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**Haiti:
Private Sector Assessment**

Final Report

U.S. Agency for International Development

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EXECUTIVE SUMMARY

This report was commissioned by USAID/Haiti to assist the Mission in developing a strategy for private sector development in Haiti. A team of experts was sent to Haiti under the Private Enterprise Development Support project (PEDS-III) in April and May of 1997 and the team leader returned in late 1997. The team included the Private Sector Assessment Team Leader, an Agribusiness and Private Sector Specialist, a Tourism Specialist, a Specialist in Competitiveness Analysis, a Haitian Macroeconomist and a Haitian Business and Finance Specialist. The team was briefed by those who had prepared an earlier USAID food security study that stressed the importance of secondary cities and therefore went to great lengths to get out of the capital city and visit most of Haiti's major regions and secondary cities. There the team interviewed private and public sector leaders and visited representative businesses and production sites. The team also visited other donors in Washington as well as in Haiti.

The team recommends that USAID strategic objectives focus on 1) large scale creation of productive and sustainable jobs, 2) increasing private investment levels in order to raise productivity and GDP per-capita, 3) strengthening the private sector, including small- and medium- enterprises, market mechanisms, advocacy and resource institutions, 4) improvement of the public-private sector dialogue, 5) and greater decentralization and democratization of economic activity. Key benchmarks would include annual job creation above the number of new entrants to the urban labor force (currently about 40,000 per year), private investment levels growing by at least 2% of GDP per year to an eventual level of 20% of GDP, and GDP per capita growth above 2% per year, institutionalized and responsive dialogue between private and public sectors, and strong economic growth and employment generation in secondary cities and regions.

The major constraints facing private sector development in Haiti can be summed-up by the five "I's": Insecurity, Infrastructure deficiencies, Isolation from markets, technology and information, Inaction (by the GOH), and Institutional incapacity. Donor interventions in any area (health, education, governance, infrastructure or economic growth) will make only limited impact unless the Haitian leadership can create the conditions for rapid, sustained and broad-based economic growth. This, in turn, cannot be done by government investment and donor funding alone. It requires strong and rising levels of private investment. Unfortunately, the environment in Haiti is characterized by net dis-saving by private investors and an aggregate level of private investment of only 3.5%. There is a general climate of personal insecurity and political uncertainty which deters investment. The deficiencies in transport, telecommunications, energy and other infrastructure adds to costs and reduces the incentive to invest, although some of these are being addressed with donor funds. Government inaction was also cited by many private investors who need signals, legislative reforms and policy changes before they will act.

Haiti is potentially competitive in a variety of areas including agricultural products, tourism, handicrafts, and manufacturing assembly. However, the team recommends a competitiveness strategy not based on low-cost labor, cheap foreign currency and cheap raw materials. Rather, it

recommends a strategy that focuses on productivity, niche markets, and improvement in the capacity of human resources

Tourism could generate 25,000 to 40,000 jobs by the year 2004. Cruise ships, auberge tourism, cross-border stay over visits and resort tourism could generate \$190-\$285M. Cruise ships were already visiting enclave areas at the time of the team's arrival. The team also visited cruise ship companies in Miami and helped to spur the decision of one cruise line to visit Cap-Haitien, an effort USAID has supported. The cultural appeal of the country could generate jobs and foreign exchange. Insecurity and a poor image still affect Haiti's competitiveness, however the existence of a large group of tourists who annually visit the Dominican Republic offers an opportunity. Auberge tourism, directed at the Haitian diaspora, would have the additional advantage of contributing to US-Haiti informal ties and the remittances that help many Haitian families.

Agricultural growth of 4% over eight years can generate approximately 250,000 new jobs. Agribusiness competitiveness could help generate employment for many Haitians who live in rural areas and would also spur economic growth in secondary cities. The labor force is still overwhelmingly rural and so any strategy to make an impact must focus on agricultural and agribusiness employment including processing, distribution, inputs, supporting services, and commerce. Agricultural growth of 4% would generate about 250,000 jobs over the next eight years. However, deficient storage, transport, distribution and processing systems limit agricultural productivity. Agroindustrial investment could help to improve the fortunes of secondary cities that used to thrive on agricultural processing and commerce. Severe deforestation and dilapidated irrigation systems limit productivity. Rice production in the country's breadbasket is probably not the best long term use of Haiti's resources. USAID has already demonstrated some early successes in helping to stimulate exports of mangoes, cocoa and Haitian Bleu coffee and Haiti can boost its productivity in both exports as well as processed food staples.

Handicraft products currently generate about \$5-10M per year and this could grow to \$20-30M per year with growth in tourism and by reducing the isolation between what markets are demanding and what Haitians are producing. This could generate between 15,000 and 25,000 new jobs.

Assembly exports reached a peak of about 66,000 employees and \$320M in exports. This was devastated during the embargo and the entrance of low-cost competitors such as China have changed the competitive environment. However, Haiti could achieve these levels again and surpass them (as they do in the neighboring Dominican Republic). A number of talented entrepreneurs are still at work and the workforce is motivated and skillful. Mid-level technical and professional people are lacking.

The team recommends a strategy which addresses the fundamental problem. The basic problem in Haiti is that diverse elements of Haitian society, including the public and private sector leadership, do not trust each other. Outside of a few exceptions in the GOH, it is unclear that the political leadership understands and is committed to development of a private market economy. The private sector leadership is uncertain about the future and feels insecure in an environment of political

uncertainty. Populist approaches further deepen the breach between the private and public sector and between the general citizenry and the formal private sector. Elements of the Haitian political leadership frankly do not trust the donors either and suspect the donor private sector agenda. The team recommends that USAID recognize and react to this fundamental problem in several ways. First, it can encourage and finance an exchange between the top level public and private leadership of Haiti and that of countries such as Mali, Ivory Coast, Uganda and South Africa. Second, it recommends a scenario planning and consensus building exercise such as that which helped pave the way for consensus in South Africa. Third, it recommends an initiative to assist the secondary city private/public leadership in implementing private sector initiatives. Fourth, assistance to strengthen private capacity for policy analysis and dialogue would continue. Fifth, some limited assistance to Congress would be provided in ways that generate support and understanding of private sector development.

The team also recommends continued focus on small- and medium-enterprise, especially in secondary cities and rural areas. USAID can build on the work already being done to assist small holders. Here the approach of linking markets to farmers will have more impact than the traditional approaches which focus only on production (research, extension, farmer credit, etc.). By encouraging decentralization of energy, ports, commerce and regional initiative, new watersheds for agricultural exports can be developed in different regions. USAID could also help to spur market town collection centers and market-based credit schemes based on best practices and lessons learned elsewhere.

This report contains a listing and description of more than 60 action options that were developed specifically to address economy-wide and sector-specific constraints identified above, and to make it possible for leading opportunities in each sector to be developed more rapidly than would otherwise be the case. These actions are grouped into three major components, and are presented as elements of a single comprehensive strategy for private sector stabilization, reactivation and development in Haiti, meant for the consideration of USAID/Haiti and the other donors working on private sector issues. Every activity listed is one that is considered to be an important element of an overall strategy. Nonetheless, it is recognized that USAID will not be able to directly implement the entire strategy on its own. Rather, we suggest, that USAID attempt to fulfill an overall monitoring, coordination and support role for the private sector among the donors, and agree with them on a distribution of activities between their respective direct implementation portfolios.

