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

HAITI

PROJECT PAPER

ECONOMIC RECOVERY PROGRAM

AID/LAC/P-294

Project Number:521-0200

UNCLASSIFIED

CLASSIFICATION:

AID 1120-1		
PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 521-0200 521-K-601 2. COUNTRY HAITI 3. CATEGORY Cash Transfer 4. DATE 3/21/86

5. TO: Dwight Ink AA/LAC	6. OYB CHANGE NO. Not Applicable
7. FROM: Gerald Zarr Director, USAID/Haiti	8. OYB INCREASE TO BE TAKEN FROM: ESF
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 7,178,000	10. APPROPRIATION - ESF BUDGET PLAN CODE

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☐ FORMAL ☐ NONE	N/A	N/A

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: $ 7,178,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $7,178,000	Other:

18. SUMMARY DESCRIPTION

The Grant is part of a $20 million AID financed program to assist in bolstering the Government of Haiti's balance of payments position, financing vital development projects and in developing, undertaking and implementing basic fiscal and monetary policy reforms. Funding for the remaining$12.822 million is being sought from the FY86 OYB. The GOH will make available foreign exchange to the private sector to import raw materials, intermediate imports, spare parts, machinery and equipment from the United States and other A.I.D. Geographic Code 941 countries during the twelve month period after execution of the Agreement goods in an amount at least equal to the total U.S. Dollar disbursement. The Central Bank of Haiti will create a Special Account into which it will deposit, immediately upon each disbursement of the Grant, the Gourde equivalent of the Grant disbursement. The local currency counterpart funds in the Special Account will be used as the Government of Haiti and A.I.D. mutually agree.

(continued on next page)

19. CLEARANCES		DATE
LAC/DP, WWheeler	RSO	7/22/86
LAC/DR, TJBrown	TJB	7/24/86
LAC/CAR, RHechtman		7/23/86
GC/LAC, GDavidson		7/22/86
M/FM, CChristensen		7/25/86
ARA/ECP: RBeckham		

20. ACTION

☐ APPROVED ☐ DISAPPROVED

Dwight Ink July 25, 198
AUTHORIZED SIGNATURE DATE

TITLE

CLASSIFICATION:

For orig signature in files

Facesheet for Haiti Economic Recovery Program (521-0200)
(Continuation)

The first $6 million will be disbursed subject only to the GOH meeting the relevant legal CP's. The Conditions Precedent to disbursement of the second $4 million will be that the GOH agree to provide: a foreign exchange budget covering the next six months following the expected date of the second disbursement, and evidence that it has established the formulae and operating procedures regulating the import of petroleum products using least cost sources.

Prior to third disbursement of $10 million, the GOH will provide: evidence that it has established monetary and fiscal targets for FY 87 compatible with the country's economic recovery in consultation with the IMF, World Bank, and A.I.D. an updated foreign exchange budget for the next six months after the expected date of the third disbursement; evidence that it has established a petroleum import and price analysis unit under the Ministry of Commerce which implements the procedures for regulating imports of petroleum products; and, evidence that it is in compliance with the covenants contained in the agreement.

The GOH will covenant to: comply with the monetary and fiscal targets it has established and which are compatible with the country's economic recovery, and shall consult with the IMF, World Bank, and A.I.D. on its progress in meeting those targets; continue its program of liberalizing Haiti's trade regime; continue and expand upon its present efforts to carry out financial management and control reviews of Parastatal Organizations, and improve financial management and control of Ministries; continuously analyze spot market petroleum prices and, using least cost sources, minimize the use of foreign exchange for the purchase of petroleum products; complete the procedures required to transfer the two percent consular fee paid in dollars to overseas consulates on petroleum product imports to a fee payable in gourdes to the Public Treasury; and provide to A.I.D. on a monthly basis a report showing its foreign exchange receipts and foreign exchange disbursements for both private and public sector imports.

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Haiti: Economic Recovery Assistance
(521-0200)

I. Summary

On February 7, 1986, President for Life Jean Claude Duvalier fled Haiti, ending almost 30 years of autocratic government under the control of the Duvalier family. He left behind an impoverished people with the lowest per capita GDP in the Western Hemisphere, a bankrupt government, a faltering economy and a lack of political institutions capable of participating effectively in a democracy. The transitional government which replaced him has eliminated the most repressive symbols of the Duvalier regime, and has promised to lead the country to a restoration of democratic government over the next two years. It is expected to appoint a consultative body which will advise the GOH on all political matters and appoint a constituent assembly which will develop a new constitution and set the democratization process into motion.

The U.S. Government has a vital interest in ensuring that the democratization process proceeds in this strategically-located neighbor. There are strong socio-economic ties between the two countries, and the USG role in facilitating Mr. Duvalier's departure has strengthened the traditionally positive feelings of most Haitians for the United States.

Haiti has now had 5 consecutive years of declining per capita GDP, and is facing an $86 million balance of payments gap over the next year. Money supply is rising faster than price levels and rate of inflation could easily accelerate without GOH action to curb monetary growth. Continuation of fiscal and monetary imbalances is inconsistent with a resumption of economic growth. Haiti needs to take strenuous measures to correct these imbalances, but such measures are unlikely to lead to a turn-around in the near future without major external assistance. If economic stabilization is not achieved quickly, the prospects for sustained progress in the democratization process may be seriously threatened.

AID has a large ongoing development assistance program aimed at addressing basic development problems in agriculture, industry, and social services. The program is implemented largely through private voluntary agencies and non-governmental organizations. Progress in meeting planned objectives was evident in the recent review of USAID/Haiti's FY 87/88 Action Plan. At that review, it was concluded that the program should continue basically as planned, and that a major effort should be made to find additional program resources to help the transitional government address Haiti's serious short-term economic imbalances. Support from the IMF, IBRD, and other donors will be needed, but AID is the only donor that is capable of providing immediate assistance to provide the GOH some breathing space while it arranges for additional external assistance. The GOH is looking to AID for immediate help, and recently requested assistance totaling $50 million (Annex A).

Since the Action Plan review, the Mission has proposed that AID fill $40 of the estimated $86 million balance of payments (BOP) gap during FY 86. To date, $10.4 million more monetized Title II has been approved, and the first shipment has arrived. The Mission has requested an additional $10 million of Title III. This PAAD requests $20 million for balance of payments support. Financing of $10 million for the first tranche is expected to be available shortly. The Mission requests that AID/W continue to seek funding for a second $10 million tranche. Even with this assistance, Haiti's economy is expected to show little real growth during this critically important first year of the democratization process.

The GOH will agree to make available to the private sector an amount of foreign exchange equivalent to the balance of payments support provided by AID to finance the importation of raw materials, intermediate production inputs, spare parts, machinery and equipment from Code 941 countries over the next 12 months. The GOH will agree to develop monetary and fiscal targets compatible with the resolution of the country's balance of payments problem in consultation with the IMF, World Bank, and AID; and subsequently take the actions necessary to adhere to them. It will also agree to improve the process by which the country purchases petroleum products to take advantage of spot market prices in preference to its traditional purchasing arrangements. This will help to ensure an adequate long run supply of petroleum products and should result in a significant annual balance of payments saving. AID will provide technical assistance to the GOH (financed under another project) to help in developing the analytical capability and procedures necessary to implement this key policy adjustment in the petroleum sector.

The GOH will deposit local currency equivalent to the balance of payments support provided into a Special Account and will use these funds for a Mission OE Trust Fund and for development purposes as the GOH and USAID/Haiti jointly agree.

II. Background

A. Development Overview

With a per capita income of only $320 a year, Haiti remains one of the world's relatively least developed countries and is the poorest country of the Western Hemisphere. Some 80% of Haitians live below an absolute poverty level of $150 per year. Comparative indicators of health, nutrition, and education status dramatically show the effects of low incomes, inadequate diets, and poor social services. Haiti's infant mortality rate of 125/1000 children up to 1 year of age is one of the highest in the world. Over 25% of pre-school children suffer from severe malnutrition (Gomez levels 2 and 3). The literacy rate is only 22%. Population growth is estimated at 1.7% per year, and the ratio of people to arable land is one of the highest in the world.

The country's development has been held back by years of autocratic rule, low private investment levels, minimal public investment in infrastructure and social services, and high outmigration of many of Haiti's best trained and educated people. AID's ongoing development assistance program is focused on curbing soil erosion and increasing agricultural productivity, increasing employment, and upgrading Haiti's human resources, especially in rural areas. The program is fully described in the Mission's CDSS and Action Plans.

B. Recent Events

On February 7, 1986, President for Life Jean Claude Duvalier fled Haiti, ending almost 30 years of autocratic government under control of the Duvalier family. He turned over the government to a National Governing Council (Conseil National Du Gouvernement - CNG). Since assuming power, the CNG has taken several progressive measures to reestablish order and protect civil liberties. In the CNG's first proclamation, President Namphy pledged his transitional government to unwavering commitment to the highest human rights standards. The CNG publicized plans to bring human rights offenders to justice within a legal framework, confiscated Duvalier's assets and announced its intent to recover misappropriated funds from other former officials. All former political prisoners have been released. Outbreaks of looting and violence have generally been checked with curfews and other appropriate but restrained police and military actions.

The President has promised that the CNG will move to draft a liberal constitution and law on political parties and to organize legislative and presidential elections. Press censorship has been ended, and the Government has publicly announced its commitment to the development of free trade unionism.

The CNG has made some impressive appointments to the new GOH cabinet. The new Minister of Education is committed to educational reform, primary education, and literacy. Prior to becoming Minister, he had been one of Haiti's leading experts in education reform, and had participated in the design of a major AID private sector education project supportive of the reform. The new Minister of Health has indicated his commitment to the principal disease control programs financed by AID and UNICEF, and has declared that fiscal management will be completely open to scrutiny by donor agencies -- which has been a problem with this Ministry in the past.

A new Minister of Agriculture recently took office. He just completed two years as an employee of the AID Mission, has a good grasp of our agriculture and soil conservation objectives, and will cooperate in their achievement. He is also expected to cooperate with the private sector in advancing agricultural development in Haiti. The Minister of Finance is a career banker. He worked in the United States until the early seventies when he became General Director of the newly created Banque de l'Union Haitienne. He served briefly as Governor General of the Central Bank under Marc Bazin, a progressive Minister of Finance in 1982, thereafter returning to his position at the Banque de l'Union Haitienne. He is reported to be honest and competent.

C. Expected CNG Actions

Haiti has a long history of strong dictatorships followed by unstable period resulting in the emergence of a new dictator. Breaking this cycle will be a formidable challenge for the CNG. The CNG seems determined to initiate the democratization process. In its proclamation the day Duvalier left, the CNG affirmed its provisional character and its ambition to transfer power to an elected president. The CNG has since outlined a multi-step approach to building democratic institutions. It is canvassing the country to appoint a consultative body which will advise it on all political issues and, in particular, will appoint a constituent assembly to draft a new constitution. The CNG is also preparing for elections for rural section committees under the existing "Code Rural". As described by the CNG, there will then be successive elections of communal officials, a legislative assembly and a President within electoral and political party laws decreed once the new constitution is in force. Already, political activity aimed at the elections has begun among Haitian political activists.

The CNG has not established a calendar for this process. We have credible assurances that it will unfold as rapidly as the civic education of Haiti's politically-illiterate people will permit. The CNG wants Haitians to learn their civic duties and responsibilities so they can break the historic cycle of repeated political exploitation. We expect the CNG to commit itself to a timetable for carrying out the deomocratization process prior to provision of assistance under this program.

