

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, LAC

FROM : LAC/DR, Irwin A. Levy *Irwin Levy*
SUBJECT : Haiti Economic Recovery Assistance Project
(521-0200)

AUG 14 1986

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

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

Clear: LAC/CAR, RHechtman (draft)
GC/LAC, GDavidson (draft)
LAC/DP, WWheeler draft Date 8/13
DAA/LAC, Mbutler _____ Date _____

Draft: LAC/DR:EZallman:8/13/86:75246

2

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADVICE OF PROGRAM CHANGE

DATE:

COUNTRY : Haiti
PROJECT TITLE : Economic Recovery Assistance
PROJECT NUMBER : 521-0200
FY 1986 CP REFERENCE : None
APPROPRIATION CATEGORY : Economic Support Fund
LIFE-OF-PROJECT FUNDING : \$20,000,000 Grant
INTENDED FY 1986 OBLIGATION : \$20,000,000 Grant

This is to advise that A.I.D. intends to obligate \$20,000,000 in FY 86 for the Economic Recovery Assistance project 521-0200 in Haiti. This is a new project and was not included in the FY 86 Congressional Presentation.

The purpose of the project is to assist the Government of Haiti to close a foreign exchange gap, estimated at about \$86 million in the next 12 months.

Attachment: Project Date Sheet

3

**AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET**

CP 81-05 (4-85)

PROGRAM: HAITI

TITLE Economic Recovery Assistance		FUNDING SOURCE Economic Support Fund (ESF)	PROPOSED OBLIGATION (In thousands of dollars)		
NUMBER 521-0200		PRIOR REFERENCE None	FY 86	20,000 (G)	LIFE OF PROJECT (Auth) 20,000 (G)
GRANT <input checked="" type="checkbox"/> LOAN <input type="checkbox"/>	NEW <input checked="" type="checkbox"/> CONTINUING <input type="checkbox"/>		INITIAL OBLIGATION FY 86	ESTIMATED FINAL OBLIGATION FY 86	ESTIMATED COMPLETION DATE OF PROJECT FY 86

Purpose: To assist the Government of Haiti to close a foreign-exchange gap estimated at about \$86 million over the next 12 months.

Background: Haiti remains one of the world's least-developed countries and is the poorest country in the Western Hemisphere. Its development has been held back by years of autocratic rule, low private investment levels, and minimal public investment in infrastructure and social services.

Since President-for-life Jean Claude Duvalier fled Haiti in February 1986, ending 29 years of autocratic government by the Duvalier family, a provisional government has begun moving the country toward democracy. Political prisoners have been released, and freedom of the press has been restored. The provisional government recently announced democratic national elections for February 1988. However, civil disorders and labor strikes have occurred frequently since Duvalier's departure, and production has fallen. These problems, coupled with inappropriate fiscal and monetary policies followed by the Duvalier government have led to a dramatic loss of government revenue and a projected \$86 million balance-of-payments for the next 12 months. The transitional government has moved to lessen the impact of the revenue reduction by tightening fiscal controls and eliminating illegitimate expenses associated with the previous regime. However, unless emergency balance-of-payments support is forthcoming, the economic disruptions will become more severe. A growing discount on the Gourde, increasing inflation, and growing demands for wage increases may occur, worsening the prospects for re-establishment of economic growth. These conditions would further undermine private sector confidence, lead to capital flight, depress the export sector, reduce per capita income and increase unemployment.

A.I.D. has already provided Haiti with an additional \$10 million in monetized PL 480 Title II food commodities. This action will help meet part of Haiti's balance-of-payments needs and help avoid a food-import gap, through December 1986. However, additional balance of payments support is urgently needed.

Project Description: Balance of payments support of \$20 million will be provided to the GOI. The government will make an equivalent amount of foreign exchange available to the private sector to finance imports over the next 12 months. The GOI will take action to improve its monetary and fiscal performance and other economic

policies in order to stabilize the economy. The Central Bank will deposit an equivalent amount of the local currency generated into a special A.I.D.-monitored account. These funds will be used mainly for the counterpart costs of A.I.D., IBRD, IDB, and other donor-financed investment programs which are consistent with A.I.D.'s development strategy in Haiti, as well as for expanded infrastructure improvement and for budgetary support.