The three main components of the proposed strategy are as follows

- Private investment and employment generation, composed of a series of activities that are intended to have a direct impact on private sector investment and employment generation in the short- (less than 3 years) and medium-terms (4 to 5 years)
- Public-private partnership, intended to (i) address major deficiencies in the content, structure and frequency of the policy dialogue between government and the private sector, (ii) foster the development of consensus on the broad directions of national policy, and (iii) encourage

the formation of open and participatory alliances between government at all levels and private sector groups, for the accomplishment of specific objectives that are in Haiti's urgent economic interest

- Human resources and institutional strengthening, to be implemented at both the economy-wide and sectoral levels to gradually strengthen the principal bases for sustained growth and development over the long-term

I USAID STRATEGIC OBJECTIVES FOR PRIVATE SECTOR DEVELOPMENT IN HAITI

In consultation with USAID Mission staff, the Private Sector Strategy team has identified five main objectives that, along with an assessment of constraints and resource availabilities, can serve as a framework for strategy development. The five strategic objectives for private sector development in Haiti are the following:

- Large-scale job creation in the short- and medium-term
- Achievement of accelerated but sustainable economic growth rates
- Strengthening the Haitian private business sector
- Establishment of functioning private/public sector partnerships
- Decentralization and democratization of a more competitive, market-based economy

The scope and rationale for each proposed strategic objective is briefly described below:

A Large-Scale Job Creation in the Short- and Medium-Term

The Haitian population currently numbers approximately 7.3 million people. The urban share of population is estimated to lie between 33 and 40 percent¹, while the economically-active population (aged 15-64) is estimated at about 48 percent, or 3.5 million people. The labor force, defined as that portion of the economically-active population that is working or actively seeking work outside the home, is probably about two-thirds this number, or 2.4 million people. New entrants to the labor force are currently estimated to number about 100,000 annually, and this number is projected to increase to about 180,000 annually by the year 2010. By 2010, it is likely that at least half of Haiti's population will be urban.

Based on these estimates, it would appear that currently about 40,000 new entrants join the urban labor market every year, and that this number will increase to about 90,000 annually by 2010.

Rural unemployment and underemployment is relieved by migration to the cities. The movement of population from the country into urban areas is a necessary phenomenon, both to allow a more viable agricultural economy to develop in Haiti, and to permit a growing number of Haitians to gain access to the cultural and economic benefits of urban life. Economic growth throughout history has been accomplished in part through the agglomeration of infrastructure, enterprise, labor and public services into urban areas, and Haiti will be no exception. It is therefore legitimate to focus on the issue of job creation in the urban context, including, of course, both existing and newly-developing secondary and tertiary population centers.

¹ Sources on population and labor force data include The World Bank and Chemonics International, Inc. *USAID Strategy to Improve Food Security in Haiti, February 1997*.

A very large proportion of Haiti's urban labor force is either unemployed -- and is involuntarily forced to depend on the earnings of others for survival -- or is severely underemployed, meaning that it is engaged in work that is erratic and of very low productivity and remuneration. Underemployment and the attendant poverty of the underemployed is becoming increasingly prevalent even in the formal economy of Haiti, but undoubtedly continues to be concentrated in the informal sector. No reliable statistics on un- and under-employment in Haiti's cities currently exist, but a reasonable guess would be that something on the order of 15-20 percent of the urban labor force is openly and involuntarily unemployed -- and hence forced into dependency -- while another 30-40 percent is severely underemployed and consequently extremely poor. Certainly, as is corroborated by other recent studies including the above-cited Chemonics Food Security study, at least half of Haiti's urban population must be characterized as being -- broadly speaking -- unemployed and extremely poor.

The challenge of urban job creation is thus two-fold: to provide a sufficient number of new jobs to accommodate new entrants to the labor force and the openly unemployed, and also to raise the productivity of employment generally so as to provide for a more acceptable level of remuneration and a gradual reduction in the prevalence of extreme urban poverty. In general, raising productivity and remuneration levels will mean the creation of jobs in the formal economy, or the *formalization* and expansion of existing informal sector businesses.

Table I 1 below summarizes available data and estimates on labor force, employment and job creation issues.

Table I 1 Haiti Labor Force and Job Creation				
Estimate	1997	notes	2010	notes
Total population	7.3 million		8.6 million	
Economically-active	3.5 million	48 % of TP	4.3 million	50 % of TP
Labor force	2.4 million	67 % of EAP	2.8 million	65 % of EAP
Urban labor force	865,000	36 % of LF	1,400,000	50 % of LF
Annual new entrants (urban)	40,000	FS Study est	90,000	FS Study est
Unemployed	150,000	17.5 % ULF	110,000	8 % ULF
Underemployed	325,000	35.0 % ULF	170,000	12 % ULF
Job creation	60,000		90,000	

As shown above, in addition to meeting the annual new employment needs of new labor force entrants in Haiti's urban areas, reducing open unemployment from currently estimated levels to no more than 8% of the urban labor force by the year 2010 will also require a reduction of about 40,000 in the current number of unemployed, and a reduction of serious underemployment during this same period requires the creation of another approximately 155,000 jobs with more acceptable stability and remuneration characteristics. In total, the urban job creation challenge for Haiti is currently

estimated at about 60,000 new jobs per year, to accommodate new entrants and reduce un- and under-employment to more tolerable levels. This requirement will grow to a level of about 90,000 productive new jobs per year by the year 2010, by that time merely to accommodate new urban labor force entrants.

We re-emphasize the following: 1) alleviating rural poverty requires the development of sufficient numbers of new urban jobs to allow a sustained high rate of rural-to-urban migration, as well as a gradual increase in the amount of farm land available per agricultural worker, and, 2) alleviating urban poverty will require the creation of stable, productive and more highly remunerated jobs, not simply a further swelling of the ranks of informal sector urban workers existing day-to-day at the bare edge of subsistence. A viable, competitive and market-oriented private sector economy must be developed to provide the number and the quality of jobs required to meet the job creation challenge that will be faced in Haiti over the coming decade.

B Shift to a Sustainable, Accelerated Economic Growth Plan

Although easily as much as 15 to 20 percent of economic activity in Haiti is likely to go unrecorded, official statistics report Gross Domestic Product (GDP) to have been about Gds 41.5 billion, or U.S. \$2.6 billion, in 1996. With a population estimated at about 7.2 million at the end of 1996, this would indicate an estimated GDP per capita of about \$360 current U.S. dollars. This is one of the lowest levels of GDP per capita anywhere in the world, only about one-quarter of the corresponding figure for the Dominican Republic, about one-twentieth of that of prosperous Barbados, and only comparable in the Western Hemisphere with Nicaragua and, less so, with Guyana. On average, sub-Saharan Africa has a GDP per capita about 50 percent above that of Haiti, with only severely-distressed economies such as those of Sierra Leone, Chad, Mozambique and Rwanda being estimated at levels significantly lower than in Haiti.