D. Country Team Assessment

The recent change in government offers new opportunities as well as challenges for Haiti's development. The Country Team believes that the prospects for addressing Haiti's long-term socio-economic problems are considerably improved as a result of the recent political developments. However, the democratization process could be considerably delayed if the CNG's attention is increasingly focused on the day to day problems of coping with a languishing economy and the political unrest that often results from poor and deteriorating economic conditions. As a case in point, the disruptions in the supply of gasoline and diesel in November, 1985, was one of the factors contributing to Duvalier's downfall. With the lowest per capita income in the Western Hemisphere, and the high expectations for short term improvement in living conditions engendered by the recent change in government, it is not clear how much patience can be expected from the Haitian people.

It is crucial that the CNG obtain significant immediate economic assistance from friendly governments and international assistance agencies. AID is the only donor capable of providing major assistance in the critical next few months. It is vitally needed to both help the CNG solve short-term economic problems (and thereby maintain the present tenuous domestic stability), and to bridge the gap until additional assistance from AID and the other donors can be negotiated and brought on stream.

III. Economic Situation

A. Economic Performance Background

Haiti's real GDP growth during the 1970's averaged almost 4% per year and per capita income grew 2% annually. The economic expansion was interrupted by the world recession of the early 1980's. Haiti's real GDP fell almost 7% during the 1981-1982 period. Recovery has been slow, with real GDP growing on average less than 2% per year up through 1985. As a result, per capita real income fell over 11% during the 1981-1985 period.

Haiti seldom experienced balance of payments problems in the past, principally because the GOH had a long tradition of conservative fiscal and monetary management (i.e., limited deficit financing through monetary expansion). Because of this, the official exchange rate of 5 gourdes to the U.S. dollar has been maintained since 1919. However, beginning in 1980 and 1981, Haiti experienced a major deterioration in its balance of payments, with the balance of payments deficit

Table 1 Haiti: Summary Balance of Payments

(In millions of U.S. dollars)

	Fiscal Year Ended September 30				
	1981	1982	1983	1984	Prel. 1985
Current account	-108.7	-50.0	-82.4	-60.8	-56.4
Trade balance	-215.1	-123.6	-139.6	-122.5	-105.9
Exports, f.o.b.	(158.2)	(195.3)	(195.0)	(229.5)	(228.0)
Coffee	/33.1/	/35.9/	/52.5/	/54.0/	/48.0/
Light assembly industry	/79.6/	/98.9/	/100.4/	/124.6/	/132.9/
Other	/45.5/	/60.5/	/42.1/	/50.9/	/47.1/
Imports, c.i.f.	(373.3)	(318.9)	(334.6)	(352.0)	(333.9)
Services, net	-24.4	-44.3	-54.6	-61.5	-66.5
Of which: travel	(43.8)	(39.5)	(33.3)	(28.0)	(25.1)
interest	(-9.4)	(-13.4)	(-16.4)	(-18.3)	(-14.8)
Transfers	130.9	118.9	111.8	123.2	116.1
Private	(64.8)	(49.7)	(42.5)	(45.0)	(48.1)
Official	(66.1)	(69.2)	(69.3)	(78.2)	(68.0)
To private sector	/18.8/	/12.2/	/13.2/	/16.2/	/15.4/
To public sector	/47.3/	/57.0/	/56.1/	/62.0/	/52.6/
Capital account	53.5	35.4	70.3	48.5	31.2
Official capital, net	103.7	30.3	75.9	55.3	37.3
Multilateral and bilateral	(43.4)	(39.1)	(65.7)	(62.0)	(53.0)
Commercial	(50.4)	(-7.9)	(11.3)	(-1.7)	(-13.0)
Publicly guaranteed debt and other official	(9.9)	(0.9)	(-1.1)	(-5.0)	(-2.7)
Private capital, and errors and omissions	-50.2	5.1	-5.6	-6.8	-6.1
Overall balance	-55.2	-13.6	-12.1	-12.3	-25.2
Financing:					
Monetary capital (increase -)	-1.3	-8.1	-5.6	-8.1	5.0
Arrears (decrease -)	20.5	0.4	-12.2	-6.3	9.6
Change in net international reserves (increase -)	36.0	21.3	29.8	26.7	10.6
Net use of Fund resources (decrease -)	(13.8)	(28.9)	(25.8)	(21.8)	(-9.4)
Other, net (increase -)	(22.2)	(-7.6)	(4.1)	(4.9)	(20.0)

Sources: Bank of the Republic of Haiti; and IMF estimates, November 1985.

reaching over $55 million in 1981 (see Table 1). Increased reliance on Central Bank credit to finance excessive government deficits, together with a recession-induced weakening of export earnings in 1981, were the basic causes of the crisis.

In 1982, the GOH adopted a stabilization program which was supported by a SDR 34.5 million IMF Stand-by Arrangement extending through September 1983. The austerity program successfully increased public sector revenues, controlled expenditures, and reduced the deficit and the need for Central Bank financing (see Tables 2 and 3). The overall balance of payments deficit was reduced to $13.6 million in 1982 and $12.1 million in 1983, and the external payment arrears and the 10% to 15% discount on the value of the gourde that had emerged in 1981 virtually disappeared by the end of 1983.

Despite the progress achieved, however, Haiti's balance of payments and external debt position remained weak and needed to be strengthened through a continuation of tight fiscal and credit policies for several years. To this end, the GOH and IMF negotiated a new SDR 60 million Stand-by Arrangement for 1984 and 1985. However, because of excessive expenditures, the GOH has not been able to make drawings under the Stand-by since April 1984. This resulted in a deterioration of the balance of payments in 1985, with an estimated $25.2 million deficit and a parallel market discount on the gourde of 15 to 20 percent.

B. Current Macroeconomic Situation

Shortly after the fall of the Duvalier government, AID staff economists carried out an analysis of the country's economic situation. That analysis was presented to AID/W in the Action Plan Supplement reviewed in late February. The following is an update.

1. Balance of Payments

The outbreak of civil disorders beginning in November 1985, the fall of the Duvalier government February 7, 1986, and subsequent events, including growing labor disputes both in the public and private sectors, airport closures, and intermittent looting of residences and businesses have created a balance of payments crisis. As a result, the balance of payments gap requiring financing over the next 12 months is currently projected to be closer to the worst case estimate of $86 million than the best case estimate of $40 million set forth in the Mission's Action Plan Supplement of February, 1986.

The balance of payments analysis estimated the foreign exchange resource gap in FY 1986 (October 1, 1985 - September 30, 1986)

Table 2. Haiti: Public Sector Operations

	Fiscal Year Ended September 30					
	1981	1982	1983	1984	Est. 1985	Budget 1986
	(In millions of gourdes)					
Total receipts	756.8	895.5	1,035.6	1,171.2	1,397.9	1,508.9
Treasury revenue	659.6	749.3	846.5	914.1	1,120.0	1,200.0
Current surplus of public enterprises before transfers to the Treasury	97.2	146.1	189.1	257.1	277.9	308.9
Total expenditure	1,708.5	1,577.3	1,798.5	2,099.7	2,030.3	2,000.9
Current expenditure	825.6	829.3	950.0	1,122.8	1,259.2	1,151.4
Capital expenditure	882.9	747.9	848.5	976.9	771.1	849.5
Of which: financed with foreign aid	(453.5)	(480.5)	(609.3)	(620.0)	(528.1)	(532.9)
Grants-in-aid	236.5	285.0	280.5	310.0	263.1	307.9 1/
Overall deficit	-715.2	-396.8	-482.4	-618.5	-369.3	-184.1
Financing						
Foreign concessional financing (net)	217.0	195.5	328.8	310.0	265.0	225.0 2/
Nonconcessional financing (net) 3/	498.2	201.4	153.6	308.5	104.3	-40.9
Foreign commercial loans	(252.0)	(-39.5)	(56.8)	(-8.6)	(-65.0)	(-85.9)
Domestic bank credit	(246.2)	(240.9)	(96.8)	(317.1)	(169.3)	(45.0)
Memorandum item						
Public sector savings	-68.8	66.0	85.6	48.4	138.7	357.5
	(In percent of GDP)					
Total receipts	10.4	12.1	12.6	12.9	13.9	14.0
Total expenditure	23.4	21.4	22.0	23.0	20.2	18.5
Current expenditure	11.3	11.2	11.6	12.3	12.5	10.5
Capital expenditure	12.1	10.2	10.4	10.7	7.7	7.9
Of which: financed with foreign aid	(6.2)	(6.5)	(7.5)	(6.8)	(5.2)	(4.9)
Grants-in-aid	3.2	3.9	3.4	3.4	2.6	2.8 1/
Overall deficit	-9.8	-5.4	-6.0	-6.7	-3.7	-1.7
Financing						
Foreign concessional financing (net)	3.0	2.6	4.1	3.4	2.6	2.1 2/
Nonconcessional financing (net) 3/	6.8	2.8	1.9	3.3	1.1	-0.4
Foreign commercial loans	(3.4)	(-0.5)	(0.7)	(-0.2)	(-0.6)	(-0.8)
Domestic bank credit	(3.4)	(3.3)	(1.2)	(3.5)	(1.7)	(0.4)
Memorandum item						
Public sector savings	-0.9	0.9	1.0	0.6	1.5	3.4

Sources: Ministry of Finance, Economy and Industry; Bank of the Republic of Haiti; and IMF estimates November 1985.

1/ Includes G 85 million in U.S. assistance under PL-480 Title III.
2/ Projection based on information provided by bilateral and multilateral lenders.
3/ Definition used in financial programs.

Table 3. Haiti: Treasury Operations

	Fiscal Year Ended September 30					
	1981	1982	1983	1984	Est. 1985	Budget 1986
	(In millions of gourdes)					
easury receipts	659.8	824.5	920.9	1,005.0	1,193.2	1,285.0
mestic tax revenue	611.5	666.0	773.2	857.2	1,055.9	1,140.0
port taxes	48.3	83.3	73.4	56.9	64.1	60.0
ansfers from public enterprises	—	75.2	74.4	90.9	73.2	85.0
tal expenditure	1,190.4	1,002.7	1,065.2	1,305.7	1,399.2	1,287.4
rrent expenditure	825.6	829.4	950.0	1,122.8	1,259.2	1,151.4
Wages and salaries	(351.7)	(400.0)	(407.1)	(491.5)	(529.1)	(530.4)
Interest payments	(38.6)	(51.5)	(72.0)	(122.6)	(121.7)	(114.3)
Other current outlays	(435.3)	(377.9)	(470.9)	(508.7)	(608.4)	(506.8) 1/
pital expenditure	364.8	173.3	115.2	182.9	140.0	136.0
erall surplus or deficit (-) of the Treasury	-530.8	-178.2	-144.3	-300.7	-206.0	-2.4
nancing						
reign concessional financing (net)	27.5	3.4	-12.6	-23.1	-24.5	-20.2
nconcessional financing (net) 2/	503.3	174.8	156.9	323.8	230.5	22.6
Foreign commercial loans	(221.0)	(-7.5)	(-3.2)	(18.4)	(-5.5)	(-22.4)
Domestic bank credit	(282.3)	(182.3)	(160.1)	(305.4)	(236.0)	(45.0)
morandum items						
penditure authorized by the Treasury	876.9	961.4	902.0	1,004.7	1,160.0	1,330.0 3/
rrent account surplus	-166.0	-4.9	-29.1	-117.8	-66.0	133.6
	(In percent of GDP)					
easury receipt	9.0	11.2	11.2	11.0	11.9	11.9
Of which: domestic tax revenue 4/	(8.3)	(9.0)	(9.5)	(9.4)	(10.5)	(10.6)
tal expenditure	16.2	13.6	13.0	14.3	13.9	11.9
erall surplus or deficit (-) of the Treasury	-7.2	-2.4	-1.8	-3.3	-2.0	—

Sources: Ministry of Finance, Economy and Industry; Bank of the Republic of Haiti; IMF estimates, November 1985.

