional activities among participating institutions and the general public and to promote the use of the fund for development objectives. The Board will also supervise both branches of the Foundation and will approve the recommendations of the FMG on loan applications from IFIs from the Fund.

B. Eventual Structure

As the institution matures the organizational structure depicted in Figure 2 should begin to take shape. This will occur at a time when the microenterprise lending operations are within the projected levels of performance, the FMG is well into an operational rhythm, PPED is up and running and other activities conceived either in the FMG or the microenterprise side of the institution are fully operational. The timing for the eventual structure to be implemented is not specifically defined and should remain flexible. However, it is likely to coincide roughly with the end of this project, when USAID financing will cease.

Figure 2. Eventual Structure of HDF



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The Board will remain the same as before, while the CEO may or may not oversee all of the development activities of the HDF[2].

The Internal Audit function will be a position that will report directly to the Board and will inform the Board of the quality of the activities in each of the critical areas to ensure that procedures are being followed and that funds are not being

misappropriated. This report should also be sent to the Mission Director USAID to maintain a monitoring role after the LOP. This internal audit function is in addition to the annual external audit required by law.

The Microenterprise will be the lending activities to microenterprises throughout the country. This branch will probably be headed by as Executive Director, with provincial managers, who will be responsible to the CEO or a sub-committee of the Board.

The Emerging Enterprises area is a target market that requires attention. This is the client that is currently too small for the sophistication of SOFIHDES loan requirements, yet too large for HDF. Neither institution has the level of comfort necessary to deal with the emerging or growing entrepreneur, whose needs are changing, but whose associated risk is increasing also. Initially this concept can be developed within the FMG and then tested out through the HDF, with an eventual housing of the activity within HDF or another institution. For the HDF, this adds an aspect of market diversification, with certain advantages such as using their existing client base as a marketing area for clients for the Emerging Enterprises operation.

The FMG will be made up of a General Manager, a Secretary and a Financial Analyst Section. This latter group will have been trained by the TAs and will look after the analysis and the follow-up of the projects submitted to and, approved by, the Board, as well as managing the liquid assets of the Fund.

IV. MICROENTERPRISE LENDING

This aspect of the HDF represents the current lending operation of the Foundation and t he main subject of the 1991 Price Waterhouse evaluation. In 1989, HDF opened its first branch in Cap Haitien, which has been a clear success, with 1.118 million gourdes

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[2] An alternative would be to eventually set up a sub-committee for each of the major activities of the HDF and delegate approval authority to those sub-committees. This would permit the pre-selection of members who have an active interest in the different operations of HDF and could therefore increase the value added.

($150,000) in loans so far to over 100 clients. This operation will now begin to expand its coverage to include the neighboring towns in the Cap Haitien area. In early 1991, a second city, Les Cayes, was successfully surveyed as the site of the second branch, and as of June 1991, a Board and a Credit Officer have been selected, with operations set to begin in this city in the fall of 1991.

The operations in Port-au-Prince are ongoing, but have been purposely reduced to allow the institution to increase their collection efforts and correct some internal operations. Collection efforts are bringing positive results, and new lending is expected to resume by the summer of 1991.

The portfolio is suffering from the same problems that afflict the portfolios of all other banks in Haiti, namely a weak macroeconomic environment and uncertainties regarding government policies. As a result, collection has fallen, and lending has been reduced to focus the efforts upon the collection aspect. The overall progress of the institution, however, has been positive and should continue to be supported. Ordinary operating expenses are now covered by interest revenues, but still requiring outside assistance are capital and fixed asset acquisition and replacement, as well as provision for loan losses. This situation will still not permit the institution to borrow capital funds, even at zero or nominal interest. A financial analysis by the HDF Technical Assistant and the Project Design Team, has shown that the institution will have to achieve a critical mass portfolio of around 35 million gourdes ($4.7 million), compared to the present level of 17 million G ($2.3 million), before it can begin to borrow capital and pay interest, and even then the rate will have to be concessionary. This is not unusual for institutions such as the HDF, who are non-diversified and operating in a high risk market with development objectives, rather than profit maximization. What is unusual and refreshing, is that the HDF is attacking the problem from the viewpoint of a private business, rather than a subsidized NGO and has a clear objective to become self-sustainable during the life of this project.