The recently completed Food Security study sponsored by USAID in Haiti approached the issue of poverty from a nutritional perspective, finding a direct link between food insecurity, malnutrition and poverty and estimating, on the basis of physical measurements and other indicators of nutritional status, that 2 out of 3 people in Haiti are poor, and that 1 out of every 2 is extremely poor. Alleviation of such extreme levels of poverty is a necessity for the maintenance of social and political stability in the coming decades, and it will be necessary to bring about the conditions that can lead to a sustained period of rapid growth for poverty levels to be significantly reduced.

What can theoretically be achieved in a twenty-year period?

Following the relative stagnation that is likely to characterize 1997, it is possible to imagine a kind of dramatic awakening taking place in Haiti leading to policies that could successfully attract significantly expanded investment flows and which in turn could produce growth in the 4 to 5 percent range in 1998-1999, followed by a period of sustained high investment and growth in the range of 8 to 10 percent per year for about ten years, with a subsequent tapering off of growth to a more sustainable but still high growth rate of something on the order of 7.5 percent per year.

Cumulatively, such an awakening could produce two decades of growth at an average of just under 8 percent per year, and, if population growth can simultaneously be slowed from the current 2 percent per year to an average in the vicinity of 1.5 percent, GDP per capita could conceivably be elevated in Haiti from the current estimate of 360 dollars to the neighborhood of 1,250 dollars -- still less than today's per capita GDP estimate for the Dominican Republic, but close to that level, and also comparable to current levels in countries such as Guatemala. Even following such a dramatic awakening and twenty years of sustained, intensive growth, Haiti would remain a poor country, though perhaps not so desperately poor, and perhaps with some hope of consolidating a more open, stable and democratic society in the second and third decades of the twenty-first century.

Achieving these levels of growth would, of course, require a dramatic structural transformation of the Haitian economy, but not to an extreme that has not already been achieved in other developing countries of the world. Simple simulations based on reasonable estimates of incremental capital-to-output ratios (ICOR) for Haiti indicate, most tellingly, that gross domestic investment would have to be elevated and sustained at levels on the order of 30 percent of GDP in order to produce the kind of growth being discussed under this scenario, up from about only 9 percent of GDP, financed entirely by foreign savings, in 1996.

In structural terms, such a transformation would be indeed dramatic. In comparative terms and in absolute magnitudes, however, such an achievement does not appear to be so far out of reach. During the first half of the 1990s at least a dozen countries around the world achieved gross investment rates near or above the 30 percent mark. These included the usual culprits such as Thailand (GDI 40-42 % of GDP), Korea (34-39 %), Malaysia (31-39 %) and Singapore (32-40 %), but also countries such as Chile (25-29 %) and, interestingly, Mauritius (28-32 %) and Cape Verde (32-45 %). These countries have been able to achieve and sustain commensurately high rates of growth during the 1990s, in the range of 6 to 12 percent per annum. In general, significant inflows of foreign capital have accompanied domestic savings in the financing of investment, with Thailand, for example, regularly financing 10 to 20 percent of gross domestic investment with foreign capital. As a smaller and much poorer country, Haiti would have to rely on foreign capital inflows to an ever greater extent to finance the required levels of investment.

Nonetheless, the magnitudes are manageable. Considering the very small size of the Haitian economy it is well to realize that 30 percent of GDP in 1996 only means about \$750 million dollars. Gross domestic investment was projected by the GOH and the IMF at about \$300 million for 1997, meaning that the difference between dead-in-the-water stagnation and a dramatic awakening such as we are imagining is only about \$450 million per year, a considerable flow for Haiti, but one that could obviously easily be mobilized by the Haitian and international private sector within a relatively few years if genuinely favorable economic and business conditions could be brought into being.

What can realistically be expected over the next twenty years, absent a dramatic awakening?

Unless fundamental and dramatic changes in attitudes and outlook can be brought about within all the major stakeholder groups in a position to influence economic development in Haiti, about the

best that can be hoped for is performance such as is described in the Extended Structural Adjustment Facility (ESAF) agreement signed between the Government of Haiti and the International Monetary Fund in 1996. While the ESAF projections extend only to 1999, the basic scenario is based on regaining and then sustaining steady growth at about 4.5 percent per year in real terms. While this isn't terrible in terms of international experience, particularly in countries having need of an ESAF, a simple extrapolation of such a scenario over a twenty-year period shows just how disappointing a result is to be expected if nothing more than this can be achieved. Assuming continued population growth at about 2 percent, a twenty-year extrapolation of the ESAF scenario reveals a future in which GDP per capita has grown to only about \$580 dollars per year, a level comparable to that of Guyana *today*, and significantly below that of other poor countries such as Bolivia, Honduras, and Senegal, and only about one third of neighboring Dominican Republic, *today*. As pointed out by the Food Security study team, structurally, little would have changed after twenty years under such a scenario: about two-thirds of the Haitian population would still be poor, and about half would still be very poor.

For a country like Haiti to reduce permanently the number of people in poverty, its economy must grow for a number of years at a rate of eight to ten percent a year. Fortunately, experience in other parts of the world suggests that growth of that magnitude, though still years away for Haiti, is not a pipedream. For it to occur, however, one must think big and be ready to depart from business as usual.²

The Haiti Private Sector Strategy team wholeheartedly endorses the conclusions of the Food Security team with regard to the economic growth objectives that we now jointly recommend to USAID/Haiti. It will take a few years to get there, but it can be done, and the framework and the preparations for bringing such growth about need to be begun now.

C Strengthening of the Private Sector

International development experience gained since World War II has shown that quantitative measures of growth are not an adequate guide or goal for the achievement of sustainable economic development. In particular, the failures of State-directed development during the 1960s and 1970s have highlighted the importance of making sure that growth is accomplished through the development of functioning, competitive markets and market institutions, including not only the vibrant and competitive private enterprises needed to perform productive, distributive and financial functions, but also the regulatory and self-regulatory organizations needed to safeguard the open and competitive framework which ultimately guarantees the efficiency of the system. Large-scale donor-financed and government-directed programs, no matter how big the push or intelligent the planners, have not produced lasting development: by and large, the negative by-products of such *dirigisme* – gross misallocation of resources, repression of domestic savings and capital markets, long-term distortion of both product and financial markets, bloated bureaucracies and government expenditure

2 Chemonics International, Inc *op cit*, p V-5

budgets, a rigid and obstructive regulatory framework, crony capitalism and massive corruption -- have far outweighed the possible gains of forcing investment and growth beyond the capabilities of markets and market institutions to absorb and manage them

Indeed, one might conclude that such qualitative and institutional aspects of development are at the essence of the sustainability of growth and development in the long-run. If, as is the case in Haiti today, private enterprises and market institutions are incapable of or unwilling to play the roles required to achieve rapid growth -- if, as some might phrase it, the supply response is weak -- then, it is at the essence of the development problem to ascertain why the private sector and market institutions are failing to perform, and to institute the necessary measures to remove critical impediments and strengthen capabilities