1/ Includes payment of outstanding obligations to domestic suppliers amounting to 8.6 million.
2/ Definition used in financial programs.
3/ Includes amortization payments.
[illegible]

on the assumption that sufficient resources will be available to maintain a constant real per capita Gross Domestic Product (GDP). This would require an increase in the real aggregate GDP of 1.5 to 2.0 percent. The provision of the needed foreign exchange will not automatically ensure that the GDP target will be met, as the level of economic activity will depend, to a large extent, on the ability of the government to maintain order and inspire confidence in the business community, attract foreign investment and pursue economic policies consistent with stabilization and growth objectives. The provision of the foreign exchange needed to close the estimated gap will provide the GOH with the opportunity and the means to prevent another decline in the living standard. It is essential - not a sufficient - condition for the revival of investment and economic activity.

a. Scenarios and Basic Assumptions

The latest IMF projection (contained in the 1985 Article IV Consultation Staff Report of November 4, 1985) was used as the starting point of the analysis. This program was modified to take account of the impact of political developments over the period October 1985 to mid-March, 1986 on exports, imports, and capital flows. In effecting these adjustments, AID Mission staff consulted with Central Bank staff and the IMF Representative.

The considerable uncertainty that currently exists in Haiti with regard to the political situation and the ability of the GOH to maintain order suggested the desirability of projecting the balance of payments gap on the basis of two alternative scenarios - a favorable scenario based on relatively optimistic assumptions, and a pessimistic or "worst case" scenario based on less favorable assumptions.

A number of positive and negative factors presently at work will affect the outcome. The positive factors include, first and foremost, the departure of Duvalier and the improved business and investment climate that this change in government is expected to engender. It has also paved the way for substantial expansion of support from bilateral donors and multilateral agencies. It is hoped that corruption will be curbed and that, once the regime has stabilized, some of the professionals and entrepreneurs the country has lost will return. The outflow of capital may be stopped or even reversed. A second positive development is the sharp rise in coffee prices that took place since November, 1985, which will substantially increase the value of one fourth to one fifth of the country's total export earnings.

The negative factors inherent in the current situation include the following: (a) damage to the public infrastructure, particularly in the countryside; (b) damage to commercial establishments and theft of inventories; (c) production losses of factories and businesses as a result of forced closures due to demonstrations, threats of destruction and labor disputes, along with the losses resulting from cancellation of contracts with overseas buyers; (d) considerable uncertainty over the stability of the government, its intentions and the policies it is planning to institute (with demonstrations against the government continuing); (e) strong and growing pressure on the government to decree increases in the minimum wage which has remained unchanged since October 1, 1984; and, (f) a popular refusal to pay taxes, particularly in the provinces, as many interpret the revolution as freeing them from this obligation.

The optimistic or "best case" scenario assumes the following:

- Emergence of a stable government; end to bloodshed and massive demonstrations.

- Negotiations of a new IMF Stand-by and observance of the agreed targets, especially those related to government expenditures, the budget deficit and credit creation. Even if agreement with the IMF cannot be reached this fiscal year, the IMF proposed budget targets will be observed.

- The ground lost as a result of business closures and unrest can be at least partially made up during the remainder of the current fiscal year. Business confidence revives, capital outflow ceases and may even begin to flow back.

- The government is able to resist pressures for significant increases in the minimum wage.

The pessimistic or "worst case" scenario assumes that at least assumptions 1 and 2 are not met.

b. Conclusions

The balance of payments projections for 1986 on the basis of the two scenarios appear in Table 4. The assumptions underlying the projections of the major items, where these differ from those made by the IMF in its November 1985 Article IV Consultation Staff Report, are provided in the footnotes to the table.

The main conclusions of the analysis done in February was that the financing gap (last line of Table 4) would be in the range of $40 to $86 million. This represents the additional net

TABLE 4

Haiti: Summary Balance of Payments
(Fiscal years Oct 1 - Sept 30)
(in millions of U.S. dollars)

	Actual 1984	Prelim 1985	IMF proj 1986	Mission 1986 Worst Case	Mission 1986 Best
I. CURRENT ACCOUNT	-60.8	-56	11	-73	-4
Exports, f.o.b.	229.5	228	248	225	24
Coffee	54.0	48	54	60[1]	6
Light assembly industry	124.6	133	144	120[2]	13
Other	50.9	47	50	45	4
Imports, c.i.f.	352.0	334	322	-354[3]	-347
Services, net	-61.5	-67	-68	-75	-7
Travel	28.0	25	26	20[4]	23
Interest	-18.3	-15	-14	-14*	-14
Other	-71.2	-77	-81	-81*	-81
Transfers	123.2	116	131	131	131
Private	45.0	48	50	50*	50
Official	78.2	68	81	81*	81
II. CAPITAL ACCOUNT	38.5	46	20	5	22
Official capital, net	55.3	37	24	24	24
Multilateral and bilateral	62.0	53	45	45*	45
Commercial	-1.7	-13	-17	-17*	-17
Trust Fund	-5.0	-3	-4	-4*	-4
Private capital and errors and omissions[5]	-10.5	-1	5	-10[7]	0
Required Reduction of Arrears (-)[6]	-6.3	10	-9	-9*	-2
II. OVERALL BALANCE OF PAYMENTS DEFICIT (I+II)	-22.3	-10	-9	-68	-22
IV. TRANSFERS WITH FUND AND CHANGE IN NET INTERNATIONAL RESERVES					
Fund purchases (+) and repurchases (-)	21.8	-9	-18	-18*	-18
Other, net (increase -)	0.5	20[9]	0	0	0
V. FINANCING GAP (III + IV)	0.0	0	9	86	40

Sources: First 3 columns from Bank of the Republic of Haiti and IMF estimates;
Last 2 columns from USAID Mission projections.

* As projected by the IMF in their November 4 Article IV Consultation Report.

Footnotes to Table 4

1/ Coffee exports are estimated as follows:

1984-85	Crop	294,010	60 kg bags
1985-86	Crop	300,725	60 kg bags

1st trimester sales	: 131,225 bags x 60 kg x $171.95 (i.e. $1.30 per pound) =	$22,564.000
Balance of Year	: 169,500 bags x 60 kg x $256.29 (i.e. $1.94 per pound) =	$43,313.000
Total for Crop Year ("best case" scenario)		$65,877.000

For "worst case" scenario, a price of $1.70 per pound is assumed for the balance of the year. This would result in a total crop value of $60,050,000 for 1985-1986.

2/ Light assembly industry exports are projected to decline somewhat owing to interference with production, cancellation of contracts and reduction in new orders as a result of disturbances, including labor disputes, and uncertainty regarding future developments. The impact on assembly industry exports transported by air freight is typical. December 1985 and January 1986 shipments declined by 34% compared to the same period a year earlier. Likewise, commercial banking sources report an appropriate 40% drop of industrial export earnings deposit. However, some of this may be the result of under-invoicing made possible by the chaotic situation.

3/ Imports were projected in line with the objectives of a constant real GDP in FY 1986. Under the "worst case" scenario, imports were projected to increase by 6% above the 1985 level. This makes allowance for a 2% increase in real terms plus a 4% allowance for the increase in world prices. The "best case" scenario projects imports to increase by only 4% in FY 1986 on the assumption of reduced public consumption expenditure and a more efficient allocation of resources.

4/ The travel projection reflects the decline in foreign tourism as a dual result of fear of disturbances and irrational fears of AIDS. The total collapse of tourism during February and March has forced the temporary closure of a number of hotels, including Haiti's largest resort (Club Med).

5/ "Private capital" was combined with "Monetary Capital" in this presentation. The IMF lists the latter under its "financing" account (i.e. "below the line").

6/ The IMF also shows "arrears" below the line, under "financing". The logic for this is not clear. We shifted it into the capital account because the requirement to reduce arrears is a commitment that should be reflected in the overall deficit listed on line III.

7/ $10 million is an informal estimate of capital outflow during disturbances over November 1985 - February 1986. Under the "best case" scenario, this capital is projected to return during the balance of the fiscal year.

8/ $9.0 million reduction is arrears under the "worst case", as projected by the IMF. The favorable scenario assumes that debt service to Argentina can be scaled down to $200,000 a month, as hoped for by the President of the Central Bank following his visit to that country in February 1986.

9/ Refers to decline in net international reserves.

amount of resources the country is expected to require to meet the constant per capita GDP target. While the projection is nominally for FY 1986, the gap should be interpreted as the net requirement over the next twelve months. It makes allowance for the $18 million repayment ("repurchase") requirement to the IMF that appears "below the line", i.e. it is in addition to the overall balance of payments deficit on line III which falls within the range of $22 million and $68 million.

There is a growing consensus that the "best case" scenario will not occur and that the "worst case" is highly probable. The most probable outcome is for the total net additional resource requirement to be closer to $86 million over the next twelve months.

Aside from the size of the balance of payments gap, there is the problem of the immediacy of the need. Major concerns include payments arrearages of $36 million (including $2.6 million to the IMF), a $3.3 to $4.1 million monthly oil bill, and $2.5 million required for monthly wheat imports. There are insufficient funds to pay for oil and food imports. The Central Bank had less than $900,000 in net sight deposits in foreign banks on March 21, 1986. The Central Bank's projected inflow of $28 million in foreign exchange over the next three months will not cover projected foreign exchange needs of $44 million. Oil at present can be purchased only on a cash basis; and a new IMF Stand-by is out of the question while arrears remain unsettled. Without an IMF stand-by, loans from the World Bank and from foreign commercial banks will be all but impossible to obtain.

Table 5 presents the central bank's projection of its monthly foreign exchange cash flow for FY 1986. Note that the available "foreign exchange reserve" disappeared completely after January 31, 1986. For the balance of the fiscal year, there is a monthly cash deficit in the range of $4 million to $9 million. During the eight month period, February through September of 1986, the cash deficit is projected to total $51 million, while the deficit for all of FY 1986 is estimated at $77 million (Table 5). However, the recent fall in the price of petroleum and improved petroleum supply arrangements (discussed below) should reduce this foreign exchange deficit significantly.