The fact that HDF will receive its lending capital (budgeted at $2 million) in grant form under the project constitutes a departure from the PID for this project, submitted last December, which contained no financial analysis and did not address this matter directly, but implied that HDF would be a borrower from the Fund on the same basis as the for-profit IFIs. While this remains the ultimate objective of HDF, financial analysis reveals that its initial tranches of capital (estimated at $1 million in the first year and $1 million in the second or third year) will have to be on a grant basis. The rationale for this capital grant covers several factors, including that HDF:

1. has shown impressive improvement in financial performance

over the past 5 years, moving from insolvency in 1984 to operational self-sufficiency in 1990;

2. has successfully managed to open a financially independent provincial branch, with minimal assistance under the current A.I.D. project;

3. is the one existing financial entity in Haiti which is institutionally and philosophically capable to accommodate the objectives and activities of this project;

4. is committed to lending to the primary target market of this project, while acknowledging its higher risk and more management intensive characteristics and

5. is in the process of opening a second provincial center, with plans to expand to several other provincial towns;

Because of the unique role played by HDF in the development of credit and borrowing opportunities to small, micro and provincial enterprises, it is reasonable for A.I.D. to assist the foundation in attacking this formidable task through the range of assets to be provided under the project, including a grant for capital lending. This assistance will be a direct grant from the project and will not pass through the operations of the FMG. An important objective of the project is to strengthen HDF both financially and institutionally, so that at, or before, the end of the project, it will be able to carry on its operations without either further operational grants or grants for lending capital. Thereafter, to acquire additional lending capital, HDF will borrow from the Fund on terms to be negotiated with the FMG and approved by USAID/Haiti, based on conditions prevailing at the time.

V. FUND MANAGEMENT GROUP

The FMG will manage funds granted to the Fund for on-lending, as well as the funds presently in the SOFIHDES/HDF trust. The initial responsibilities will include developing standards and procedures of operation by the FMG staff, aided by long- and short-term technical assistance.

The FMG staff will consist of a Manager, a Secretary, a Financial Analyst and, for the first two years, a full-time expatriate TA (the Capital Fund Advisor). Other TAs (short- and long-term) who will be assigned to other project components (HDF microenterprise lending, APB, PPED) will be available to assist in the development of the mechanism initially and on a monitoring/consulting basis thereafter. The items which initially will be developed are the products, application and screening processes, internal control procedures, project monitoring procedures, global investment strategy, promotional campaign and a 5-year development plan and

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strategy.

The FMG will also be responsible for coordinating the other major project component, the Institutional Support unit. An experienced administrative officer will be required for the planning and delivery of the services defined in the Institutional Support component (short-term TA, training and studies). The secretary will handle supporting correspondence and documentation, and the accounting reports can be prepared by the accounting section of the HDF.

VI. OPERATIONAL ISSUES

A. Fund Revenues and Expenses

The fund will have two sources of revenue, interest earned on deposits with IFIs and interest earned on loans made to IFIs. The FMG will earn a 2 percent commission for the management of the Fund, based on the total funds managed, a 1 percent commission on loans made to IFIs and any other fees or premiums charged to the IFI for risk sharing arrangements. As these amounts will not cover the expenses of the FMG for the initial years, the expenses will either have to be covered by drawing upon the interest earnings of the Fund or from a direct grant from the project. The latter is recommended, which will allow the Fund to grow at the maximum market rate possible, as well as to monitor the rate of self-sufficiency of the FMG. Once the revenues of the FMG begin to exceed expenses, the difference (profit) should be placed in a special account to finance other development activities of the FMG in the future, such as training, equipment replacement, capital investments, etc.

Expenses will include salaries, accounting services, support staff, rent, utilities, travel, office supplies, promotion and initial fixed assets required. More details of the expenses are found in the financial analysis, Annex D.

B. Physical Location of the FMG

To maximize the sense of autonomy between the two branches of HDF, it may seem desirable to keep the FMG and HDF microenterprise branch housed in separate offices. However, from a practical budget point of view, this would mean higher operating costs and would delay the time when HDF will become fully self-sustainable. Since the HDF is outgrowing its present offices and will soon be forced to relocate, even without the addition of the FMG and PPED, it is proposed that the Foundation seek new and larger quarters which would house both branches and where economies of scale can be realized. A portion of the support grant can be drawn upon to assist HDF with moving expenses and in paying a higher rent for larger quarters.