Public sector investment has a role to play, especially in a situation like Haiti's where decades of depredation and decay have left the nation's infrastructure in a shambles and so much lost ground needs to be made up. Public sector investment can never be a substitute for private investment, however, only a complement which ultimately must regress to a limited, secondary and supporting role as open and competitive markets and market institutions develop to more efficiently guide the allocation of investment. Even when public sector investment is implemented through contracting with the private sector, what is accomplished, beyond the creation of a few jobs and the possible enrichment of a few private contractors, is the erection of a market structure composed of a politically-managed and motivated monopsonist buyer, on the one hand, and a usually small group of dependent, crony capitalists on the other, who become adept at playing the governmental game but are no more capable of competing in an international marketplace than the government bureaucracies themselves. No lasting capability to grow and evolve is created, hence no long-term sustainability in an increasingly dynamic and competitive world marketplace

Excessive reliance on government spending and pump-priming, even in the short-run, can produce a self-reinforcing negative dynamic that will virtually guarantee a non-productive outcome. In a democratic setting such as Haiti is attempting to establish, it is vitally important politically that the market and private market institutions be perceived in a positive light by the large, needy, voting masses. Since you can only fool all of the people some of the time, this means that it is vitally important that the market and private market institutions in fact be enabled to perform a positive role in addressing the legitimate unmet needs of these large voting masses. Because the solutions to resolving market impediments and constraints are perceived as being too difficult for donors to address in the short-run, if, for expediency a development strategy conceding a predominant role to State-directed public sector investment is adopted, it can only be expected that the voters will perceive the State as benefactor and the private sector as ineffectual or worse. This is true especially in a country like Haiti that has never known anything like an open and competitive market economy, and that has been conditioned by centuries of cultural experience to accept a paternalistic view of the State

In what follows below, we will argue strongly that the development of functioning, open and competitive markets and market institutions is at the heart of bringing about economic development

and rapid economic growth in Haiti. The private sector, that is to say everybody except the government, **is Haiti**, and the job at hand is to find the ways to make Haiti begin to work, at last, for the benefit of all its people. To the extent that deeply embedded political risks and other critical constraints exist today that are keeping the private sector from moving in the necessary directions, then the key task of economic development **today** becomes precisely that of finding ways to mitigate these risks and overcome these critical constraints so that the functioning markets and market institutions, **the only reliable path to sustainable growth** and poverty alleviation in the long-run, can be born and begin growing in Haiti.

Strengthening the private sector, broadly conceived as has been described above in terms of open and competitive markets and market institutions, is the main job in Haiti. It must be one of USAID's principal strategic objectives, and, we will propose, is an area where USAID can specialize within the broader community of donors, and provide the vision, the watchfulness and the leadership which is so badly lacking today.

D Establishment of a Functioning Private/Public Sector Partnership

A functioning private-public partnership is required to achieve higher levels of private investment, productivity improvement, and lower barriers to entry for micro and small business. In the past, this sort of private-public partnership was tainted by government corruption. Haiti needs a new model for cooperation and partnership but has limited historical experience on which to base it. While the GOH has begun implementing its economic reforms, it also encounters a vocal opposition, most recently from former President Aristide, who said of the reform program

"It is a game of organizing their own business rules which are good for those that have more, and bad for those that have less. For (the international community) it is them first, them next, and them in the end," (Reuter, 6/9/97)

Faced with this opposition and with the necessity for short-term crisis management, the GOH has been less attentive to forging private-public partnership. While such a partnership is not now evident in Haiti, fostering it must be a key objective for USAID as strong private-sector led growth will depend on it. The development and effective coordination of commercial policy requires an ongoing dialogue between leaders in the government and business communities. The business community is aware of the specific constraints which hinder the growth of their enterprises, whether they are policy-, finance-, or environmentally-based. An effective dialogue between the government and the private sector will enable the government to direct its economic development efforts much more efficiently.

Therefore, this study addresses the question of how to develop such a partnership given the very difficult environment currently prevailing in Haiti. This objective can be achieved in a number of different ways.

First, the consultants recommend that a Futures Scenario Planning Exercise be sponsored by private sector leadership groups such as CLED, the Chamber of Commerce and others, an exercise that USAID could help to fund. The exercise would be patterned on the model used by South Africa and which contributed to healing the polarization between the National Party and the ANC resulting in the economic and political consensus leading to the transition to the government led by Nelson Mandela.

Second, contacts would be fostered between Haitian political and economic leaders on the one hand and their counterparts from South Africa and Uganda where formerly socialist leaders have embraced and endorsed more effective economic strategies.

Third, business associations and civil society groups would be strengthened so as to contribute to policy dialogue, monitoring and analysis.

Fourth, assistance in promoting private-public partnership at the regional and local level would be provided.

Fifth, in sectoral and sub-sectoral interventions outlined below, targets of opportunity would be identified for engaging the public and private sector leadership in practical discussions to alleviate specific bottlenecks that emerge.

E Effective Decentralization and Democratization of Economic Activity

USAID/Haiti has focused on the issues of decentralization and democratization in the context of its Democracy and Governance Strategic Objective (SO1) *"More Effective and responsive Democratic Institutions and Empowered Communities"*. Business/economic activity and improved democracy and governance go hand-in-hand. Sustainable business growth requires stable and service-oriented democratic and governing structure/processes. Significant, sustainable growth will also require a widening of participation in the economy, providing all members of society with a stake in the economy, and broadening of economic interest from the historically restricted, core group of business families.

Sustainable business and economic growth will also require a redefinition of the role of central and communal government, to strengthen the public sector framework and underpinnings for business. Popular understanding of and support for business activity is also a contributing objective.

Many of USAID's activities, in SO2 and SO3 as well as in Democracy and Governance, have a regional or local focus or implementation. This is also the case for the activities of other donors and lenders. As such, these operations contribute to the objective of decentralization and democratization of economic activity. The idea of strengthening decentralized mechanisms and economies is therefore not new.

The LACTECH Food Security study highlighted the issue of generating economic activity in secondary cities. Outside of Port-au-Prince, as would be expected, there is huge demand for decentralization. In the consultants' interviews outside of Port-au-Prince, private and public sector proponents emphasized the benefit and importance of strengthening local structures and putting in place the frameworks that will allow the regional economies to realize potential independently of Port-au-Prince. In interviews, the business community in Port-au-Prince confirms the usefulness of this approach, and indeed, interviews indicate that the Port-au-Prince business community sees a great deal of opportunity in the regions, and exceptional costs in continued centralization of activity in Port-au-Prince.

Historically, the business activity in the regional centers did operate autonomously. There is a great amount of anecdotal evidence of previous business activity linking the secondary cities with rural areas, to serve domestic and international markets. Cities outside of Port-au-Prince were focal points of entrepreneurship and local governance, and possessed an entrepreneurial and intellectual population that contained strong cosmopolitan elements. Much of this activity and resource base collapsed or was drawn in to Port-au-Prince as services and policies became centralized, and as the infrastructure outside of Port-au-Prince crumbled. Planning efforts, such as the Transport Master Plan, encouraged this centralization. The construction of the flour mill at Port-au-Prince, and the consequent requirement to purchase flour milled in Port-au-Prince, reportedly caused significant damage to the economy of the Les Cayes region.