2. International Reserves

The recent trends in the level of gross and net foreign assets (combined) of the Bank of the Republic of Haiti (BRH) and the National Credit Bank (NCB) is presented in Table 6. Note that total net foreign assets are sharply negative -- minus $67.3

Table 5

FOREIGN EXCHANGE RESOURCES OF BRH
OCTOBER 85 - SEPTEMBER 86
IN THOUSANDS OF US DOLLARS

	Oct. 85	Nov. 85	Dec. 85	Jan. 86	Feb. 86	Mar. 86	April 86	May 86	June 86	July 86	Aug. 86	Sept. 86
AVAILABLE RESOURCES	-	-	1.800.0	1.200.0	-	-	-	-	-	-	-	-
IBRD	338.0	2.163.0	408.0	1.219.0	137.9	1.246.7	1.054.2	845.7	2.499.1	931.2	825.4	1.712.0
IDB	83.0	-	715.0	435.0	757.0	2.453.0	257.8	-	2.201.0	120.0	890.0	2.600.0
IMF	-	-	-	-	-	-	4.000.0	-	-	4.000.0	-	-
COMMERCIAL BANKS	1.500.0	-	800.0	2.200.0	1.800.0	2.000.0	2.500.0	1.500.0	1.000.0	2.500.0	700.0	1.200.0
US DOLLAR DEPOSITS	(1.500.0)	(-)	(800.0)	(2.200.0)	(1.800.0)	(2.000.0)	(2.500.0)	(1.500.0)	(1.000.0)	(2.500.0)	(700.0)	(1.200.0)
EXPORT REVENUE	4.798.0	5.472.0	6.677.0	8.440.0	7.600.0	6.500.0	4.100.0	5.000.0	4.800.0	4.600.0	4.100.0	3.500.0
OTHER RESOURCES	3.500.0	3.000.0	4.500.0	3.200.0	2.600.0	1.500.0	2.000.0	1.800.0	1.500.0	1.700.0	1.500.0	2.200.0
TOTAL OF RESOURCES	10.219.0	10.641.0	14.900.0	16.694.0	12.894.8	13.699.7	13.912.0	9.145.7	12.000.1	13.851.0	8.015.4	11.212.0

FOREIGN EXCHANGE LIABILITIES OF BRH
OCTOBER 85 - SEPTEMBER 86
IN THOUSANDS OF DOLLARS

	Oct. 85	Nov. 85	Dec. 85	Jan. 86	Feb. 86	Mar. 86	April 86	May 86	June 86	July 86	Aug. 86	Sept. 86
LIABILITIES TO												
COMMERCIAL BANKS	2.750.0	2.300.0	2.700.0	4.600.0	4.100.0	4.500.0	4.700.0	2.900.0	2.800.0	5.500.0	2.900.0	3.100.0
LETTERS OF CREDIT	850.0	900.0	1.200.0	1.800.0	1.700.0	1.900.0	2.000.0	1.200.0	1.000.0	2.200.0	1.400.0	1.300.0
SWAP OPERATIONS	400.0	400.0	500.0	600.0	600.0	600.0	200.0	200.0	800.0	800.0	800.0	600.0
TRANSFER/DEPOSITS	1.500.0	1.000.0	2.000.0	2.200.0	1.800.0	2.000.0	2.300.0	1.500.0	1.000.0	2.500.0	700.0	1.200.0
OIL COMPANIES	4.900.0	3.380.0	5.500.0	6.000.0	5.500.0	5.000.0	6.800.0	6.000.0	4.500.0	7.800.0	6.200.0	5.900.0
GOVERNMENT	2.700.0	500.0	1.800.0	2.800.0	3.200.0	2.700.0	2.400.0	2.000.0	2.600.0	900.0	1.500.0	800.0
FOREIGN DEBTS	1.163.4	4.999.0	5.505.0	4.871.0	4.043.7	4.465.0	3.044.0	3.872.8	4.702.0	3.921.0	4.547.5	3.958.0
PUBLIC SECTOR DEBT	613.2	1.925.0	800.0	795.0	845.0	1.600.0	100.0	1.360.0	321.0	290.0	1.485.0	288.0
IMF	-	2.462.9	4.135.5	2.126.4	2.648.7	2.315.5	398.0	1.955.3	3.781.0	3.081.0	2.511.5	3.120.0
ISRAEL & OTHERS	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0	350.0
EXIMBANK	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
MINOTERIE D'HAITI (Flour)	2.500.0	1.200.0	1.032.0	1.500.0	1.200.0	500.0	1.700.0	1.600.0	1.400.0	1.800.0	1.900.0	1.880.0
DARBONNE/SODITIC (Sugar)	-	-	-	1.988.0	-	-	-	-	-	1.988.0	-	-
TELECO	330.6	550.0	700.0	800.0	1.700.0	1.000.0	900.0	340.0	330.0	620.0	350.0	500.0
ENAOL (Edible Oil)	170.0	170.0	5.300.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0
TOTAL OF LIABILITIES	14.754.0	15.485.0	23.537.0	24.397.0	19.781.7	18.403.0	17.782.0	16.948.9	16.770.0	22.767.0	17.635.5	15.676.0
NET FOREIGN EXCHANGE REQUEST (Shortfall)	4.535.0	4.844.0	8.437.0	7.703.0	6.857.0	4.703.3	3.870.0	7.803.1	4.769.9	8.916.0	9.620.1	4.464.0

million as of February 17, 1986. There has been a steady deterioration between September 1983 and March, 1986, according to official statistics.

It is also to be noted that about 40% of the gross foreign assets of $23.1 million belong to the National Credit Bank, a state-owned commercial bank, and are not at the disposal of the Central Bank. Moreover, a substantial proportion of the combined BRH-NCB deposits are either in the form of gold or time deposits, in some cases earmarked for swap arrangements. As noted, the claims against their combined foreign exchange assets exceed their total amount by some $67 million.

The combined BRH-NCB gross international assets as of March 19 are equal to only 3.5 weeks of imports. To raise these gross reserves to two months of imports (the usually recommended target), they would have to be increased to $56.3 million, or 2.4 times the present level.

Table 6
International Reserves of the Central Bank and Banque Nationale de Credit
(In millions of US Dollars)

	Sept. 83	Sept. 84	Sept. 85	19 Mar. 86
1. Net foreign Assets (lines 2-3)	- 49.3	- 57.2	- 63.5	- 64.8
2. Gross Foreign Assets	27.9	31.5	20.1	23.1
3. Foreign Liabilities	- 77.2	- 88.7	- 83.5	- 90.4

Note: Gross foreign assets on March 19, 1986 amounted to 3.5 weeks of imports. Two months of imports = $ 56.3 million.

3. Debt Service Ratio

Fortunately, Haiti's debt ratio is not high by international standards. According to the most recent IMF estimate, the ratio of total interest and amortization payments to exports of goods and services for FY 1986 is 19.6%. That ratio has increased since 1981, when it stood at 9%. The ratio of total external public debt to GDP is 30.9%, up from 29.1% in 1981.

4. Public Finances

The deterioration in the balance of payments is in part a result of the deteriorating GOH fiscal situation induced by the ongoing civil and political crisis. The following fiscal analysis uses the GOH's budget as the starting point for developing two scenarios, a best case and a worst case, for FY 1986. In the best case, the need for financing to cover the deficit is expected to rise from 45 million gourdes to 50 million gourdes in FY 1986.[1] In the worst case, financing needs are projected to be 318 million gourdes.

The original FY 1986 (October 1, 1985 - September 30, 1986) Treasury budget was built on the assumption that Treasury revenues would rise by nearly 8 percent, or at about the same rate as the projected growth in nominal income (see Table 7). New revenue measures were introduced in October 1985 to ensure attainment of the revenue forecast, including increased taxes on airline tickets and petroleum products. To balance the Treasury accounts, the budget called for a reduction of 2 percentage points of GDP (Gdes. 112 million) in Treasury expenditures. This reduction reflected in part an expected easing of political tensions that had previously led to heavy spending.

GOH fiscal performance during the first four months of the fiscal year was generally consistent with budget projections and the informal IMF program. Total Treasury receipts for the period (October 1985 - January 1986) were 476 million gourdes, or 22 million gourdes over the program's revenue target of 454 million gourdes. However, Treasury expenses for the four month period were 453 million gourdes, or slightly over the 451 million gourdes expense target. The cumulative Treasury surplus of 23 million gourdes is well over the targeted surplus of 3 million gourdes.

Recent fiscal data indicate that the civil and political crisis has led to a dramatic loss of revenue. Total revenues for February were only 69% of average monthly revenues for the previous four months. Revenue losses have resulted from the port and airport closures, destruction of twelve Internal Revenue offices in the provinces, uncertainty associated with the rapidly changing political and civil crisis, widespread taxpayer revolt, and tax rate and price reductions for a number of commodities. However, through tight fiscal control and the elimination of illegitimate expenses associated with the previous regime, expenditures were reduced to only 81% of average monthly expenditures for the previous four months. The resulting fiscal deficit for February is 10 million gourdes.

1/ 5 Haitian Gourdes = 1 U.S. Dollar

Table 7 Haiti Treasury Operations

(in millions of Gourdes)

	Actual 1984	Estim. 1985	Budget 1986	Best Case 1986	Worst Case 1986
TREASURY RECEIPTS	1005.0	1193.2	1285.0	1168.0	1062.1
Domestic tax revenue	857.2	1055.9	1140.0	1067.6	967.6
Export taxes	56.9	64.1	60.0	68.4	62.5
Transfers from public enterprises	90.9	73.2	85.0	32.0	32.0
TOTAL EXPENDITURE	1305.7	1399.2	1287.4	1175.0	1337.4
Current expenditure	1122.8	1259.2	1151.4	1039.0	1201.4
Capital expenditure	182.9	140.0	136.0	136.0	136.0
OVERALL SURPLUS/DEFICIT	-300.7	-206.0	-2.4	-7.0	-275.3
FINANCING	300.7	206.0	2.4	7.0	275.3
Foreign concessional financing (net)	-23.1	-24.5	-20.2	-20.2	-20.2
Nonconcessional financing	323.8	230.5	22.6	27.2	295.5
Foreign commercial loans	18.4	-5.5	-22.4	-22.4	-22.4
Domestic bank credit	305.4	236.0	45.0	49.6	317.9
MEMORANDUM ITEMS					
Expenditure authorized by the Treasury	1004.7	1160.0	1330.0	1298.6	1298.6
Current account surplus	-117.8	-66.0	133.6	129.0	-139.3
GDP	9104.0	10042.0	10798.3	10798.0	11500.0
TREASURY RECEIPT	11.04%	11.88%	11.90%	10.82%	9.24%
Of which: Domestic tax revenue	9.42%	10.51%	10.56%	9.89%	8.41%
TOTAL EXPENDITURE	14.34%	13.93%	11.92%	10.88%	11.63%
OVERALL SURPLUS/DEFICIT	-3.30%	-1.93%	-0.02%	-0.06%	-2.39%

Sources: Ministry of Finance, Economy, and Industry; Bank of the Republic of Haiti, IMF estimates, and US Missions estimates

Given the uncertainty and fluidity of the current situation, two judgmental forecasts incorporating the views of the Ministry of Finance, IMF, and the Mission were developed for the full fiscal year. FY 1986 revenues and expenditure are projected to deviate from the FY 1986 budget as follows (see Table 7):

- In the worst case, domestic tax revenues will be 172 million gourdes below the budget level as a result of the civil disturbances, the associated administrative chaos and popular resistance to tax payments, and the January and February 1986 tax cuts on petroleum, flour, sugar and milk products. Even under the best case scenario, lost revenue is estimated to be at least 72 million gourdes.

- Export taxes are projected to be above the budget projections in both scenarios as a result of coffee price increases. The 63 to 68 million gourdes range for export tax collections reflects uncertainties with regard to both export prices and quantities.

- Transfers from public enterprises are projected to be 32 million gourdes in both scenarios, or 53 million below budget, as a result of the edible oil, flour and sugar price reductions announced in January and February 1986.

- Total revenues are therefore projected to range between 1,062 and 1,168 million gourdes, in both cases below the 1,285 million gourdes FY 1986 budget forecast and the FY 1985 level of 1,193 million gourdes.

- Current expenditures are projected to range between 1,039 and 1,201 million gourdes. The best case assumes that the 90 million gourdes monthly ceiling on expenditures proposed by the Minister of Finance will be respected. The feasibility of this reduced level of expenditures will be enhanced with the elimination of the National Security Volunteer force (VSN) and excessive expenditures by the Presidential Palace. However, the pressures for public works employment and increased wages in the public sector suggest that the original budget expenditure level may be exceeded by 50 million gourdes ("worst case" scenario).

- Capital expenditures are expected to remain at their budgeted level.