C. Legal and Policy Documents Required

The Cooperative Agreement (CA) with USAID/Haiti will be negotiated and signed by HDF in its present form. However, in order to accommodate the new elements added to HDF under the project, the by-laws of the Foundation will need to be changed to reflect the new organizational structure. This should take place as soon as possible after the signing of the CA, in order to permit the FMG and the Fund to begin operations. The revised by-laws will be drawn up by the Foundation's legal counsel and should be reviewed by the A.I.D. Regional Legal Advisor. In addition to by-law changes and the revision of the structure of the HDF, one of the first actions of the FMG will be to develop and codify lending principles and procedures, including the terms and conditions under which the funds can be lent, the percentage that will stay in deposits and the percentage that will be used to lend, the fee commission, the internal audit requirements, reporting requirements and approval procedures. In addition, since the Fund is a permanent institution, provisions for reporting and auditing after the termination of the project should be outlined. Finally, A.I.D. retains the residual right of appointment over management of the Fund, which includes the right to terminate part or all of the Cooperative Agreement and to select another manager of the Fund.

D. Pre-Operational Developments

During the pre-operations phase of the FMG, the following tasks will be completed by the FMG and TA staff:

1. Budgets and investment strategies, including an overall 5-year plan will be drawn up, complete with objectives, manpower requirements, loan fund requirements, training needs, investment strategies and target rates of return for the Fund.

2. Examples of different financial products will be developed, to be able to respond quickly to various lending scenarios, with the monitoring requirements already in place (see Technical Analysis for more details on the financial products).

3. An accounting system should be put in place to account independently for the Fund's operations.

4. A loan administration system will be developed, including a filing system, project application forms (micro, small, medium and large), computer analysis models, monitoring procedures, legal forms, and modalities of disbursements and repayments.

5. Promotional material will be developed, including brochures, presentations, television and newspaper advertisements for both the institutions and the general

public.

6. The initial staff of the FMG will be recruited and trained.

ANNEX F

MEMORANDUM

May 28, 1991

TO: Martin Napper, Grant Officer

FROM: Donald L. Smith, Chief, OPE

SUBJECT: Justification for Non-competitive Award

Background: The Provincial Enterprise Development (PED) project (521-0223) is now in final design and is scheduled to obligate its initial funds by the end of the third quarter of FY 1991. The project involves 1) establishing a capital fund for participating IFIs to relend to their clients; 2) various elements of institutional support to financial institutions which A.I.D. has created or assisted in Haiti; and 3) TA and studies which will benefit the Haitian financial community as a whole. The initial Cooperative Agreement will grant approximately $2.0 million for the lending capital fund and approximately $1.2 million in technical assistance.

For effective implementation, the nature of the project requires that a single institution be chosen as the agent to administer both the capital fund and the technical assistance, even though both will extend to several other financial organizations during the course of the project. Among existing private Haitian institutions, only the Haitian Development Foundation (HDF) has all of the necessary qualifications, experience, organizational objectives, legal status, etc. to perform this management and operational role.

HDF was initially created as an A.I.D. initiative and has been supported since 1984 under project no. 521-0181, which will end in early 1992. The PED project will be a follow-on activity, building on the institutional base established by HDF under the current project. New initiatives to be pursued under the PED project involve a major thrust to extend credit to provincial towns in a systematic way and to expand the scope of microenterprise lending.

Justification: In accordance with the criteria in Handbook 13, Chapter 2, para 2B.3, a non-competitive award to HDF is considered appropriate, on the following basis:

> HDF has predominant capability in the activities proposed under the project, based on experience, specialized facilities and technical competence (sec. 2B.3.(2)b.).

To be eligible to receive the capital fund and substantial technical assistance in grant form, the recipient must be a recognized not-for-profit organization. HDF is the only such organization in Haiti with the requisite experience in administering a credit program of this magnitude. Other financial institutions capable of managing the capital fund are

commercial, for-profit banks, not eligible for A.I.D. grant funds. It would not be feasible to create a brand new institution specifically to fill this role. First, that would involve unnecessary and unjustifiable duplication of HDF's capabilities, without its institutional experience, and secondly, if past history is a guide, it could take more than a year to establish a new NGO and obtain legal recognition as such by the GOH. If anything, the Aristide government may be expected to move even more cautiously than earlier regimes in granting new NGO status.