The Study has looked specifically at these issues of decentralized business activity. This has been done in an economy-wide sense -- identifying actions that should be undertaken on a generalized basis to strengthen business activity through decentralization and democratization. The Study has also specifically looked at the opportunities and usefulness of activities based on specific economic clusters (cities and hinterlands) outside of Port-au-Prince. In addition to any benefits that may accrue democratization and improved governance, this decentralized approach is founded on the potential for sound business and economic advantage, for example:

- Improved access to and ability to make use of decentralized economic resources,
- Avoidance of the dis-economies of scales and high transaction costs that are inherent in the Port-au-Prince business environment, and
- Creation of increased domestic competitiveness within Haiti

II ECONOMIC AND BUSINESS CONDITIONS AT MID-1997

A Overall Situation

Haiti is at a critical stage in the consolidation of its newly born democracy. Unemployment is extremely high³, and economic conditions continue to be severe -- even by the standards of this very poor country -- especially for families resident in the appalling slum areas of Port-au-Prince and for drought- and famine-stricken residents of the arid Northwest.

Haiti will not come close to achieving the GDP growth target of 4.5% established for 1997 in coordination with the IMF and international financial institutions, due to substantial underspending of the donor-financed public sector investment program, which in turn is due in part to a six-month delay in parliamentary approval of the current central government budget, in part to the collapse of the Smerth government, and in part to the debilitated condition and recent weak performance of the private sector. A general atmosphere of distrust and lack of cooperation continues to prevail between government and business leaders, while social and political stability are at substantial risk if economic conditions continue to deteriorate for the growing unemployed, underemployed and barely employed urban underclass.

Overall conditions appear to be at a truly critical turning point, and could well get worse before they get better. Conversely, timely and concerted action by government, labor, business and the international community -- if such can be brought about -- could also still well succeed in heading off a serious crisis and set a new course towards gradual but sustained recovery. Much will depend on decisions that will be taken by these actors in the next six months.

B Macroeconomic Indicators and Future Growth Scenarios

Table II.1 below summarizes recent macroeconomic estimates for 1996 prepared by the International Monetary Fund as a basis for the current Extended Structural Adjustment Facility (ESAF) program, that is currently still underway in Haiti. While the data are slightly out of date at this writing in July 1997, the structure of the Haitian economy and its current extreme dependence on external financing have changed very little.

3 Strictly speaking, the bulk of the unemployment problem in Haiti consists of acute underemployment, by which we mean extremely low labor productivity and consequent extreme poverty. Most employment is rural and in urban areas, informal and largely unrecorded. Despite the importance of remittances from family members living abroad, most poor Haitians do some work every day just to stay alive.

Table II 1 Haiti Macroeconomic Indicators - 1996

I Aggregate Expenditure, Savings, and Investment

	million US\$	% of GDP
Gross Domestic Product - GDP	2,595	100.0
Gross domestic expenditure	3,143	121.1
Consumption	2,912	112.2
Gross domestic investment	231	8.9
Public sector	140	5.4
Private sector	91	3.5
Financing of investment	231	8.9
National savings	(151)	-5.8
Public sector	(67)	-2.6
Private sector	(83)	-3.2
External savings	381	14.7

II Operations of the Non-Financial Public Sector

Central government current account	(78)	-3.0
Current revenue	197	7.6
Current expenditure	275	10.6
Public enterprises current account	12	0.5
Public sector savings	(67)	-2.6
Capital expenditures	140	5.4
Overall balance	(208)	-8.0
Financing	208	8.0
External	130	5.0
Domestic	86	3.3
BRH	88	3.4
Other	(8)	-0.3

III Balance of Payments

Current Account Deficit (-) (excluding grants)	(382)	-14.7
Trade balance	(314)	-12.1
Exports, f o b	86	3.3
Imports, f o b	400	15.4
Services (net)	(182)	-7.0
Remittances (net)	114	4.4
Financing	382	14.7
External grants	166	6.4
Capital account balance	156	6.0
Change in net international reserves	60	2.3

IV Price Indications

Inflation rate	16-20 %
Minimum wage rate	US \$0.28 / hr
Prime interest rate	~19 %
Exchange rate	Gdes 15-16 \$1

As shown, in 1996 it was estimated that gross domestic expenditure was about 21 percent higher than Gross Domestic Product, or GDP. Current consumption (at only about \$400 per capita, one of the lowest levels in the world) amounted to about 112 percent of GDP during the year, while investment spending -- mostly by the public sector and entirely financed by external savings -- added another 9 percent of GDP to total domestic expenditure.

Nine percent of GDP is a very low level of expenditure on investment in comparison with other developing countries. In light of the particularly deteriorated condition of Haitian infrastructure, one of the key economic priorities for the country must be to find ways to raise investment to two to three times this level over the coming years. Private investment must come to make up the predominant share of the total, financed by private domestic and, especially, international private savings. At the present time, both the public and the private sectors in Haiti are net dis-savers, meaning that their current/consumption expenditures exceed their current incomes.

External financing is being provided primarily in the form of grants and long-term loans from international donor agencies. Also, private remittances were estimated at over \$114 million in 1996, equivalent to 4.4 % of GDP. The current account deficit in 1996 was also partly financed by a \$60 million draw-down of international reserves, which cannot be continued.

The Haitian government had made some progress in improving fiscal and monetary management during the first quarter of 1997, but it is doubtful that it will be able to maintain this performance in the second half of the year in light of its current lack of leadership and cohesion.

The only really good thing that can be said about the Haitian economy is that, while its productivity, employment and structural problems are severe, it is so small and things are so depressed that it is possible to think in terms of achieving dramatic structural improvements with only relatively small changes in absolute magnitudes being required. Most important in this regard is the increase in private sector investment that was alluded to above as a key to achieving accelerated economic growth in a sustainable fashion.

The projections contained in Table II 2 below illustrate the incremental magnitudes of investment that might be required to achieve higher growth rates during the next eight years in Haiti. On the basis of reasonable estimates of an incremental capital-to-output ratio (ICOR) for a developing country, the consistency estimates presented there show that it would be possible for Haiti to move towards a 7-7.5 % annual growth path with only a \$200 million increment in gross domestic investment by the year 2000, over the base level provided under a scenario constructed along the conservative lines of the present ESAF. This would bring gross domestic investment up to about 18.5 % of GDP, from the anemic 13.3 % of GDP reflected in an "extended-ESAF" type projection.

Table II 2 Haiti Macroeconomic Growth Scenarios

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Summary of ESAF Projections to 1999											
Nominal GDP (Mil \$)		2 595									
Projected Real GDP Growth Rate	4 50%	2 00%	4 50%	4 50%	4 50%	4 50%	4 50%	4 50%	4 50%	4 50%	4 50%
Projected GDP (Mil 1996 \$)	2 544	2 595	2 712	2 834	2 961	3 095	3 234	3 379	3 531	3 690	3 856
GDP Increment (Mil 1996 \$)		51	117	122	128	133	139	146	152	159	166
Projected Population (Mil)		7 20	7 33			7 73					8 45
GDP/capita (1996 \$)		360				400					456
Domestic Investment (% of GDP)	8 70%	8 90%	11 60%	12 20%	13 30%						
Public Sector	5 90%	5 40%	7 00%	6 70%	6 30%						
Private Sector	2 80%	3 50%	4 60%	5 50%	7 00%						
Domestic Investment (Mil 1996 \$)	221	231	315	346	394	394	418	437	456	477	498
Public Sector	150	140	190	190	187						
Private Sector	71	91	125	156	207						
Calculated One Year ICOR		4 35	1 98	2 58	2 71	2 96	3 00	3 00	3 00	3 00	3 00