Relationship to A.I.D. Strategy: This program will help to support the U.S.G.'s principal objective of ensuring the establishment of a democratic form of government in Haiti, by helping to minimize economic disruption, improving the GOI's fiscal and monetary performance, and supporting a continuation of A.I.D.'s broader economic and social development strategy in Haiti.

Beneficiaries: Haiti's population of 5 million persons will benefit from this assistance. The poor will benefit the most because a healthy economy will prevent their already low incomes from being depressed further as a result of lost jobs and increased inflation.

Host Country and Other Donors: The program will help to improve utilization of project assistance available from other donors by ensuring availability of counterpart resources. It will expand employment. It is also expected to improve the prospects for Haiti obtaining future program assistance from the IMF and the World Bank by promoting development of a realistic economic stabilization program.

<u>Major Outputs</u>	<u>All years:</u>
Economic Stabilization Program Established and implemented	X
<u>A.I.D.-Financed Inputs:</u>	<u>Life-of-Project (\$000)</u>
Balance of Payments/Budget Support	20,000

U.S. FINANCING (In thousands of dollars)				PRINCIPAL CONTRACTORS OR AGENCIES
	Obligations	Expenditures	Unliquidated	
Through September 30 1984	-	-	-	To be determined.
Estimated Fiscal Year 1985	-	-	-	
Estimated Through September 30, 1985	-	-	-	
		Future Year Obligations	Estimated Total Cost	
Proposed Fiscal Year 1986	20,000	-	20,000	

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TOM HARKIN IOWA

United States Senate

COMMITTEE ON APPROPRIATIONS

WASHINGTON, DC 20510

J. KEITH KENNEDY, STAFF DIRECTOR
FRANCIS J. SULLIVAN, MINORITY STAFF DIRECTOR

July 11, 1986

file - ESF

Mr. M. Peter McPherson
Administrator, Agency for
International Development
Washington, D. C. 20523

Dear Mr. McPherson:

This is with reference to reprogramming numbered 467, which would make funds available for Haiti.

While working with your office on the source of funding for this reprogramming, it has been determined that \$7,200,000 in Economic Support Funds originally targeted for the program in Bolivia is immediately available for use in Haiti. The Subcommittee will continue to work with your office to reach a mutually agreeable source for the remaining \$12,800,000, but at this time, it is the Committee's intention that the \$7,200,000 be released to Haiti.

Sincerely,

[Signature]
Robert W. Kasten, Jr.
Chairman, Subcommittee
on Foreign Operations

RWK:jsm

file ESF

5

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON DC 20523

JUL 24 1986

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, LAC

FROM : LAC/DR, Terrence J. Brown 

SUBJECT : Haiti Economic Recovery Assistance Program. (521-0200)

Action Requested: That you approve the \$20 million Economic Recovery Assistance Program, which provides balance of payments support to Haiti, and authorize the first \$7.178 million.

Background: 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, has taken positive steps to restore fiscal and monetary control and responsibility to the government, and has announced a timetable for elections for a new civilian government.

With the lowest per capita income in the hemisphere and five years of decline in GDP per capita, Haiti desperately needs to begin to grow economically. It will need significant assistance from the donors to meet its financing needs, and has taken steps to obtain this assistance. The GOH expects to initiate drawings on an IMF Structural Adjustment Facility by September, and develop a Structural Adjustment Credit with the World Bank by early in 1987. A.I.D. has provided significant food aid during FY86, and USAID/Haiti has requested \$20 million in balance of payments support to help bridge a foreign exchange and fiscal shortage and pave the way for successful implementation of those programs without further economic contraction.