Having established that HDF is the only financial institution of its kind in Haiti, several factors illustrate HDF's qualifications to fill the role of principal implementing agent of this project, with the assistance of additional technical and financial resources to be provided to HDF under the project.

- HDF currently manages a 15 million gourde portfolio comprising some 900 loans. No other local institution, including Haiti's commercial banks, has similar experience in dealing with the small entrepreneurs who are the primary target population of this project.

- HDF already has provincial lending experience through its Cap Hatien branch, which has been in successful operation since 1989, with a 2.5 million gourde portfolio and an excellent repayment record. A second HDF branch will open in les Cayes in October 1991.

- HDF has managed the "SOFIHDES Trust" for several years, from which SOFIHDES borrows for on-lending to its clients. The capital fund in this project will operate in a similar manner, except that several financial institutions will be eligible to borrow from it, and more analysis will be required. For this purpose, a Fund Management Committee will be formed and supported under the project, with independent authority regarding the allocation of lending capital. This entity will earn a management fee and will be self-sufficient before the end of the project.

- HDF's qualifications were thoroughly assessed by a three-member team from Price Waterhouse in February 1991, with specific reference to its prospective role in this project. The consultants' report made a number of technical and administrative recommendations involving, structure, accounting, computerization and management procedures which will strengthen HDF's ability to assume a central role in implementing the new project.

Based on the above justification, it is recommended that as Grant Officer, you approve the noncompetitive award of the proposed Cooperative Agreement to the Haitian Development Foundation.

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Approved: Martin F. Hupper

Disapproved: _____

Date: 5/31/91

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ANNEX G

I. EXECUTIVE SUMMARY

The establishment of the Haitian Development Foundation (HDF) in 1979 provided the small and micro-enterprises in Haiti with an opportunity to obtain financing for business activities. The reorganization of HDF in 1984 with technical assistance from USAID/Haiti and a new, dynamic Board of Directors expanded its operations. HDF has become the leading candidate for the extension of credit into Haitian provincial centers and management of trust funds under a proposed USAID/Haiti project.
This project seeks to encourage the development of provincial private enterprise, establish a pilot shelter lending program in Haiti, provide funds to private financial institutions for on-lending within the Haitian private sector and assist in the institutional strengthening of business and financial institutions throughout Haiti.

This report attempts to determine whether HDF has adequate resources and technical expertise to expand its business activities and manage a larger pool of trust funds. We have assessed HDF's capabilities against the Foundation's principle objectives--notably the concepts of self-sufficiency and self-sustainability.

Self-sustainability is the ultimate objective of HDF, and is defined as the ability of the foundation to conduct its lending activities without requiring donated seed capital. Self-sufficiency, a more immediate objective, would require that HDF's general and administrative costs be covered by the revenues generated from the Foundation's operations. Therefore, an analysis of HDF's financial position and performance was deemed necessary. Although the purpose of this analysis was not to determine or project the financial viability of the HDF's operations, our fundamental evaluation of the financial management practices of the Foundation identified several opportunities for improvement.

Our evaluation of HDF revealed the following potential opportunities for improvement which are briefly discussed below. Exhibit I contains a matrix of our major findings in each area.

- Financial Management, Capitalization, and Sustainability

In summary, our evaluation of HDF's financial position and results of operations for fiscal years 1989, 1990, and the first eight months of 1991, reflected a relatively positive trend in the rates of asset and earnings growth. However, a comparative analysis of the statements of financial position and results of and the operations, coupled with an evaluation of the components in each revealed the following highlights:

- **Financial Performance** - The growth in HDF's assets has been financed through contributions made by donor agencies and not through earnings from operations.

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- **Results of Operations** - The Foundation posted an operating loss of approximately G806,560 for fiscal year 1990, and G714,835 for fiscal year 1989.