- Total expenditures are therefore expected to range between 1,175 and 1,337 million gourdes compared to the budget projection of 1,287 million gourdes. In both scenarios, government expenditures will be below expenditures in FY 1985.

The resulting overall deficit is projected to increase from the 2 million gourdes budget level to 7 million gourdes in the best case. The worst case will bring the deficit back up to the FY 1984 level and considerably above the FY 1985 level.

As a result of the projected increases in the deficit, domestic bank financing is projected to increase from the 45 million gourdes budget forecast to 50 million gourdes in the best case and 318 million gourdes in the worst case (see Table 7). The worst case would require Central Bank financing at a level above the previous two years.

Under the worst case scenario, the increase in Central Bank financing, unless offset by credit reductions to the private sector, will result in significant increases in net domestic assets. Compared to the informal IMF program year-end target (1,590 million gourdes), net domestic assets of the monetary authorities would rise 17 percent. This credit increase would result in domestic price increases in addition to the five to seven percent inflation that was expected with the informal IMF program. This increase should be expected to add additional pressure on the already faltering parallel market exchange rate, which is currently 15 to 20 percent above the official five gourdes to one dollar rate. Only if the best case scenario is achieved could a further deterioration in the parallel market exchange rate be avoided.

5. Consumer Prices and Money Supply

The rise in the consumer price index since 1982 has been relatively moderate - an annual rate of 8 to 9% through FY 1985. Still, over the past three years, this rate of increase has been twice as high as that of the United States. As a result, the fixed exchange rate has resulted in an increasingly overvalued gourde, causing Haiti's exports to become less competitive and providing a growing stimulus to import foreign goods at the official exchange rate. This has led to the development of a parallel market and to a growing differential between the official and parallel market rates.

The money supply has increased more rapidly than the consumer price level in recent years. Between the end of FY 1980 and 1985, the money supply (M_1) increased at an average annual compound rate of nearly 13% (M_2 increased at an annual rate of 10%). The more rapid rise of money supply in relation to the price level suggests that the rate of inflation could easily accelerate unless the government succeeds in curbing significantly the rate of credit expansion.

C. Country Team Assessment

Haiti's present balance of payments and monetary disequilibria have their roots in the inappropriate fiscal and monetary policies followed over the past two years. They have been and will continue to be exacerbated by the current civil and political problems, but would continue to need attention absent these crisis. The overall Treasury deficit, including the repayment obligations to foreign commercial banks, represented 23.4% and 16.9% of total expenditures for FY 1984 and FY 1985, respectively. These deficits required financing from the Central Bank and resulted in large increases in net domestic assets of the monetary authorities (18.9% in FY 1984 and 13.1% in FY 1985) and the money supply (M1 increased 17.9% in FY 1984, and 10.1% in FY 1985). These in turn led to price increases of over 8% per year and increased pressure on the parallel market for foreign exchange, in part as a result of the low rate of inflation in the U.S., which is Haiti's main trading partner.

In an attempt to deal with the growing external disequilibrium, the GOH adopted an austere budget for FY 1986. Compliance with the budget and the informal IMF fiscal program was maintained through January, 1986. However, the large drop-off in revenue in February, although coupled with significant expenditure reductions, raises serious concerns about the ability of the GOH to adhere to the required deficit and financing limits required to avoid further deterioration in the balance of payments. Given the pressures to create jobs and raise wages it will be very difficult for the GOH to avoid Central Bank financing at levels comparable to the previous two years.

Without emergency balance of payments support that is used in part of create jobs (as proposed in the Action Plan Supplement), the GOH will probably be forced to resort to the worst case projection for Central Bank financing. This in turn would add to the deterioration in the balance of payments and lead to increased arrearages, including those to the IMF. That would make an IMF Stand-by all but impossible this fiscal year, and block additional assistance from the World Bank and commercial sources.

The resulting disruption to the economy would be extremely severe. Shortages of foreign exchange could lead to foreign exchange restrictions, including increases in the export proceeds surrender requirements, and a growing discount on the Gourde. The rising cost of imports and/or restrictions on imports could lead to consumer price increases and increased demand for wage increases. This in turn would further jeopardize the foreign exchange earning sectors, including manufactured exports and tourism. The lack of foreign exchange could also lead to fuel shortages, disrupting power and transport necessary for the economy. These events would undermine private sector confidence, lead to increased capital flight and further decline of the export sector, accelerate deterioration in the already low level of per capita income, and increase unemployment. The Country Team believes that given Haiti's impoverished population and the need to restore stability and confidence of the private sector, emergency balance of payments support is imperative.

D. Other Donor Assistance

The IMF will send a Mission in April, 1986, to review the macroeconomic situation and lay the basis for an informal shadow program with the GOH. GOH removal of IMF arrears and compliance with the informal program should be expected to lead to an IMF Stand-by in the summer or early fall. The re-establishment of a Stand-by is a priority objective of the GOH. Assuming that an eighteen month 24 million SDR Stand-by were approved by the IMF Board before September, only $8 million could be drawn down this calendar year. However, it should be emphasized that an IMF Stand-by would not be available to finance imports. It can only be utilized to reduce arrears and increase the county's gross international reserves, thereby facilitating the necessary adjustment process of the economy. Hopefully, it would induce other donors, and perhaps the commercial banks, to provide additional foreign exchange on the strength of the remedial measures that the GOH would agree to adopt to resolve its balance of payments problem.

A Stand-by would make a World Bank Structural Adjustment Loan (SAL) or Sector Adjustment Credit (SAC) also possible in late 1986. This could provide perhaps $15-25 million in balance of payments assistance.

Other donors' ability to respond to the emergency balance of payments needs this calendar year is minimal, and external funds are unlikely to increase substantially above their ongoing program levels (see Table 8). For the most part, their additional assistance will consist of direct food distribution to the needy via NGOs. However, if increased GOH counterpart were to become available, in part as a result of US emergency balance of payments support, the other donors could significantly expand their direct project assistance to Haiti beginning in FY 1987.

These donor actions, coupled with USAID balance of payments assistance and emergency food imports over the next six to nine

TABLE 9

FY 1986 MAJOR DONOR ASSISTANCE ALLOCATED TO DEVELOPMENT SECTORS ($000) 1/

SECTOR	WORLD BANK	IDB	UN SYSTEM 2/	EEC	FRANCE	GERMANY 3/	CIDA	USA	TOTAL
Agriculture	5,100	10,068	1,481	2,783	433	5,167	480	23,824	19,33
Health/Pop	-	1,000	1,050	-	-	250	-	16,888	19,18
Education	4,900	-	1,305	-	-	-	2,841	6,129	15,17
Energy	15,800	-	-	-	5,250	5,833	1,531	190	28,60
Industry	600	5,000	138	-	-	-	-	4,917	10,65
Infrastructure	3,600	-	360	-	11,000	2,500	-	-	17,46
Urban Devt.	-	-	-	-	-	4,167	-	-	4,16
TOTAL	30,000	16,068	4,334	2,783	16,683	17,917	4,852	51,948	144,5

1/ Tentative planning figures obtained from the Ministry of Plan, GOH.
2/ UNDP, FAO, UNFPA, UNICEF.
3/ CYs 86 and 87

months, should significantly reduce the chances for further civil disorders and restore private sector confidence. Hence, it is probable that the balance of payments situation will improve by the end of CY 1986.

IV. Proposed Program Response

A. USAID Requests for Immediate Program Assistance

Based on the Country Team's Assessment and the conclusions resulting from AID/W review of the Action Plan Supplement, the Mission has already requested additional program assistance in the form of PL 480 commodities. An additional $10.4 million in monetized Title II assistance has been requested to cover food imports. The first shipment, valued at $2.3 million has arrived, and the second shipment, valued at $8.1 million is due to arrive shortly. The shipments will cover wheat and cooking oil needs through May.

An additional $10 million was requested on March 18 (Port au Prince 1891). The cable assesses the overall food situation in Haiti in FY 1986, describes the current food shortage in detail, analyzes the gap between the supply and the need for food grains and edible, and presents a strategy for responding to the crisis. The cable requests:

1. Immediate approval of an additional 17,000 MT of wheat and 5,000 MT of vegetable oil as a second tranche under the Title II emergency program. This would satisfy wheat and edible oil requirements through May.

2. Signing the regular Title III Agreement by April 15 in order to provide $15 million of commodities by June, covering wheat and edible oil needs until mid-September.

3. Approval of another 17,000 MT of wheat and 2,500 MT of vegetable oil under the Title II emergency program if the Title III Agreement is not signed by April 15.

4. Submission by the Mission by May 1 of a request for a $10 million increase in Title III, to cover wheat needs from mid-September to the beginning of December and oil needs from mid-September into November.

The two emergency Title II tranches, the regular Title III program if quickly approved for FY 1986, and the Title III add-on would maintain current levels of food grain imports until December, 1986 and current levels of edible oil imports until November.

B. Need for Additional Program Assistance

Timely approval of these PL 480 requests will help to avoid any gap in food imports that would aggravate existing malnutrition and political instability. Approval of the additional food aid, however, will not be sufficient to fully alleviate the expected balance of payments deficit during FY 1986. This PAAD requests additional balance of payments support in the form of an ESF Grant for $20 million. If this assistance is provided, it and the additional PL 480 assistance described above will fill about $40 million of the $86 million estimated balance of payments gap doing FY 86. The GOH will have to take additional policy measures, in consultation with AID, IMF, and the IBRD, and obtain additional resources, to fill in the remainder. Even with the assistance requested, Haiti's economy is not expected to show any real growth during this critically important first year of the democratization process.

The imports to be financed under this program will help to ensure the normal functioning of the country's economy over the next 12 months. Together with the above food imports, this additional assistance should contribute significantly to stabilizing the economy during FY 1986, and pave the way for a resumption of growth in FY 87.

V. Implementation Arrangements

A. Conditionality Strategy

The Mission's Policy Reform Objectives and the rationale therefore were set forth in Port-au-Prince 04919. The focii of the conditionality strategy are: GOH fiscal and monetary performance; trade regime liberalization; government operations; petroleum pricing policies; and foreign exchange uses. It is proposed that covenants which represent GOH-AID statements of agreed upon policy reforms be negotiated in each of these areas, and that CP's to specific disbursements be established to ensure that certain key steps are taken towards implementing the reforms agreed upon in the covenants.

The cable proposes that disbursements be made in two tranches of $10 million each. Final conditionality, which may differ from this proposal, will be reflected on the facesheet to this PAAD. The proposed covenants and conditions precedent are:

1. Conditions Precedent to First Disbursement. In addition to the standard legal CP's, prior to disbursement of the first $10 million, the GOH will agree to provide:

a. A foreign exchange budget, which shows all receipts, authorizations and disbursements of foreign exchange controlled by the Government of Haiti, covering the next six months following the date of the agreement; and,

b. Evidence that the grantee has established a petroleum import and price analysis unit under the Ministry of Commerce which has the authority to regulate imports and pricing of petroleum products, and staffed it with at least two professionals acceptable to A.I.D.

2. Conditions Precedent to Second Disbursement of $10 million. Prior to disbursement of the final $10 million, the GOH will agree to provide:

a. An updated foreign exchange budget, which shall include the actual sources and applications of foreign exchange since the date of this agreement and a budget for the next six months after the expected date of the disbursement;

b. Evidence that the grantee has established monetary and fiscal targets for FY 87 compatible with the country's economic recovery in consultation with the IMF, World Bank, and A.I.D.;

c. Evidence that the grantee has established the formulae and operating procedures necessary to ensure that the grantee imports petroleum products using least cost sources;

d. Evidence that the grantee has transferred the two percent consular fee paid in dollars to overseas consulates on petroleum product imports to a fee payable in gourdes to the public treasury; and,

e. Evidence that the grantee is in compliance with the covenants contained in the agreement.