Discussion: The balance of payments request was submitted to AID/W in March, 1986, shortly after the departure of Duvalier. The PAAD indicated that for the Haitian economy to grow at a 2% rate, additional balance of payments support totalling \$40 to \$86 million would be needed during FY86. The PAAD requested authorization of a \$20 million Modified Commodity Import Program to finance petroleum imports for a six month period. At the review of the PAAD, which was held on March 28, it was decided that the assistance should be provided in the form of a cash transfer. The PAAD was subsequently revised to reflect this decision.

6

It has taken several months to locate financing for the program. -In mid-June, it was decided to fund the program by reducing the Trade Credit Insurance Program reserve by \$12.822 million, and reprogramming \$7.178 million from the Bolivia program. An advice of program change was sent to Congress on June 26 advising AID's intention to fund the project from these sources. On July 11, a letter was received from Senator Kasten placing a hold on the use of funds from the TCIP reserve. Apportionment of the \$7.178 million from the Bolivia program has now been started, and efforts are still underway to find appropriate sources of financing for the remaining \$12.822 million.

After the mid-June decision on financing referred to above, and in view of the internal changes in Haiti since the preparation of the original PAAD, a cable was sent to USAID/Haiti (TAB A) which requested transmission of a revised conditionality strategy, and suggested some elements of that strategy. The Mission responded (TAB B) with a revised strategy which was reviewed on July 23. The review concluded that Mission's proposal is a sensible and achievable strategy.

At the review, the Haiti Mission Director proposed that the first \$6 million be disbursed without substantive conditionality, and that the substantive conditions precedent proposed in the cable for first disbursement of \$10 million be made CPs to a second disbursement of \$4 million. The local currency counterpart to the first \$6 million disbursement would be used for immediate budget support to the GOH, which would enable it to stay within the limits of its IMF shadow program at a delicate point in its negotiations with the IMF on a new Structural Adjustment Facility. This proposal also takes into account that the amount of funds available now (\$7.178 million) is less than the \$10 million the Mission expected to have at the time of first disbursement. It was decided to recommend approval of the PAAD to you with this further revision of the conditionality strategy proposed by the Mission.

Subsequent to the review, the Mission cabled some additional changes to the proposed conditionality (TAB C). These changes resulted from negotiations on the text of the Agreement with the Haitian Government. The changes were reviewed at a meeting of officers from the relevant offices on July 25, and were accepted, with one exception which is noted in the proposed outgoing cable (TAB D).

The PAAD facesheet has been revised to reflect the above changes. This Action Memo will be included in the first few pages of the printed version of the PAAD to provide an explanation of the changes in the program that have been made since the original PAAD review in March.

Recommendation: That you: (1) sign the facesheet of the attached PAAD (TAB E) which approves the \$20 million Economic Recovery Assistance Program, and authorize the first \$7.178 million of balance of payments support under the Program; and (2) approve the attached cable (TAB D) which advises the Mission that it may proceed to sign an agreement with the GOH, and disburse the first \$6 million subject only to satisfaction of relevant legal CPs.

Attachments:

- TAB A - State 203574 (Confidential)
- TAB B - Port-au-Prince 04918 (Confidential)
- TAB C - Port-au-Prince 05172 (LOU)
- TAB D - Draft Outgoing Cable
- TAB E - PAAD

8

1986 COOPER...
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JAMES ABRAHAM, SOUTH DAKOTA
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TOM HARKER, IOWA

Committee on Appropriations

COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510

J. KEITH KENNEDY, STAFF DIRECTOR
FRANCIS J. SULLIVAN, MINORITY STAFF DIRECTOR

August 7, 1986

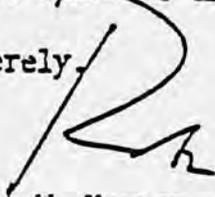
The Honorable John C. Whitehead
Acting Secretary of State
Department of State
Washington, D.C.

Dear John:

As I mentioned to you in our phone conversation yesterday, while I believe it is a mistake for you to reprogram any funds from Central America programs, I will not in this instance object to providing \$8 million out of the Trade Credit and Insurance program, for programs in Haiti.