- **Quality of Earning Assets** - The Foundation's effective interest earnings on its loan portfolios was estimated at between 10 to 14 percent, while the weighted average interest rate for the portfolios was projected at approximately 18 percent. Therefore, the rate of realization on assets is lower than expected.

  The lower-than-expected effective earnings rate is primarily due to the volume of delinquent loans in HDF's portfolios. A historical review of the rate of delinquency also indicated an upward-moving trend in the number of delinquent loans.

In general, HDF may not achieve its objective of becoming self-sufficient if the foregoing unfavorable trends persist. Further, given the estimated annual rate of inflation in Haiti, which is higher the rate of interest that HDF can charge its clients, decapitalization of the organization's funds might be inevitable. Although HDF has no control over the general economic conditions of the country, the impact of decapitalization of the Foundation's financial resources can be mitigated in part by exercising more aggressive asset-liability management and costing strategies.

- Internal Procedures and Documentation

To some degree, the deterioration of the HDF loan portfolio's performance is a product of external factors in the Haitian economy, and other financial institutions have been affected as well. The political instability and poor economic performance which has characterized Haiti in the last three years, coupled with the current shortages of electricity has placed the private sector in severe hardship. This is especially true of the small and micro enterprise sector which is more volatile than other sectors and more vulnerable to economic changes.

However, not all of the portfolio problems can be attributed to the economy. As can be expected for an institution catering to the informal sector, HDF's portfolio contains a large number of small loans to small enterprises. The volume of business makes it difficult for the Foundation to monitor existing loans and origination of new loans to the extent required for the success of the program. The eight credit officers currently employed by HDF have an excessive workload and are not able either to effectively monitor the loans in their portfolio or to conduct sound and thorough credit evaluations of new customers. Moreover, the current incentive structure does not encourage productivity and enthusiasm.

Although HDF management has developed a plan to improve the quality of the loan portfolio in the short-term, every effort should be made to address the long-term strengthening of the credit and loan administration functions. Greater use should be

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made of computer resources, and more formal training and technical assistance should be made available to the HDF credit officers to assist them in improving the management of their portfolios. Also, procedures for credit evaluation, loan review and addressing problem loans should be strengthened and enforced under management supervision. More importantly, the Foundation should encourage greater productivity and commitment among the staff by developing a short-term incentive system that is tied to performance objectives. In addition to managing its portfolio, HDF should strengthen its controls over the management of other assets including cash.

o Human Resources

HDF is changing to meet the needs of its market sector and the business communities in the Haitian provinces; however, further changes are indicated. The bylaws established in 1984 have served the Foundation well, but their utility to the new, emerging HDF is limited. The very existence of the current Board of Directors is in violation of the bylaws as it consists of nine members instead of seven and its members are serving terms that exceed the authorized two-year period. The role played by the General Assembly of members has declined significantly, to the extent that attendance at meetings is insufficient to obtain a quorum for the election of Board members. Moreover, Board members have only limited time available in their busy schedules to participate in the management of the Foundation, and demands on their time will only increase under the new HDF.

Efforts should be made to redesign the current bylaws to reflect the changes in the role of the General Assembly, the limited time available to Board members to fulfill their duties and the existence of other Boards of Directors in the provinces. Consideration should be given to compensating Board members for their time and reimbursing provincial Board representatives for attending meetings in Port-au-Prince.

o Trust Activities

The assumption that a "Trust" relationship existed between HDF and USAID/Haiti has been called into question since it appears as though the "Trust" structure does not exist within Haitian legal and taxation systems. The relationship that exists with regards to the management of the funds loaned to SOFIHDES and repaid into a special account managed by HDF can be described as one of agency and not "Trust." The nature of this agency relationship has legal, taxation and accounting implications that are, in some cases, contrary to those that would have been utilized if a true "Trust" relationship had existed.

Even though a "Trust" relationship may not be possible in Haiti, there are other alternative structures for HDF to adopt in order to manage larger amounts of loan funds under the new USAID/Haiti project while resolving any conflicts that may arise in the allocation of funds among potential borrowers and diversifying into other areas of lending. The most appropriate alternative involves the establishment of a HDF "holding company" structure which would be governed by a Board of Directors, mandated with

implementing USAID/Haiti objectives under the new project. The Board of Directors would be divided into committees which would address specific areas of expertise such as micro-enterprise lending and trust management.