3. Covenants

a. Monetary and Fiscal Performance

The grantee will take such measures as are necessary to ensure continued compliance with the monetary and fiscal targets it has established for FY 87 (in accordance with 2(b) above), and shall consult with the IMF, World Bank, and A.I.D. on its progress in meeting those targets. With respect to FY 86, and except as A.I.D. may otherwise agree in writing, the grantee agrees to complete the year without resort by the public treasury to central bank net financing in excess of 23 million gourdes. The grantee will provide monetary and fiscal performance data to A.I.D. for fiscal years 1986 and 1987 on a monthly basis.

b. Trade Regime Liberalization

The grantee agrees to continue its program of liberalizing Haiti's trade regime. Grantee will continue with its program of replacing import quotas with moderate tariffs, and continue with ongoing studies of industrial incentives (including import protection), and taxation, and advise A.I.D. on its progress in completing the analyses and implementing the recommendations.

c. Improvement of Government Operations

In order to improve Government operations and enhance accountability of the public sector, the grantee agrees to continue and expand upon it present efforts to carry out financial management and control reviews of parastatal organizations, and improve financial management and control of Ministries. During 1986, the GOH will initiate, and insofar as possible, complete financial management/control reviews of all parastatals and the Ministry of Finance. Beginning in 1987, the GOH will take such measures as are necessary to improve its external financial control capability and carry out regular reviews of GOH program effectiveness and financial management in key Ministries.

d. Continued Application of Petroleum Pricing Policies

The grantee will continue to implement the procedures established (in accordance with 2(c) above), and will continuously analyze spot market petroleum prices and, using least cost sources, limit the use of foreign exchange for the purchase of petroleum products.

e. Foreign Exchange Uses

For the period for which the grantee provides foreign exchange budgets to A.I.D. (in accordance with 1(a) and 2(a) above), the grantee covenants to provide to A.I.D. on a monthly basis a report showing its (1) foreign exchange receipts and (2) foreign exchange authorizations and disbursements for both private and public sector imports. These reports shall be provided within 30 days after the end of each month.

B. Balance of Payments Financing

1. Choice of Assistance Mode

In response to guidance from the Action Plan review, the Mission considered providing the proposed Balance of Payments (BOP) assistance through a commodity import program (CIP) and through the cash transfer mechanism. There are several reasons why the latter was chosen.

The CIP was rejected for several reasons. First, commodities of U.S. source and origin are readily available in the local market through normal trade channels. Second, the GOH does not give ex-ante approval of import transactions through foreign exchange authorizations. Third, import licensing procedures have been used in the past to support monopolistic importing arrangements. As this leads to a lack of price competition on the local market, the Mission does not want to support this type of procedure. Finally, the complex administration normally associated with CIPs might lessen the desired near term economic impact of the assistance.

The cash transfer mode was selected for several reasons. First, there is a crucial need for short term economic impact, which a cash transfer would facilitate. Second, Haiti normally imports a wide range of goods from the U.S. Third, after the Action Plan review, the Mission Controller's Office carried out a review of the Haitian Central Bank's procedures for approving foreign exchange authorizations after goods have been imported through commercial channels and the Central Bank's capability to provide AID with the documentation necessary to show it has allocated an equivalent amount of foreign exchange to imports from Code 941 sources. The procedures were found acceptable.

2. Dollar Disbursement Procedures

The funds will be disbursed via electronic funds transfer to the account of the Haitian Central Bank in the U.S. Federal Reserve Bank. The dollars will increase the Central Bank's free foreign exchange assets.

The GOH will agree to make available to the private sector an amount of foreign exchange equivalent to the balance of payments support provided by AID to finance the importation of raw materials, intermediate production inputs, spare parts, machinery and equipment from Code 941 countries over the next

12 months. To comply with this requirement, the Central Bank will review the foreign exchange authorizations it approves and send to AID documentation on eligible transactions specified by the USAID/Haiti in an Implementation Letter. This documentation will include customs receipts, bills of lading, and other standard banking documents which identify the type of goods imported, the source and origin, and U.S. dollar value. The USAID/Haiti Controller's Office will review this documentation. When acceptable documentation for sufficient eligible transactions has been received, USAID/Haiti will notify the GOH by Implementation Letter that the requirement has been met.

C. Local Currency Uses

1. Special Account

As soon as the dollar disbursement is made, the Central Bank will deposit an equivalent amount of local currency in the Special Account it creates in accordance with the Agreement.

2. Uses of Local Currency

Local currency will be used for two purposes. The equivalent of $2 million will be paid into a U.S. Trust Fund and used by USAID/Haiti for Operating Expenses. The remainder will be used by the GOH for counterpart costs of AID, IBRD, IDB, and other donor financed investment programs, which are consistent with AID's development strategy in Haiti. Additional uses may be agreed upon between USAID/Haiti and the GOH in response to emerging needs and priorities. The Mission will seek to maximum the application of local currency to privately implemented development activities.

3. Programming of Local Currency

For all uses except the USAID/Haiti OE Trust Fund, the Mission and the GOH will jointly agree on the specific uses of local currency and confirm their mutual understanding by Implementation Letters or Memorandums of Understanding. The programming of these funds will be done with the Ministry of Finance. Internally, a USAID/Haiti Committee chaired by the Mission's Deputy Director will review proposals for programming these funds and PL-480 funds programmed through the GOH's Title III office. The Committee will ensure that the use of all local currency for development purposes is maximized and that there is no duplication of financing for individual projects and programs.

4. Disbursement and Monitoring of GOH Local Currency Expenditures

Local currency which finances public sector investment or recurrent cost items will be disbursed according to the GOH's normal budgetting and accounting procedures. The GOH will be fully accountable for the end use of these funds, and will hire payment verfication contractors to ensure that proper disbursement procedures are followed and perform end use checks. Local currency provided to private sector organizations may be approved and disbursed by the GOH or by AID as the parties agree.

For public sector uses, the Ministry of Finance will request the Central Bank to disburse to the GOH's account those funds which the GOH has spent for agreed upon purposes. For private sector uses, the Ministry may request Central Bank reimbursement for funds it disburses to private entities, or the Central Bank may directly disburse funds to private entities. The GOH and A.I.D. will agree on disbursement procedures in each case depending on the nature of the private sector use, the institution involved, and project requirements.

5. Trust Fund

The Trust Fund Agreement will be signed prior to AID's first disbursement under the project. The standard OE Trust Fund text drafted by GC/LAC will be used. The Central Bank will deposit the equivalent of $1 million to the Trust Fund within seven days of the deposit of first tranche funds to the Special Account. The USAID Controller's Office will approve expenditures from the OE Trust Fund, account for the funds according to relevant AID and Treasury policies, and provide periodic reports to the GOH on Trust Fund uses.

D. Payment Verification Certification

The Controller, USAID/Haiti, has reviewed the payment procedures described above and has certified that they meet the requirements of Rollis' memo of December, 1983.

Implementation Letters. The programming of these funds will be done as part of a unified programming exercise with all generations from PL-480 financed commodities. For local currency which finances counterpart for AID and IFI projects, the GOH Office responsible for jointly programming the funds with AID and initiating disbursement requests will be the Title III Management Office in the Ministry of Plan. The Ministry of Plan will request the Ministry of Finance to authorize the disbursement of funds from the Special Account. The Central Bank will make disbursements to the Public Investment Fund (PIF) for agreed upon uses and reduce the balance in the Special Account accordingly. The disbursements made to the PIF will cover estimated expenditures for the first two months of each project's costs, and reimbursement will be made monthly against actual expenditures. The Title III Management Office will also make disbursements directly to NGOs which are implementing development projects, rather than channeling disbursements through the PIF. Within the Mission, the Title III Committee will be responsible for program management. The Committee is chaired by the Deputy Director. Additional staff will be added for program monitoring.

4. Trust Fund

The Trust Fund Agreement will be signed prior to AID's first disbursement under the project. The standard OE Trust Fund text drafted by GC/LAC will be used. The Central Bank will deposit the equivalent of $1 million to the Trust Fund within seven days of the deposit of first tranche funds to the Special Account. The USAID Controller's Office will approve expenditures from the OE Trust Fund, account for the funds according to relevant AID and Treasury policies, and provide periodic reports to the GOH on Trust Fund uses.

5. Monitoring of GOH Local Currency Expenditures

The GOH's Title III Management Office will be responsible for monitoring the use of local currency funds, except for the Mission OE Trust Fund. The Management Office will carry out end use checks, project reviews, and audits as necessary to ensure proper end use of the funds. The Management Office will submit periodic reports to AID which detail the amount of local currency approved and expended for each programmed use, and which reconcile its calculations to the Central Bank's ledger cards.

D. Payment Verification Certification

The Controller, USAID/Haiti, has reviewed the payment procedures described above and has certified that they meet the requirements of Rollis' memo of December, 1983.

C. The Petroleum Sector

To assess the feasibility of importing petroleum products, the Mission contracted a petroleum marketing expert to analyze how the petroleum sector in Haiti functions. A summary of that analysis follows.

1. Background

Haiti imports all its petroleum requirements in the form of finished products. The fuels are imported and distributed by Shell, Esso and Texaco. The refining centers from which Haiti has been supplied until recently were Curacao (Shell), Aruba (Exxon), and Trinidad (Texaco). In 1985, all three companies divested themselves of those refineries and the supply pattern changed somewhat. Shell continues to import from Curacao purchasing its products from the new Venezuelan owners. Shell then sells a portion of those products to Esso and the two companies supply their respective Port-au-Prince terminals in joint tanker shipments. Texaco imports now principally from Venezuela and Panama. Liquid Propane Gas (LPG) is imported by Tropigas and distributed by this company and Gas d'Haiti. Lubricants are imported by all companies from the Caribbean, USA and Europe.

2. Products Quantity and Market Demand

The principle petroleum products distributed in Haiti are:

Aviation gasoline - 100/130 L.
Motor gasoline - 95 RON
Jet kerosene - meets FAA specifications
Automotive Gasoil - 45 Cetane; .5% Sulphur
LVFO - Fuel Oil with low vanadium content
Bumker C - Fuel Oil - 4% Sulphur; 350055 U viscosity.

3. CIF Cost of Main Petroleum Products Imports

The parent companies of the local marketing companies deliver products as ordered by the local company. The supplying company invoices on the basis of the Caribbean price which they are currently posting plus actual freight and insurance costs. The Caribbean postings were established by the companies to reflect the actual average costs of importing crude and manufactured products at their own major export refineries in the area, i.e., Shell Curacao, Texaco Trinidad, and Exxon Aruba. It should be noted that the posted prices are used almost exclusively to establish the price at which products are sold to affiliates, which is essentially a term arrangement. This is difference form products that were sold by the companies from the same refining centers on a spot basis with no implication of term commitment. Although Haiti's three petroleum suppliers divested themselves of their refineries in 1985, they still continue to post a theoretical price which serves as the basis for pricing the affiliates. The reasoning behind the posted price levels is not apparent.

The system employed by the companies has not been the least cost option for Haiti recently. The tables in Annex C compare company posting for the three main products and the estimate of transaction levels at the US Gulf Coast (USGC) as reported in Platt's Oilgram.[1/] The USGC is the only major trading area within reasonable proximity of the Caribbean where products are readily available to competitive prices. Had the GOH obtained

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1/ Platt's quotations "Caribbean Cargoes - FOB" are not a valid indicator as few spot transactions are reported from the area.

its supplies of motor gasoline (mogas), kerosene and gasoil at USGC prices, it would have saved about $3.5 million over the last 13 months on imports of $53.3 million.