However, the Committee will continue its "hold" on this matter (except for the \$7.2 million which is being taken from the Bolivia program) until such time as we have been informed on where the remaining \$4.8 million will be found. When we have received a communication from the Department of State or the Agency for International Development laying out this in detail, we will of course write a letter lifting our objection, provided that the source of the remaining \$4.8 million does not cause us any further problems.

Sincerely,



Robert W. Kasten, Jr.
Chairman, Subcommittee on
Foreign Operations

RWK:jb

Dear Mr. Chairman:

Deputy Secretary of State John Whitehead has asked me to reply to your letter of August 7, 1986 concerning the source of funds for programs in Haiti. The precise sources and amounts of funds that A.I.D. intends to use for the \$20 million fast disbursing assistance for Haiti this Fiscal Year are:

ESF:	\$7,178,000	Reprogrammed from Bolivia
	8,000,000	Reprogrammed From the TCIP reserve
	2,800,000	Reprogrammed from Sudan
	22,000	Reprogrammed from Peru
	<u>\$18,000,000</u>	ESF Subtotal
DA:	2,000,000	Reprogrammed from RDO/C (\$500,000) and Jamaica (\$1,500,000)
Total	<u>\$20,000,000</u>	

I wish to thank you and the Subcommittee for working with us to identify funding for the high priority Haiti Program. If I can be of further assistance, please let me know.

Sincerely,

M. Peter McPherson

The Honorable Robert W. Kasten, Jr.
Chairman, Subcommittee on
Foreign Operations
United States Senate
Washington, D.C. 20510

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J. KEITH KENNEDY STAFF DIRECTOR
FRANCIS J. SULLIVAN, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510

August 14, 1986

The Honorable George Shultz
Secretary of State
Department of State
Washington, D.C.

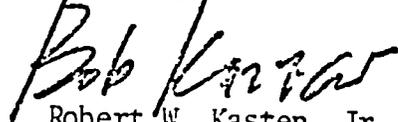
Dear Mr. Secretary:

The purpose of this letter is to respond to communications I have had from both Deputy Secretary of State John Whitehead and Peter McPherson regarding the State Department's desire to reprogram funds for programs in Haiti.

I received a letter from Administrator McPherson yesterday detailing the source of the funding for the Haiti reprogramming, and while, as you know, I believe the reduction you are suggesting to the Central American program is wrong, nonetheless I will not object to your suggestions and therefore the subcommittee lifts the hold we have placed on the reprogramming.

At the same time, however, before the Department decides, if it decides, that the funds you have been holding back for Sudan should be made available for other countries, the subcommittee would like to be fully consulted before you make any final decisions in that regard.

Sincerely,



Robert W. Kasten, Jr.
Chairman, Subcommittee on
Foreign Operations

RWK:jdb

CLASSIFICATION:

AID 1120-1 (8-88)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO. 521-0200 521-K-601 Amendment #1
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	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 <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD N/A
14. TRANSACTION ELIGIBILITY DATE N/A		
15. COMMODITIES FINANCED N/A		

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

CLASSIFICATION:

12

Dept. of State

ACV	MRN	DTG
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UNCLASSIFIED

SPECIAL CHARGES

DP AID/LAC/DP: JCLARY #0198K

CP-B/13/86 X75666 TEL EXT

APP M/FM/CAD: JDOCKTER

1 AID/LAC/DP: CDWILLIAMS	2 AID/LAC/CAR: RMACALISTER (INFO)
3 AID/LAC/DR: FZALLMAN (INFO)	
5 CLEARANCES	6 CLEARANCES
7	8

DES REQ DISTRIBUTION

4 NIACT IMMEDIATE ADDRESSES PORT AU PRINCE

INFO PRECEDENCE INFO ADDRESSES

SPECIAL CHARGES

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: FY 86 PROGRAM FUNDS BUDGET ALLOWANCE

1. AA/LAC BUDGET ALLOWANCE FOR BPC LESABE-35521-KG31 HAS BEEN INCREASED BY DOLS 10,822,000 TO A NEW TOTAL OF DOLS 18,000,000. INCREASE APPLICABLE TO PROJECT 0200, ECONOMIC RECOVERY ASSISTANCE.