The Board and its subcommittees would be assisted in their efforts by an Advisory Committee of technical specialists responsible for conducting the necessary analysis to determine the allocation of funds among borrowing financial institutions. In addition to the Advisory Committee, an Audit Committee could be formed to ensure that funds are being utilized according to the established guidelines and to monitor the progress of projects funded by such funds. Independence must be maintained at all times, both in appearance and in practice and the presence of the Advisory and Audit Committees are a necessary part of any structure that is developed for the implementation of this project.

- Low-Income Shelter Lending Program

The Low-Income Shelter Lending Program is an experimental program the primary purpose of which is to assess the feasibility and economic viability of launching a more comprehensive housing program in Haiti. Originally, this experimental housing program was designed to be implemented through a cooperative effort between three organizations: HDF, Banque the Credit Immobilier (BCI), and MEDA. Our evaluation of the role of each of the three organizations in ensuring the success of this experimental program identified unnecessary complications relating to administrative and financial arrangements between these. Therefore, two alternative implementation strategies were recommended to be considered by USAID/Haiti.

In addition, several weaknesses pertaining to the design, administration, and financial structure of the experimental housing program were identified. These are:

- HDF is assuming 100 percent of the financial risk of loss, while it only has indirect control over the administration of the program;

- Uncertain legal implications exists in several aspects of the experimental design; and

- lack of the required housing expertise by the implementing organizations and absence of a formal system of internal controls increase the operational risks associated with successful administration of the program.

In summary, although the shelter lending program is experimental, it is imperative that all design, administrative, and structural deficiencies are effectively addressed so as to allow an objective evaluation of the program's performance in the future.

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ANNEX H. SCOPES OF WORK FOR LONG-TERM ADVISORS

1. HDF Microenterprise Lending Advisor

The microenterprise Lending Advisor will serve as a senior in-house advisor to the Haitian Development Foundation, with respect to the microenterprise lending program and the expansion of HDF into selected provincial towns. This is essentially a continuation of an existing position, with some new duties added. Principal tasks will include:

1. Continuing to ensure that the Action Plan approved and begun in February of 1991 is implemented.

2. Continuing to monitor the write-off program of the current HDF loan portfolio.

3. Continuing to advise the HDF Board on the execution of its 5-year strategy and its expansion plans in the provinces.

4. Implementing the computerization of the various HDF administrative functions, introducing needed improvements and adapting these procedures for use in the provinces.

5. Advising the Fund Management Group on activities and opportunities in the emerging enterprise sector and coordinating with the FMG, as an autonomous operation, to ensure consistent policies in both of the main components of HDF.

6. Overseeing the start-up of the Provincial Private Enterprise Program (PPED), which is a component of the project and constitutes a new activity for HDF.

7. Monitoring the activities of the microenterprise lending to ensure that proper standards, procedures and accounting practices are being followed.

8. Continuing to reinforce the public image of HDF, including follow-up on the present public relations program and publicity resulting from the reorganization and expansion of HDF stemming from this project.

9. Defining and delivering staff training, in coordination with the Institutional Support Specialist of the FMG.

10. Continuing to market the services of HDF in offering and delivering loans and financial services to small, micro- and emerging enterprises, as well as enhancing HDF's institutional reputation with international donor organizations.

11. Performing other analytical and informational tasks, as requested by HDF and USAID/OPE.

2. Financial Policy Advisor

The Financial Policy Advisor will have the overall responsibility for providing technical assistance in the area of financial and banking policy to the Professional Bankers Association (APB) and to the private banking community in Haiti. This position continues assistance provided by USAID to the APB over the past year, in order to support and strengthen the association and to assist the banking community in playing a useful role in the formulating of public policies related to the macroeconomic environment in general and the financial sector in particular.

The Financial Policy Advisor will have a direct relationship to the Executive Director of APB and will work closely with the FMG Director and its Capital Fund Advisor, as well as leaders of the private banking community. Specific duties will include:

1. gathering information and performing all analyses required to assess and monitor the Haitian financial sector's progress.

2. Analyzing and reviewing credit or investment appraisal and supervision techniques and establishing common guidelines for those activities.

3. Developing a database of information related to the above as well as for training research and clearing house activities and disseminate this information within the banking community.