At current freight rates it is about US D 3.00 per lon ton more expensive to transport products in full GP size tankers from the US Gulf Coast to Haiti than it is from the Curacao - Haiti - Venezuela area. However, since the companies are delivering less than full tanker lots the transportation advantage is usually lost in dead freight.

It should be noted that the difference between the spot and company postings is particularly great during a period when spot prices move rapidly in one direction, either up or down.

4. Payment to Suppliers

The supplying companies deliver on open account to the local distributing companies. The latter present the invoice to the central bank which in turn authorizes a commercial bank to transfer the funds to the supplier. At this point, the distributing company pays the designated bank the local currency equivalent and the bank effects the transfer. Foreign exchange requests current pending authorization are estimated at $15 million, about $12 million of which is past due. The current arrearages are 70-90 days outstanding and are particularly disquieting to the supplying companies which therefore have begun supplying in minimum quantities. The local companies have been forced to reduce the level of their inventories so that in some cases they are out of product by the time a replenishment tanker arrives.

5. Receiving Facilities and Ocean Transportation

The oil companies operate three separate receiving terminals which are adjacent to each other. The storage capacities by company, by product and expressed in average days supply at current sales levels are as follows:

Company	Two Grades of Gasoline	Kero-Jet	Gasoil	Fuel Oil
Texaco	74	59	82	314
Shell	55	65	33	79
Esso	70	86	86	90

The existing storage capacity is sufficient to allow adequate protection against force majeure type of supply disruption. However, as indicated in preceeding paragraphs, actual inventory levels are often dangerously low because of the lack of timely transfer of foreign exchange. Moreover, at the local company level there is little or no exchange of information on stock nor is there any agreement in place to borrow/lend product if necessary due to a single company run-out. Consequently, if one company experienced a shortage in gasoline or diesel, panic buying would undoubtedly ensue with daily sales averages increased three or four fold through the other companies' outlets. Should either or both of the companies with stock remaining be unable to meet increased demand, a genuine product run-out wound ensue with the attendant political problems.

The assistance requested herein will allow petroleum inventories to be rebuilt in the short term. Concurrent with this effort, USAID will initiative a training program with the GOH that will lead to organizational and staff strengthening within the Ministry of Commerce that is designed to provide the GOH with the capability of developing and implementing appropriate policies in the sector. This, in turn, should allow the GOH to anticipate both inland and offshore changes affecting the industry and thereby avoid incurring unnecessary costs such as those described above. Improved interfacing with the oil companies will also be achieved with the attendant benefits.

2. Products to be Imported

The products to be imported under the Program will meet most of Haiti's petroleum products needs for the next six to seven months. The products, quantities, and estimated costs of the products to be imported are:

Product	Barrels	CIF/Unit	Total ($000)
Mogas	230	$21.00	$4,830
Gasoil	200	21.00	8,400
Kerosene	200	21.00	4,200
Fuel Oil	150	17.00	2,550
TOTAL			19,980

Petroleum products that are normally shipped in small quantities on cargeo liners, such as greases and special fuels, will not be financed. Importation of these products will continue through existing trade practices.

3. Procurement

The importation of petroleum products into Haiti is carried out under special supplier-importer relationships. Three major international petroleum companies sell petroleum products to their respective wholly owned subsidiaries in Haiti. Two of the international companies (Esso and Texaco) have their principal offices in the U.S. The third (Shell) has its principal office in the Netherlands, makes sales from the offices of Shell International Trading Company in London, and ships products from Curacao. The Haitian subsidiaries order needed products from the international company. The international company bills the subsidiary for the products CIF Port au Prince and normally allows 25 - 30 days from the date of the bill of lading to pay. At present, billings are made on the basis of Caribbean price postings and the source of petroleum products shipped to Haiti is refineries located in several Caribbean countries. The products are usually shipped on tankers which are flag carriers of Panama, Liberia, or Bahamas, and are never U.S. or Haitian flag carriers. The suppliers sometimes charter tankers, and sometimes ship on tankers owned by wholly-owned non-U.S. and non-Haitian shipping subsidiaries.

The Haitian subsidiaries are required to send invoices to the GOH for foreign exchange authorization. Upon approval, the GOH authorizes local banks (most of which are branches of international banks) to make dollars available for sale at the official rate of exchange and pay the international company. (Each local bank holds 50% of the dollars generated by export sales for allocation by the GOH, which authorizes their use mainly for petroleum purchases and dollar official debt payments.)

Each of the Haitian subsidiaries received products purchased from its respective international company at the storage facility that the subsidiary owns and operates. The Haitian subsidiaries have advised AID that under their agreements with the parent company they may not used the storage facilities for products purchased from another international company. (N.B. This does not preclude the international company from obtaining products from another company and shipping them to Haiti, which in fact does happen). The subsidiaries sell products to independently owned dealerships, which in turn sell them to the public. The GOH sets maximum retail prices for all petroleum products, and it is dealer practice to charge the maximum price allowed.

Under the project the existing trade practices will continue as described above with two exceptions First, the products will be shipped from U.S. Gulf Coast Ports, which will ensure that Code 000 source requirements are met. Second, the GOH will limit its foreign exchange authorizations to an amount calculated on the basis of spot market prices as reported in independent industry publications, which will ensure that AID regulations on maximum price of commodities set forth in AID Regulation 1, Section 201.63(a), (b), and (g). In effect, that section requires that no more than the equivalent U.S. price, adjusted for transportation and quality differences be paid for petroleum products financed by AID. Competitive procurement procedures will not be required, because the normal trade practices described above fit the conditions established in AID Regulation 1, Section 201.23 (e), which allows for purchase without solicitation of offers from more than one supplier where such special supplier-importer relationships exist.

4. Waivers

Based on the foregoing discussion of procurement, three waivers are requested, as follows:

a. Source of Ocean Shipping. The Mision requests that the authorized source for shipping be changed from Code 000 (U.S.) to Code 941 (Limited Free World). The waiver is needed because U.S. flag carriers are not expected to be available for most or all of the required shipping.

b. Nationality of Supplier. The Mission requests that the authorized code for the nationality of suppliers be changed from Code 000 (U.S.) to Code 899 (Free World, excluding the host country). Under the project, Shell Corporation (USA) is expected to be the supplier for petroleum products sent to Shell (Haiti). However, the Mission believes that Shell (USA) is more than 50% owned by Royal Dutch Shell, which has its principal offices in the Netherlands. The waiver is needed to allow Shell Corp. (USA) to be an eligible supplier on a fair and equal basis with Texaco and Esso. If the waiver is not approved, project implementation would be unnecessarily slowed down, and Shell could be unfairly put at a disadvantage which could lessen competition in the long run.

c. AID Approval of Charters. Stocks of petroleum products are currently running at very low levels in Haiti. A delay of a few days in a shipment could easily upset the delicate consumption/supply balance that has been maintained to date. This could have negative political consequences, e.g. demonstrations, which could distract the Haitian government's attention from concentration on the important political development and economic recovery tasks facing it. USAID has been advised that the normal practice by which the international petroleum companies obtain charter services is well established and highly competitive. At present, the price of shipping on charter tankers is usually lower than the price the international companies charge for shipping on their own tankers. Given the short duration of the project, the low stocks of petroleum products in Haiti, the extreme urgency to maintain petroleum deliveries on a tight schedule, and the reasonableness of prevailing charges, a waiver of prior AID approval of charters is requested.

5. Payment Procedures

After signature of the CIP Agreement, the GOH will notify the international petroleum companies (suppliers) that AID will be financing the importation of the petroleum products identified above. Each company will be assigned a maximum dollar value for products that will be financed by AID. The allocation will be based on the imports over the last 12 months period. AID will review the calculations before the GOH notifies the suppliers. For shipments that will be AID financed, the suppliers will be requested to include with their normal documentation (supplier's invoice and bill of lading), the Charter Party, Supplier's Certificates, and Commodity Approval Application documents required under Section 201.52 of AID Regulation 1.

After the international petroleum company effects a shipment, the Haitian Subsidiary will submit to the GOH: the above documentation; a foreign exchange authorization request; and a local currency check for the amount shown on the commercial invoice. The GOH will review the documentation to ensure that the transaction conforms with its regulations and meets AID's requirement for financing, and deposit the local currency in the Special Account in the BRH. The GOH will transmit to AID: a Voucher (Form SF 1034); the above documentation; and a copy of the deposit slip (or ledger card) from the BRH showing the deposit to the Special Account. The GOH will request that AID directly pay the supplier. The Controller's Office, USAID/Haiti, will review the documentation, check prices for conformity with AID regulations, approve payment, and cable a request for electronic funds transfer.

All shipments will be covered by insurance. Any shortages in the amount received will be settled according to normal commercial practice. In accordance with AID regulations, the subsidiaries will use any insurance payments to import additional petroleum products into Haiti.

6. Payment Verification and Monitoring

The above procedure should ensure that AID Payment Verification Procedures are met effectively. The prices paid will be monitored by USAID/Haiti's Office of Economic Analysis (OEA). Employees in OEA and the Controller's Office will be trained in the application of the pricing formulae developed with the assistance of the contracted consultant. The OEA will also be responsible for monitoring the retail prices of petroleum products to make sure that the agreed upon maximum prices are being observed.

Port-au-Prince, March 17, 1986

His Excellency
Mr. Clayton McManaway
Ambassador of the United States
of America
Port-au-Prince

(Translation)

Dear Mr. Ambassador:

1. The Haitian economy is undergoing a severe crisis which threatens the free convertibility of the gourde. As you know, the rate of exchange of the gourde against the dollar has remained unchanged since 1919, and the National Council of Government (CNG) is committed to maintaining this rate. Given the current political and social situation, a devaluation would cause a real social upheaval with incalculable consequences upon the political stability of the country in the long run. Thus, drastic adjustment measures must be taken if the current pressure on the value of the gourde is to be alleviated.

2. We believe that, at the heart of the problem, there is a fiscal imbalance which must be corrected. Unfortunately, any measure for increasing revenues will not produce much in the short term: mass consumer goods (sugar, flour, and petroleum products) are already taxed, and the general decrease in the national economy will certainly have a negative impact on public revenues. In addition, we are considering consolidating salary taxes or reducing the rates for lower income brackets, and we estimate that the resulting monthly loss may equal Gourdes 2 million. Therefore, a fiscal adjustment program can only be accomplished through severe cuts in budgetary expenditures for the remainder of fiscal year. Public monthly expenditures will therefore not exceed Gourdes 90 million. To date, public expenditures for the fiscal year have totaled Gourdes 545 million, representing a monthly average of Gourdes 109 million. Thus, we are considering a 17% cut in total expenditures.

3. Such an extensive effort should enable the GOH to reduce its dependence upon credit from local banks, which would relieve the current pressure on strained public foreign exchange reserves. However, we are concerned that this effort might not be enough, as gross reserves currently amount to less than one month of annual import requirements; and current arrears of around $15 million on foreign obligations represent a serious constraint to the re-establishment of confidence and the disappearance of the

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parallel market for foreign exchange. Accordingly, Haiti's economy needs additional balance of payments support. This support is estimated at $50 million for the remainder of the fiscal year (see Annex 1). This estimate agrees with that of USAID, which ranges between 40 and 86 million dollars (See Annex 2).

4. In this context, and in order to normalize such an already threatened situation, the CNG hereby requests the establishment of an Economic Support Fund (ESF) whose counterpart in local currency would be used for programs to be jointly defined. The CNG is particularly interested in a literacy campaign, a reforestation and soil regeneration program, and other labor intensive public works programs.