Sensitivity Analyses of Investment and Growth

Moderate Additional Effort

Domestic Investment (% of GDP)	11 60%	13 52%	16 60%	18 51%	20 08%	20 08%	19 99%	20 38%	20 60%	
Public Sector	7 00%	6 53%	6 76%	6 98%	7 17%	6 69%	6 25%	5 82%	5 42%	
Private Sector	4 60%	6 99%	9 84%	11 53%	12 91%	13 38%	13 74%	14 56%	15 18%	
Domestic Investment (Mil 1996 \$)	315	387	506	602	700	750	800	875	950	
Public Sector	190	187	206	227	250	250	250	250	250	
Private Sector	125	200	300	375	450	500	550	625	700	
GDP Increment (Mil 1996 \$)			150	187	204	233	250	267	292	317
Projected GDP (Mil 1996 \$)	2 712	2 862	3 049	3 252	3 486	3 736	4 002	4 294	4 611	
GDP/capita (1996 \$)	370			421					545	
Calculated Real GDP Growth Rate			5 54%	6 52%	6 68%	7 17%	7 17%	7 14%	7 29%	7 37%
Incremental Investment vs ESAF										
Domestic Investment (Mil 1996 \$)	0	41	112	208	282	313	344	398	452	
Public Sector	0	(3)	19							
Private Sector	0	44	93							

High Additional Effort

Domestic Investment (% of GDP)	11 60%	14 87%	19 09%	22 21%	25 10%	26 10%	26 80%	28 21%	29 28%	
Public Sector	7 00%	7 19%	7 77%	8 38%	8 97%	9 37%	9 62%	10 01%	10 30%	
Private Sector	4 60%	7 69%	11 32%	13 84%	16 14%	16 73%	17 18%	18 19%	18 98%	
Domestic Investment (Mil 1996 \$)	315	426	582	722	875	975	1 073	1 211	1 350	
Public Sector	190	206	237	272	313	350	385	430	475	
Private Sector	125	220	345	450	563	625	688	781	875	
GDP Increment (Mil 1996 \$)		165	215	244	292	325	358	404	450	
Projected GDP (Mil 1996 \$)	2 712	2 877	3 092	3 336	3 628	3 953	4 310	4 714	5 164	
GDP/capita (1996 \$)	370			431					611	
Calculated Real GDP Growth Rate			6 09%	7 46%	7 91%	8 74%	8 96%	9 04%	9 37%	9 55%
Incremental Investment vs ESAF										
Domestic Investment (Mil 1996 \$)	0	80	188	329	457	538	616	735	852	
Public Sector	0	16	50							
Private Sector	0	64	138							

Raising domestic investment by about \$50 million more by the year 2000, to only \$250 million above the ESAF projection and only \$722 million overall -- assuming that conditions were such as to sustain a high marginal efficiency of investment -- could help raise the Haitian economic growth towards the 8-10 % per annum level, one that could help raise GDP per capita by a full one-third over the ESAF extrapolation by the year 2005. With gross investment still at less than 30 % of GDP, still much below the investment performance of the Southeast Asia during the 1980s and 1990s, a whole new future could begin to open up for the Haitian population. While we hasten to repeat that these are not projections, the figures contained in Table II 2 clearly demonstrate that such a new future is possible. What will it take to make it happen?

III ECONOMY-WIDE CONSTRAINTS

As was indicated above, a large number of constraints exist in Haiti that hinder the development of the open, competitive markets and efficient market institutions that are needed to achieve higher rates of economic growth. For purposes of this analysis, major constraints have been classified at two main levels, namely "economy-wide" constraints that affect all sectors of economic activity to a greater or lesser degree, and "sector-specific" constraints whose impacts are manifested primarily in a specific sector, for example, tourism. In general, the methodologies described above have been applied to facilitate the identification, description and analysis of constraints falling into these two categories, to provide a basis for the identification of alternative, constraint-specific program responses that could be supported by USAID and/or other donors in Haiti.

Economy-wide constraints to market and enterprise development in Haiti fall into five main subclasses, as follows:

- *Insecurity, Uncertainty and Risk*, which result in an extreme reluctance on the part of both Haitian and foreign investors to commit resources to long-term investments in Haiti, and are part of the reason that such a weak supply response has been observed to follow from attempts to apply macroeconomic stimuli to the Haitian economy. Insecurity and risk are also partly the product of deep-seated distrust and antagonisms between segments of the business community and segments of the new political establishment, which in turn reflect long-standing animosities between social and economic classes in Haiti.
- *Infrastructure Deficiencies*, including physical infrastructure such as roads, ports, electrical power systems, communications systems, etc., social infrastructure made up primarily of schools and health facilities, and, informational infrastructure, which is constituted by facilities such as libraries, research and extension centers, electronic data storage and retrieval systems, etc.
- *Isolation from Markets and Technology*, which refers, on the one hand, to the relative lack of integration and access of the Haitian economy as a whole with global product and financial markets and technology centers, and, on the other, to the relative isolation of economic agents in rural areas and secondary cities from direct contact with the outside world and, to a degree, to their lack of interconnection and integration domestically. Such isolation is, of course, in part a result of the infrastructure deficiencies cited above.
- *Incapacity and Organizational Weaknesses*. Historically, open, participative and democratic institutions have not been allowed to develop and flourish in Haiti, either in the public or the private sectors. Consequently, such institutions are weak and neither the government -- whether at the national or at local levels -- nor the private sector have the ability to effectively implement programs, even in those rare instances when a consensus on judicious policies can be achieved.

- *Inaction by Government* A large number of factors appear to be acting in combination to make it unusually difficult for the present Government of Haiti to speak with one voice, come together on policies and programs, or take action on large or small issues in a timely manner. Problems calling for a response from government occur, time passes and very little happens. While it is beyond the purview of this report to analyze the phenomenon in depth, the lesson is drawn that in future USAID and other donors working in the private sector need to find ways to design programs that are more robust with respect to government performance, i.e. less dependent on government action or inaction.

A Long-Term Structural Insecurity and Risk

Along with the weakness and incapacity of public and private sector institutions, insecurity and risk are clearly the most difficult and intractable constraints affecting the Haitian economy generally.

One begins with physical insecurity of persons and property as a consequence of a new and relatively ineffective police force, which, after two years, continues to display a lack of alacrity and effectiveness in responding to actual and threatened acts of violence, and which, despite some efforts at internal house-cleaning, continues to be widely suspected of direct involvement in both criminal activity and politically-motivated violence. Few criminal transgressors are either arrested or prosecuted or punished, and a prevailing climate of impunity inspires little confidence in law enforcement or the framework of legal protections for citizens in general.

Property rights and other forms of contractually-based rights are not adequately protected under the present framework of Haitian law and jurisprudence.