4. Assist to develop training programs for the banking sector, as part of the Institutional Support portion of the project, as well as participating in the design of short-term studies carried out by short-term TA consultants, as needed.

5. Other tasks related to financial policy and practices, as requested from APB, USAID/OPE, and HDF/FMG.

3. FMG Capital Fund Advisor

The FMG Capital Fund Advisor will be resident in the FMG and will report to the General Manager of the FMG and to its Advisory Committee, and ultimately to the President of the Board of HDF, with an indirect relationship with the Project Officer, USAID/OPE. The major responsibility will be to assist in the development of the Fund Management Group, with a second priority to coordinating the institutional support of the FMG, including:

1. Assisting in the redesign of the statutes of HDF, in particular in defining the role and operation of the FMG.

2. Assisting the Board of HDF in selecting a General Manager and an Advisory Committee for the operation of the FMG.

3. Developing in cooperation with the General Manager, a 5-

year strategic plan and the policies and procedures through which the FMG will operate, to realize the objectives set out in the plan.

4. Developing with the General Manager and a public relations firm, a promotional program to address the marketing needs of the FMG.

5. Assisting in the selection of the other members of the permanent staff of the FMG, as well as the selection of the office site and equipment required.

6. Developing various scenarios for the use of innovative risk-sharing mechanisms, as well as procedures for application for loans from the Fund and procedures for review of those applications.

7. Analyzing the solvency of the financial institutions that are prospective borrowers of the Fund.

8. Coordinating, with the assistance of the Institutional Support Specialist, training activities and studies to be undertaken for the benefit of the financial sector in general.

9. Training the permanent staff of the FMG in project appraisal and risk analysis.

10. Responding to other demands of the HDF Board as needed.

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STATUTORY CHECKLIST

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

1. The project will stimulate the growth of the private sector of the Haitian economy, especially in the provinces and improve the well-being of the population through employment and income generation. It aims at increasing capital availability to small business, encourage productive small enterprise activity and broaden and strengthen Haiti's financial markets. It will expand access to private credit, especially in provincial towns, and thereby stimulate private sector growth and employment generation. It will work through and strengthen local financial and credit institutions.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

2. The project will stimulate economic activity, production and incomes of the private sector, especially in the provinces, creating a more buoyant milieu for U.S. trade and investment leading potentially to increased demand for U.S. investment and products.

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3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)? — 3a. Yes

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures? — b. N/A

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic poolicy reforms to be promoted? — c. NA

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? — 4. Yes

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance? — 5. N/A

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6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)	6. N/A
7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?	7. N/A
8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	8. N/A
9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	9. The project should have an overall positive effect on the Haitian economy's private sector. It will stimulate growth, especially in the provinces through investments that will increase employment and income. It will expand access to private credit and encourage productive small enterprise activity. It will work through and strengthen local banks and credit institutions.
10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	10. The project will stimulate and improve the functioning of the private sector in Haiti, particularly in the provinces, and thereby make it more conducive and receptive to U.S. private trade and investment.

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11. Local Currencies

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

11a. Recipients of loans made available under the project will contribute their own financial resources as well as in-kind planning, management, marketing and supervisory skills.

b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

b. No

c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

c. N/A

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

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(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

12. Trade Restrictions

a. **Surplus Commodities** (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

12a. No. Exports resulting from the project will not be significant enough to cause injury to U.S. Producers nor are likely to be products made in the U.S.

b. **Textiles** (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

12b. No

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

13. No

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14. **Sahel Accounting** (FAA Sec. 121(d)): If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? 14. N/A

15. **PVO Assistance**

a. **Auditing and registration** (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? 15a. N/A

b. **Funding sources** (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? b. N/A

16. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). 16. Yes

17. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the 17. Yes

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extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

18. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased? — 18. Yes

19. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs. — 19. No

20. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525): — 20a. No

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

b. Will any funds be used to lobby for abortion? — b. No

21. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? — 21. N/A

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22. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

22a. No foreign currencies are owned by the U.S.

b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

b. N.A

23. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

23a. Procurement will be effected by AID/W's Office of Procurement or by USAID following AID procedures.