2. PAAD NO. 521-K-601, AMENDMENT NO. 1. 44

JD B
JC/K

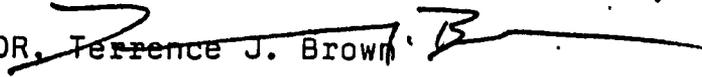
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13

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON D C 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, LAC

FROM : LAC/DR. Terrence J. Brown 

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

Action Requested: That you approve the \$20 million Economic Recovery Assistance Program, which provides balance of payments support to Haiti, and authorize the first \$7.178 million.

Background: 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, has taken positive steps to restore fiscal and monetary control and responsibility to the government, and has announced a timetable for elections for a new civilian government.

With the lowest per capita income in the hemisphere and five years of decline in GDP per capita, Haiti desperately needs to begin to grow economically. It will need significant assistance from the donors to meet its financing needs, and has taken steps to obtain this assistance. The GOH expects to initiate drawings on an IMF Structural Adjustment Facility by September, and develop a Structural Adjustment Credit with the World Bank by early in 1987. A.I.D. has provided significant food aid during FY86, and USAID/Haiti has requested \$20 million in balance of payments support to help bridge a foreign exchange and fiscal shortage and pave the way for successful implementation of those programs without further economic contraction.

Discussion: The balance of payments request was submitted to AID/W in March, 1986, shortly after the departure of Duvalier. The PAAD indicated that for the Haitian economy to grow at a 2% rate, additional balance of payments support totalling \$40 to \$86 million would be needed during FY86. The PAAD requested authorization of a \$20 million Modified Commodity Import Program to finance petroleum imports for a six month period. At the review of the PAAD, which was held on March 28, it was decided that the assistance should be provided in the form of a cash transfer. The PAAD was subsequently revised to reflect this decision.

It has taken several months to locate financing for the program. In mid-June, it was decided to fund the program by reducing the Trade Credit Insurance Program reserve by \$12.822 million, and reprogramming \$7.178 million from the Bolivia program. An advice of program change was sent to Congress on June 26 advising AID's intention to fund the project from these sources. On July 11, a letter was received from Senator Kasten placing a hold on the use of funds from the TCIP reserve. Apportionment of the \$7.178 million from the Bolivia program has now been started, and efforts are still underway to find appropriate sources of financing for the remaining \$12.822 million.

After the mid-June decision on financing referred to above, and in view of the internal changes in Haiti since the preparation of the original PAAD, a cable was sent to USAID/Haiti (TAB A) which requested transmission of a revised conditionality strategy, and suggested some elements of that strategy. The Mission responded (TAB B) with a revised strategy which was reviewed on July 23. The review concluded that Mission's proposal is a sensible and achievable strategy.

At the review, the Haiti Mission Director proposed that the first \$6 million be disbursed without substantive conditionality, and that the substantive conditions precedent proposed in the cable for first disbursement of \$10 million be made CPs to a second disbursement of \$4 million. The local currency counterpart to the first \$6 million disbursement would be used for immediate budget support to the GOH, which would enable it to stay within the limits of its IMF shadow program at a delicate point in its negotiations with the IMF on a new Structural Adjustment Facility. This proposal also takes into account that the amount of funds available now (\$7.178 million) is less than the \$10 million the Mission expected to have at the time of first disbursement. It was decided to recommend approval of the PAAD to you with this further revision of the conditionality strategy proposed by the Mission.

Subsequent to the review, the Mission cabled some additional changes to the proposed conditionality (TAB C). These changes resulted from negotiations on the text of the Agreement with the Haitian Government. The changes were reviewed at a meeting of officers from the relevant offices on July 25, and were accepted, with one exception which is noted in the proposed outgoing cable (TAB D).

The PAAD facesheet has been revised to reflect the above changes. This Action Memo will be included in the first few pages of the printed version of the PAAD to provide an explanation of the changes in the program that have been made since the original PAAD review in March.