The case of property rights in land, for example, is among the most complex. To begin with, Haiti has had a long history of successive regimes, through the Duvaliers and the most recent military governments, misusing the power of the State to appropriate choice pieces of land for their members. As a consequence, in the most fertile areas of the country, such as the Artibonite Valley, multiple competing claims going back decades exist for many of the best pieces of land. In a sense these are all legitimate, and impartial adjudication of such disputes is extremely difficult. Even in what would perhaps appear to be legally transparent situations, involving a more recent invasion of land with otherwise clear tenure for example, obtaining impartial adjudication is difficult -- as judges are alleged to be subject to a wide variety of influences -- and enforcement of a judgment is sometimes all but impossible, given the incapacity and alleged corruptibility of law enforcement. Claims and counterclaims thus linger on for years, with no one able to show clear title and no one, consequently being able to raise money on the basis of pledging land as collateral for loans.

Parallel to these cases involving multiple claims are myriad small land-holdings that simply have no title and never did. Again, the capital value of land, and its usefulness as collateral, are hard to realize. Financing of urban and rural enterprise is consequently repressed.

Finally, much of the Haitian national territory, including many coastal areas that may be suitable for tourism development, is actually owned by the State. Given the newness and relative inexperience of the Haitian State, as conceived under the provisions of the 1987 Constitution, the ways and means of disposing of public lands for either public or private purposes are not entirely clear. It would appear that, like in the case of the privatization of public enterprises, the Executive Branch of the Haitian government has the authority and responsibility for devising and negotiating land leases or sales, but that every such transaction must be individually approved by the Haitian Parliament. As will be discussed below, in order for large-scale private infrastructure and tourism developments to progress, it will be important to devise means to expedite the governmental ratification of transactions involving the use of public lands.

Many deficiencies exist in other areas of commercial and contract law, both as to the content of the law itself and the manner of its application in specific circumstances, that contribute to a climate of business uncertainty and risk. To quote a recent comprehensive analysis of the Haitian legal and regulatory framework for trade and investment⁴,

Haiti's legal and regulatory system for banking and financial services is particularly inhibiting to the growth of credit within its economy. It is difficult to assess credit risk because of lack of standard credit information. It is even more difficult to secure debt through mortgages and liens or ever to realize thereon in the courts. Banking regulation is out of date, and international standard for prudential norms as well as authorities to operate modern forms of credit operations and financial intermediation are lacking. The insurance sector is equally in need of more up-to-date, effective regulatory legislation as well as an ability to draw on resources for rational risk assessment and to invite greater reinsurance opportunities. The company establishment process is unduly formalized, expensive and dilatory. Civil status documentation barely exists and complicates the ordinary Haitian's participation in the formal economy. Customs law and administration is out of date, and customs operations are unnecessarily tedious and often corrupt.

More broadly and more tellingly, the authors of this study report that they found a general distrust of Haitians for law and legal institutions, reflecting, in turn, an indifference pervasive throughout Haitian society to such due process concerns as administrative and judicial fairness in implementing laws and regulations, transparency of systems and procedures, the scope of delegations of authority, especially administrative discretion, lack of restraints on arbitrary and capricious action, and a general unfamiliarity with public integrity and ethics. Many Haitians view laws as being "for someone" or "against someone" and they view law in general with cynicism and suspicion.

4 Nathan Associates, Inc. "An Analysis of the Legal and Regulatory Framework for Trade and Investment in Haiti", prepared with USAID support for the Presidential Commission on Economic Modernization and Growth, May 1995.

Beyond the legal, regulatory and judicial framework, which, it must be noted, is gradually being amended in certain crucial areas such as, for example, the new Investment Code, a host of still unresolved social and political tensions foster a still deeper sense of uncertainty and risk among the Haitian and foreign business communities. These tensions and uncertainties impact such fundamental issues as who is really in charge of the new government and how decisions are actually being made, the nature of the basic ideology informing the government's economic and social policy agendas, the real possibility or impossibility of achieving a genuine, workable consensus on basic economic policy directions among the diverging factions of Haitian society and politics, and, even the medium-term stability and permanence of Haiti's new democracy and its most vital social and political institutions.

Perhaps like most societies only more so, Haitian political history contains numerous episodes of extreme but relatively short-lived turbulence, interspersed with relatively longer periods of relative stability even if not progress. It is fairly clear that the history of the last 10 years corresponds to one of the turbulent periods in Haitian history. What is not clear is whether the turbulence is over yet, or what the basis and the character of longer-term stability will be once it is re-established.

Two major tests remain to be passed before any kind of a credible answer to this last question can even be attempted. The first is the final withdrawal of UN military forces from Haiti. The second is the next presidential election, scheduled, assuming it is held, for November of the year 2000, and the first year of the next presidential administration.

It is hard to say at this point exactly when international peacekeeping forces will be withdrawn from Haiti. A definitive withdrawal has been repeatedly postponed since the first announced date of July 1995 -- which has probably been all to the good. Despite a current operating date of July 1997, it still appears unlikely that a full withdrawal can be effected at least for another year or so. Despite some relatively minor opposition, the presence of foreign troops in-country would probably be recognized by most Haitian and foreign observers as still exerting a stabilizing influence that continues to be needed while Haitian security forces perfect their organization and training.

Until foreign forces leave, however, no one will know for sure how good that organization and training actually have been, or to what purposes they will be applied. Uncertainty regarding the future security situation of the country, post-withdrawal, constitutes an embedded, structural risk inherent in the business climate of Haiti that will not be removed until the appointed moment has come and gone, and the Haitian forces have been clearly tested on their own.

In the realm of presidential politics a similar embedded "structural" risk exists that cannot be removed until the next election has come and gone, and the new President has been clearly tested. Popular opinion currently has it that former-President Jean Bertrand Aristide will be re-elected to a second term in the year 2000. Certainly, he presently continues to be the dominant political figure in Haiti, and his political organization remains the best organized and financially strongest. What no one can say though, perhaps not even himself, is what kind of a government Mr. Aristide would preside over once re-elected. Will it be messianic and redemptionist, as during the first part of his

first presidency, or will it be accommodating and apparently pragmatic, as was to some extent the appearance during the second part? Is the agenda the relief of poverty and deprivation through open, participatory democracy and economic growth, or, in more traditional Haitian cadence, is it the fulfillment of a more directly personal and personalistic leadership mission in relationship to the populace?

No one can say. It is likely, however, that the next presidential election will be a watershed. If there is to be more turbulence, it will probably arise in the context of this election. And, whatever the nature of the politics that are introduced by the next election, once having passed, it is likely that whatever turbulence remains to be worked out of the Haitian system will subside, and that a period of relative stability, if not progress, will ensue.

Interestingly, therefore, it would appear that, as far as political risk in Haiti is concerned, the period of highest risk is in the medium-, and not in the long-term. From an investment and business perspective, whoever survives the two coming transitional events identified here will probably survive and prosper adequately in the longer term. If true, this is of significance for the organization of longer-term investments such as for infrastructure and tourism, and, we suggest, should significantly inform the development of private sector development strategies and mechanisms aimed at risk mitigation.

B Infrastructural Deficiencies

This section presents a summary review of the role of infrastructure to private sector growth, the problems and issues pertaining to infrastructure and related service, and plans for rehabilitation and improvement. These issues are discussed in more detail in Appendix H.

1 Impact of Haiti's Infrastructural Situation

Throughout our interviews with businesspeople and others in Haiti, a common theme was the contraction of business activity over the last 10-15 years because of lack of or severely degraded infrastructure. This issue was raised by virtually all sources with respect to both Port-au-Prince and the regions.