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

b. Yes

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

c. Yes

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

d. N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible

e. N/A

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under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

f. Not excluded

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

g. Yes

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

h. Yes

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

i. Yes

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j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? — j. Yes

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? — k. Yes

l. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — l. Yes

24. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? — 24a. N/A

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — b. N/A

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c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? — c. N/A

25. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — 25. N/A

26. Communist Assistance (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — 26. Yes

27. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — 27a. N/A

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? — b. Yes

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28. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?	28. Yes
29. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	29. Yes
30. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?	30. Yes
31. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	31. Yes
32. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?	32. Yes
33. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?	33. Yes
34. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?	34. Yes
35. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?	35. Yes

36. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	36. Yes
37. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?	37. No
38. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?	38. Yes
39. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?	39. No

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B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?	1. N/A
2. **Tied Aid Credits** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?	2. N/A
3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	3. N/A
4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	4. Project recognizes the mal-distribution of credit and investment services between the capitol and the provinces and the constraints that imposes on entrepreneurship, production, income generation and employment. The capital, technical assistance and training components of the project seek to ameliorate these constraints and thereby enable potential local entrepreneurs to utilize their capacities realize their potential.

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5. **Economic Development (FAA Sec. 101(a)):** Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

5. Yes, the project is aimed at contributing to the increase of income, employment and economic activity, particularly in the provinces, and to utilizing the resources and know how of local banks and credit institutions.

6. **Special Development Emphases (FAA Secs. 102(b), 113, 281(a)):** Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

6. For (b) and (c) there will be a positive indirect impact; for (a) and (d) the project is designed to provide employment opportunities for the poor, especially outside of the capital with the likelihood of labor intensive technologies. The project is also likely to be particularly beneficial for women, given their high rate of participation in the provincial work force and in entrepreneurship.

7. **Recipient Country Contribution (FAA Secs. 110, 124(d)):** Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

8. **Benefit to Poor Majority (FAA Sec. 128(b)):** If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

8. Yes

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9. Abortions (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535): 9.a. No

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? b. No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? c. No.

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? d. N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? e. N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? f. No

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? g. No

10. **Contract Awards (FAA Sec. 601(e)):** Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

10. Yes

11. **Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 567):** What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

11. Most of the project funding will be directed toward Haitian entities; AID procedures, including the utilization of disadvantage and Grey Amendment firms, will be used in contracting for U.S. technical assistance.

12. **Biological Diversity (FAA Sec. 119(g):** Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

12. N/A

13. **Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):**

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

13a. Yes, with a categorical exclusion

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent

b. N/A

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feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? c. N/A

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? d. N/A

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment? e. N/A

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14. Energy (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

14. N/A

15. **Sub-Saharan Africa Assistance** (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) being provided in accordance with the policies contained in FAA section 102; (d) being provided in close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (e) being used to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (f) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks,

15. N/A

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to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

16. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management. 16. N/A

17. Deobligation/Reobligation (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? 17. N/A

18. **Loans**

a. Repayment capacity (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. 18a. N/A

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

b. N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

c. N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

d. N/A

19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

19. For (2) there will be an indirect positive impact; for (1), (3) and (4), the project is aimed directly at stimulating local, labor intensive production the use of appropriate technology and the spreading of investment out of the cities and to small towns and rural areas, supporting the initiatives and self-help activities of local entrepreneurs and encouraging the participation of women who make up a significant proportion of the entrepreneurs and workers who will be reached by the project.

20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A): 20a. N/A

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people. b. N/A

c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution. c. N/A

21. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of 21. N/A

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mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

22. **Education and Human Resources Development (FAA Sec. 105):** If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

22. The project will finance technical assistance and training to assist small town and rural entrepreneurs to start productive business activities which will generate employment opportunities for local people. In regard to (b), the technical assistance and training provided by the project is specifically directed to training potential business people to implement private development activities.

23. **Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106):** If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

23a. N/A

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

b. N/A

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c. research into, and evaluation of, economic development processes and techniques; — c. N/A

d. reconstruction after natural or manmade disaster and programs of disaster preparedness; — d. N/A

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; — e. N/A

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. — f. N/A

24. Sahel Development (FAA Secs. 120-21). If assistance is being made available for the Sahelian region, describe: (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) whether a determination has been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom).

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