5. We are at your disposal to discuss the control and monitoring procedures to be used for the projects to be funded by the ESF gourde counterpart funds.

6. Thank you for any action concerning this request.

Sincerely,

Marcel Leger
Minister of Finance and Economy

REPUBLIQUE D'HAITI
MINISTERE
DE L'ECONOMIE ET DES FINANCES

MAR 17 1986
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No SEC/AA/24

PORT-AU-PRINCE, LE 17 mars 1986

Son Excellence
Monsieur Clayton McManaway
Ambassadeur des Etats Unis d'Amérique
Port-au-Prince

Monsieur l'Ambassadeur,

L'économie haitienne traverse une crise dont l'extrême acuité menace la libre convertibilité de la monnaie nationale. Comme vous le savez, la valeur de la gourde par rapport au dollar n'a pas changé depuis 1919 et l'intention du Conseil National de Gouvernement est bien de garder cette parité inaltérée. Dans le contexte politique et social actuel, une dévaluation serait une véritable commotion sociale avec des conséquences incalculables pour la stabilité politique à long terme du pays. Des mesures drastiques d'ajustement s'imposent donc si les pressions qui s'exercent sur la valeur de la gourde doivent disparaitre.

2. Nous croyons qu'au coeur du problème il y a un déséquilibre fiscal qu'il faut corriger. Malheureusement les mesures d'augmentation des ressources ne donneront pas grand chose à court terme: les biens de consommation de masse (sucre, farine, produits pétroliers) sont déjà taxés et la baisse du niveau général de l'activité économique ne manquera pas d'avoir une incidence négative sur les revenus publics. De plus, nous envisageons la consolidation des taxes sur salaires ou leur réduction en ce qui concerne les catégories les plus défavorisées et nous estimons que le manque à gagner ne dépassera pas 2 millions de gourdes par mois. Dans ces conditions, l'ajustement fiscal ne peut se faire que par la compression draconiène des dépenses pour le reste de l'année fiscale. Les dépenses mensuelles de l'Etat ne dépasseront pas 90 millions de gourdes. A date, les dépenses de l'Etat depuis le début de l'année fiscale se sont élevées à 545 millions de gourdes, soit une moyenne mensuelle de 109 millions de gourdes. Nous envisageons donc une coupure de 17 pour cent dans le montant des dépenses.

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3. Un effort de cette ampleur devrait permettre au Gouvernement de réduire le recours de l'Etat au crédit bancaire domestique ce qui soulagerait la pression qui s'exerce sur le stock anémié de réserves de change dont disposent les autorités monétaires. Toutefois, il est à craindre que cet effort ne soit pas suffisant parce que le montant brut des réserves correspond à moins d'un mois du montant annuel des importations et que l'existence d'arriérés de paiements extérieurs, estimés à $ 15 millions, représentent un sérieux obstacle au rétablissement de la confiance et à la disparition d'un marché parallèle pour le dollar. Dans ces conditions, l'économie nationale a besoin d'un support additionnel à la balance des paiements. Le besoin additionnel est estimé à $ 50 millions pour le rest de l'année fiscale (voir Annexe1). Ces estimations rejoignent sensiblement celles de la USAID qui se situent dans une fourchette de 40 à 86 millions de dollars (voir Annexe 2).

Dans ce contexte, et en vue de rétablir une situation déjà fortement compromise, le Conseil National de Gouvernement sollicite par la présente la mise en train d'un "Economic Support Fund" (ESF), dont la contrepartie en monnaie nationale serait utilisée pour des programmes à définir d'un commun accord. Le CNG profite de l'occasion pour signifier l'intérêt particulier qu'il porte à une campagne d'alphabétisation, à un programme de reboisement et de regénération des sols et à d'autres programmes de travaux publics à forte intensité de main-d'oeuvre.

Nous nous tenons à votre entière disposition pour envisager les modalités d'un mécanisme de controle et de suivi des projets à financer par la contrepartie en gourdes du ESF.

En vous remerciant des suites que vous voudrez bien donner à la présente requête, nous vous prions d'agréer, Monsieur l'Ambassadeur, l'assurance de notre considération distinguée.

Marcel Léger
Ministre

MINISTERE DE L'ECONOMIE, DES FINANCES ET DE L'INDUSTRIE

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

FAA Sec. 481(h)(1); FY 1986 Continuing Resolution Sec. 527. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

FAA Sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a

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3 FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

NO

FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

FAA Sec. 620(a), 620(f), 620D; FY 1986 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan without a certification?

FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of

NO

FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?

FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?

(b) If so, has any deduction required by the Fishermen's Protective Act been made?

FAA Sec. 620(q); FY 1986 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds?

FAA SEC. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

13. FAA Sec. 620A. Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism?

14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presen of any officer or employee o the U.S. who is present in such country to carry out economic development program under the FAA? NO

FAA Sec. 669, 670. Has the country, after August 3, 197 delivered or received nuclea enrichment or reprocessing equipment, materials, or technology, without specifie arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 f Pakistan.)

FAA Sec. 670. If the countr is a non-nuclear weapon stat has it, on or after August 8 1985, exported illegally (or attempted to export illegall from the United States any material, equipment, or technology which would contribute significantly to the ability of such country to manufacture a nuclear explosive device?

18. ISDCA of 1981-Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) — NA

FY 1986 Continuing Resolution Sec. 541. — NO

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

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?

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?

NO

20. FY 1986 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined as supporting or participating in the management of a program of coercive abortion on involuntary sterilization?

If assistance is from the population functional account, are any of the funds to be made available to family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

FY 1986 Continuing Resolution Sec. 529. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

FY 1986 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decr--?

The recently deposed Head of Government was not duly elected.

ISDCA of 1985, Sec. 705
See special requirements for assistance to Haiti

Special requirements have ~~been met.~~

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

NA

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

NO

.A)2 NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1986 Continuing Resoluti Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been o will be notified concerning the project.

FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

3. FAA Sec. 209 Is assistanc more efficiently and effectively given through regional or multilateral organizations? If

o, why is assistance not so iven? Information and onclusion whether assistance ill encourage regional levelopment programs.

AA Sec. 601(a) Information and conclusions 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.

(a) Imports are essential for export production.

(b) Private sector initiative and competition will be enhanced by the availability of adequate imports.

(c)

(d) NA

(e) Imports are essential for efficient utilization of industrial, agricultural and commercial capacity

(f)

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).

Imports are essential for the private sector to operate and to benefit from U.S. trade and investment A significant amount of the petroleum will be supplied by US private companies.

FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. 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.

Local currencies generated by the project will be utilized for this purpose.

7. 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? — NO

8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — YES

9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? — NA

10. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? — NO

E FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with th policy directions, purposes, and programs of part I of the FAA? — YES

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? — NO

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? YES YES

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used? NA

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria? NA

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall

-ssess such plans to etermine whether they will ffectively promote conomic development;

iii) emphasis shall be laced on imports for gricultural activities which will expand gricultural production, articularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, LAC

AUG 14 1986

FROM : LAC/DR, Irwin A. Levy

SUBJECT : Haiti Economic Recovery Assistance Project (521-0200)

Action Requested: That you authorize $10.822 million in additional funding for the Haiti Economic Recovery Assistance Project, which will bring to $18 million the funding provided for the program.

Background: A PAAD for a $20 million balance of payment support project was submitted by USAID/Haiti in March, 1986. It took several months to agree internally on a source of funds for the project. In June, 1986, Secretary Shultz announced that A.I.D. would provide $20 million in balance of payments support to Haiti this year. On June 26, a Congressional Notification for the Program was transmitted which advised that A.I.D. intended to use $7.2 million reprogrammed from Bolivia and $12.8 million from the TCIP reserve for the project (TAB A). On July 11, a letter was received from Senator Kasten (TAB B) advising that the funds reprogrammed from Bolivia could be released, and that the Subcommittee on Foreign Operations would continue to work with us to reach agreement on a mutually agreeable source for the remaining $12.8 million.

In order to not further delay initial obligation of funds, we sent for your approval an Action Memo requesting that you approve a PAAD for $20 million for the project, and authorize the first $7,178,000 of funding. The PAAD facesheet noted that funding for the remaining $12,822,000 was being sought. You signed the Action Memo (TAB C) on July 25, 1986. The agreement has been signed and the first $6 million have now been disbursed.

Discussion: Since receipt of Kasten's letter, State, A.I.D. and key Congressional parties have held a number of discussions on a source for the remainder of the funds. It has been agreed that $18 million will be provided as a Cash Transfer and that the remaining $2 million in the form of DA funds for a fast disbursing project. A letter from Senator Kasten dated August 7, 1986 (TAB D) advised that the Subcommittee would not object to the use of $8 million from the TCIP reserve, subject to A.I.D. identifying acceptable sources of the additional $2.822 million of ESF and the DA of $2 million. On August 13, 1986, a response was sent to Sen. Kasten (TAB E) which identifies the source of funds. A letter from Senator Kasten removing the

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hold has now been received (TAB F).

An apportionment for $10.822 million has been completed, and the Mission wishes to sign an agreement amendment for that amount immediately. The $2 million DA project will be obligated under a separate agreement which you will be requested to authorize after a PP has been received and reviewed in AID/W.

Recommendation: That you: (1) sign the PAAD facesheet (TAB G) which authorizes $10.822 million for the Haiti Economic Recovery Assistance Program; and (2) approve the attached cable (TAB H) which advises the Mission that it may now obligate the funds.

Attachments -

Tab A - CN - Economic Recovery Assistance
Tab B - Senator Kasten's July 11 letter
Tab C - Action Memorandum
Tab D - Senator Kasten's August 7 letter
Tab E - McPherson Letter to Senator Kasten dated August 13
Tab F - Sen. Kasten's response to A.I.D. letter of August 13
Tab G - PAAD facesheet
Tab H - Outgoing cable

CLASSIFICATION:

AID 1120-1 (8-68)

PAAD

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: 521-0200 521-K-601 Amendment #1
2. COUNTRY: Haiti
3. CATEGORY: Cash Transfer
4. DATE: August 14, 1986
5. TO: AA/LAC, Dwight Ink
6. OYB CHANGE NO.: N/A
7. FROM: Director, USAID/Haiti Gerald Zarr
8. OYB INCREASE:
   TO BE TAKEN FROM: ESF
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 10,822,000
10. APPROPRIATION - ALLOTMENT: BPC LESA86-35521-KG31 72-1161037
11. TYPE FUNDING: ☐ LOAN ☒ GRANT
12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE
13. ESTIMATED DELIVERY PERIOD: N/A
14. TRANSACTION ELIGIBILITY DATE: N/A
15. COMMODITIES FINANCED: N/A

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.:	$10,822,000
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash:	$10,822,000	Other:	

18. SUMMARY DESCRIPTION

The funds requested herein will increase the amount authorized for the Haiti Economic Recovery Assistance Program (521-0200) from $7,178,000 to $18,000,000. All other terms and conditions of the original PAAD remain unchanged.

19. CLEARANCES		DATE
LAC/DP:WWheeler	WBW	
LAC/DR:TJBrown	TB	
LAC/CAR:RHechtman		
GC/LAC:GDavidson		8/8/86
ARA/ECP:RBeckham		8/11/86
M/FM:CChristensen		8/14/86
DAA/LAC:MButler		

20. ACTION

☒ APPROVED ☐ DISAPPROVED

Malcolm Butler — AUTHORIZED SIGNATURE

8/14/86 — DATE

Assistant Administrator, LAC — TITLE

CLASSIFICATION:

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