Recommendation: That you: (1) sign the facesheet of the attached PAAD (TAB E) which approves the \$20 million Economic Recovery Assistance Program, and authorize the first \$7.178 million of balance of payments support under the Program; and (2) approve the attached cable (TAB D) which advises the Mission that it may proceed to sign an agreement with the GOH, and disburse the first \$6 million subject only to satisfaction of relevant legal CPs.

Attachments:

- TAB A - State 203574 (Confidential)
- TAB B - Port-au-Prince 04918 (Confidential)
- TAB C - Port-au-Prince 05172 (LOU)
- TAB D - Draft Outgoing Cable
- TAB E - PAAD

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- TAB C - Port-au-Prince 05172 (LOU)
- TAB D - Draft Outgoing Cable
- TAB E - PAAD

Clear: LAC/DP, WWheeler (draft)
 GC/LAC, GDavidson (draft)
 PPC/EA, KKaufman (draft)
 ARA/CAR, HEisner (draft)
 ARA/ECP, RBeckham (draft)
 LAC/CAR, RHechtman (draft)

Draft: LAC/DR/CP, EZallman: 7/22/86:75246

Clear: LAC/DP, WWheeler RSQ
 GC/LAC, GDavidson RSQ 7/22
 PPC/EA, KKaufman RSQ
 ARA/CAR, HEisner RSQ
 ARA/ECP, RBeckham RSQ
 LAC/CAR, RHechtman RSQ
 DAA/LAC, MButler RSQ

Draft: LAC/DR/CP, EZallman: 7/22/86:75246

PROJECT NUMBER

521-0200
521-K-601

PROJECT TITLE

HAITI ECONOMIC RECOVERY ASSISTANCE PROGRAM

TABS A, B & C MARKED CONFIDENTIAL

SEE CONFIDENTIAL HOLDING FILE

UNCLASSIFIED

AID/LAC/DR:EZALLMAN-TLS

2/25/86 EXT-75246

AID/AA/LAC:DINK

AID/LAC/DP:WHEELER {DRAFT}

AID/PPC/EA:KKAUFFMAN {DRAFT}

STATE/ARA/ECP:RBECKHAM {DRAFT}

AID/LAC/DR:TJBROWN {DRAFT}

AID/GC/LAC:GDAVIDSON {DRAFT}

STATE/ARA/CAR:HEISNER {DRAFT}

AID/LAC/CAR:RHECHTMAN {DRAFT}

IMMEDIATE

PORT AU PRINCE

AIDAC

E.O. 12356: N/A

TAGS: N/A

SUBJECT: ECONOMIC RECOVERY ASSISTANCE PROGRAM (521-0200)

REF.: (A) PORT-AU-PRINCE 04919 (B) PORT-AU-PRINCE 05172

1. ON JULY 25, 1986, AA/LAC AUTHORIZED PAAD FOR DOLS 7.178 MILLION. YOU MAY PROCEED TO SIGN AGREEMENT FOR THAT AMOUNT AND DISBURSE THE FIRST DOLS 6 MILLION SUBJECT ONLY TO SATISFACTION OF STANDARD LEGAL CP AS PROPOSED REF B. THE CPS TO DISBURSEMENT FOR ALL TRANCHES PROPOSED REF. B ARE HEREBY APPROVED, EXCEPT THAT THE PHRASE QUOTE CONSISTENT WITH A.I.D. PROCEDURES UNQUOTE IN FIRST SENTENCE OF CPS TO DISBURSEMENT FOR EACH TRANCHE SHALL BE CHANGED TO READ QUOTE IN FORM AND SUBSTANCE SATISFACTORY TO THE PARTIES UNQUOTE. 44

DI
EZ
EK

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 <i>Gerald Zarr</i>	8. OYB INCREASE
8. APPROVAL REQUESTED FOR COMMITMENT OF:	\$ 7,178,000	TO BE TAKEN FROM: ESF
9. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	10. APPROPRIATION - ESF BUDGET PLAN CODE
11. COMMODITIES FINANCED	13. ESTIMATED DELIVERY PERIOD N/A	14. TRANSACTION ELIGIBILITY DATE N/A

16. PERMITTED SOURCE U.S. only: Limited F.W.: Free World: Cash: \$7,178,000	17. ESTIMATED SOURCE U.S.: \$ 7,178,000 Industrialized Countries: Local: Other:
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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	20. ACTION
LAC/DP: Wheeler <i>RSO</i> DATE: 7/22/86	<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED <i>Dwight Ink</i> July 25, 1986 AUTHORIZED SIGNATURE DATE
LAC/DR: TJBrown <i>TJB</i> DATE: 7/24/86	
LAC/CAR: RHechtman <i>RH</i> DATE: 7/23/86	
GC/LAC: GDavidson <i>GD</i> DATE: 7/21/86	
M/EM: CChristensen <i>CC</i> DATE: 7/25/86	
ARA/ECP: RBeckham <i>RB</i>	TITLE

CLASSIFICATION:

Original signature in files

W

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.

CLASSIFICATION:

AID 1120-1		AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT		1. PAAD NO. 521-0200 <i>521-K-601</i>
PAAD				2. COUNTRY HAITI
				3. CATEGORY Cash Transfer
				4. DATE 3/21/86
5. TO: Dwight Ink AA/IAC				6. OYB CHANGE NO. Not Applicable
7. FROM: Gerald Zarr <i>Gerald Zarr</i> Director, USAID/Haiti				8. OYB INCREASE
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 7,178,000				10. APPROPRIATION - ESF BUDGET PLAN CODE
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD N/A	14. TRANSACTION ELIGIBILITY DATE 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:

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(continued on next page)

19. CLEARANCES	DATE	20. ACTION
LAC/DP, WWheeler		<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
LAC/DR, TJBrown		
LAC/CAR, RHechtman		
GC/LAC, GDavidson		
AA/PPC, Mdagata		
M/EM, CChristensen <i>ED</i>	7-25-86	
DAA/IAC, MButler		
		AUTHORIZED SIGNATURE
		DATE
		TITLE

CLASSIFICATION:

22

JUL 24 1986

NOTE TO: DAA/LAC, Malcolm Butler

FROM : LAC/DR, Terrence Brown **Terrence J. Brown**

SUBJECT: Haiti Balance of Payments
Support Program

The attached analysis in all LAC countries was prepared to assess the options for Haiti. I recommend that we go for 6-8% of the total (\$1-1.5 million)

23

HAITI: TRUST FUND AMOUNT DECISION MATRIX
FY 1986

	<u>OE Budget</u>	<u>Program Fund</u>	<u>Trust Fund</u>	<u>Trust Fund OE Budget</u>	<u>Trust Fund Program Budget</u>
Belize	1,359.0	1,500.0	290.0	22%	19%
Bolivia	4,197.5	7,178.0	700.0	17%	10%
RDO/C	5,666.2	10,500.0	300.0	5%	3%
Costa Rica	4,927.6	120,582.0	2,463.8	50%	2%
Dominican Rep.	3,041.1	40,000.0	600.0	20%	2%
Ecuador	5,483.2	20,097.0	500.0	14%	3%
El Salvador	7,618.7	117,000.0	3,244.1	43%	2%
Guatemala	2,435.8	47,250.0	250.0	10%	1%
Haiti	5,381.3	20,000.0	X	Y	Z
Honduras	7,011.7	61,248.0	1,600.0	23%	3%
Jamaica	4,097.9	59,334.0	1,752.7	43%	3%
Panama	5,393.0	5,742.0	- 0 -	NA	NA

Average excluding Panama & Haiti

26%

3%

For Haiti	<u>IF</u>	<u>THEN</u>	
	<u>X=</u>	<u>Y=</u>	<u>Z=</u>
	500	9%	2%
	1000	19%	3%
	1500	28%	5%
	2000	37%	10%

24