Particularly in the regions, businesspeople referred to earlier times, when infrastructure was located on a decentralized basis specifically to take advantage of decentralized economic resources and opportunity. In many instances, relatively efficient infrastructure served a thriving commerce that extended to many rural areas of the country.

Infrastructure-based services in Haiti are generally expensive and of poor quality, when they are available. Commonly cited problems with infrastructure and related services include

- Lack of basic infrastructure,
- Poor condition (poor maintenance) of infrastructure,

- Inefficient management of infrastructure and services,
- Lack of service orientation,
- High cost of using infrastructure and related services, and
- High incidence of theft and bribery related to the use of infrastructure

Infrastructure improvements are being undertaken with assistance from WB, IDB, EU, and other members of the multilateral and bilateral community. GoH and the donor and lending community have recognized improved infrastructure and related services as being of vital importance to the growth of Haiti's economy. The IMF describes Haiti's infrastructure priorities as being

- Integrating marginal regions through rehabilitation of existing roads, ensuring adequate maintenance of existing roads, and improving accessibility through extension of rural roads,
- Providing coastal cities with adequate port installations to encourage maritime transport of vital products and take pressure off the road system burdened by large transport vehicles, and
- Taking advantage of existing installations through maximizing their use

About 45% of the Public Sector Investment Program is devoted to basic infrastructure. The planned physical, managerial and operational improvements, if carried through, will provide Haiti with basic infrastructure and services on which sustainable private sector growth can be based.

2 Sectoral Review of Infrastructure and Related Services

The main infrastructure in Haiti that impacts private sector development includes⁵ Main Roads, Rural Roads, Ports, Airports, Power and Telecommunications

a Roads

The World Bank regards Haiti's network as small for a country of Haiti's characteristics.

Transportation infrastructure has suffered from a decade of neglect. In 1995, less than 7% of the main road network was in good condition. According to the World Bank, IDB and people interviewed, most of the rural network is in extremely poor state. The condition of the roads has deteriorated greatly since 1991 (This is the date of the last major survey⁶. That survey reported 34% of road network to be in fair condition, 72% of the paved network in fair condition, 51% of gravel and 87% of dirt roads in poor to bad condition.) The system provides poor access to rural areas.

5 Note: Potable water and sanitation infrastructure have not been included in this discussion. While of vital importance for Haiti, the infrastructure and water are not as significant a constraint as the others for private sector growth. Irrigation infrastructure is frequently cited as a constraint for agriculture.

6 Quoted by IDB Project Document, Secondary and Tertiary Roads Rehabilitation and Maintenance Program, Approved March 5, 1997 (HA-0075)

Port-au-Prince streets suffer acute traffic congestion, resulting in high vehicle operating costs and transit times

Some of the most significant planned improvements are

Main Roads The Road Rehabilitation Program is primarily funded by IDA and IDB, EU and KFW. It is planned that the entire main road system will have been rehabilitated by end of 1999 (with the possible exception of 75kms of RN3, still unfinanced)

Rural Roads The IDB Secondary and Tertiary Roads Rehabilitation and Maintenance Program is planned to rehabilitate and maintain 14.5% of the secondary network and 11.6% of tertiary network. The improvements are estimated to serve 750,000 rural residents. The bulk of the secondary and tertiary road network will not be improved under this program.

Other Road Maintenance Issues The World Bank and IDB have focused attention on the issue of roads management and maintenance. The GoH has accepted that road management and maintenance activities will be reorganized and that maintenance activity will be shifted from Force Account to private sector and local communities.

The capability of the private sector to carry out road maintenance is considerable. The World Bank cites 3 firms as being capable of undertaking major works, and 28 small and medium-sized firms with the capacity to carry out periodic and routine maintenance.

The planned improvements will not address the rehabilitation and ongoing maintenance needs of much of Haiti's rural road network. It will also not address the expansion and densification of the road network. Thus, in the absence of additional resources, much of Haiti's rural population will remain isolated, and unconnected with market centers.

Considerable attention is needed to achieve a sustained, adequate rural roads network. USAID can contribute to this road rehabilitation and maintenance objective -- for example, supporting local communities for decentralized road maintenance and community-based road maintenance, expanding use of contract maintenance, and use and management of road user charges.

b Ports

Haiti has 40 mooring points, including 2 main seaports (Port-au-Prince and Cap-Haïtien) and 12 minor ports.

7 of Haiti's 9 largest cities are ports. The infrastructure varies in condition, and a priority should be to make immediate use of infrastructure that can be rendered useful. Port-au-Prince is the principal port. The wharf at Jacmel is near collapse, and the ports at Les Cayes and Jacmel are heavily silted. The port at St. Marc is functional, but swamps in heavy seas. Container storage for the port is at a

distance, and requires transit through the city's main thoroughfare. Gonaive's port is functional, but lacks customs facilities. A private investment in a port near Gonaive is not yet operational.

Cap-Haitien's port is the closest Haitian port to the U.S. It is a large facility, with large storage areas. The Cap-Haitien community has been trying to attract a Caribbean shipper, Tropical Shipping, to make regular, scheduled stops at Cap-Haitien.

All of these ports have been topics of discussion for new investment. Jacmel Port could be rehabilitated and dredged, or rebuilt at Cote des Freres, nearby. Les Cayes could be improved and extended. However, a private group has advanced plans to build a major port facility at St. Louis-du-Sud, about 30 kms from Les Cayes. The new port at Gonaive offers good potential, but blockages to its operation need to be settled.

APN is the State Port Authority overseeing the country's ports. APN has tariff jurisdiction over all public and private ports, terminals and wharves. Port charges are the same for all ports, and changes in tariffs require a Presidential order. APN also has operational jurisdiction over all public ports, and is responsible for the development and maintenance of port infrastructure.

According to the IMF, IFC and several international agencies and domestic businesses, the Port authority suffers from inefficient port handling operations and inappropriate management structure that combine to make Port-au-Prince the most expensive port in the Caribbean Region. Per the IFC

Industry sources in Haiti have suggested that this is primarily due to institutional corruption, an underproductive workforce, onerous work rules, inadequate facilities and lack of appropriate equipment. As a result, Haiti's imports may be overpriced in the domestic market and exports uncompetitive in world markets, thus affecting the overall economic development of the country.

Wharfage tariff rates per ton of containerized cargo are between 2 and 8 times more expensive than in the U.S. and other Caribbean ports. Port-au-Prince's wharfage tariffs for breakbulk and bulk cargo with those at competitor ports in the region indicate an even greater cost disadvantage to Haiti.

The GoH accepts the need for a major restructuring and privatization of port operations. The modalities for this are under consideration and need to be concretized and implemented. The IFC presents 2 basic options for the ports:

- Restructuring of port operations with some private sector provision of services
- Concession (IFC recommendation). Under the concession arrangement, all port operating functions would be privatized and concessioned out to private sector investors (foreign and domestic), who undertake all above-ground port investments.

Continued assistance is needed to realize the privatization of the Port-au-Prince port, and to properly consider and proceed with opportunities for other Haitian port facilities

c Rail

Haiti has no rail facilities, other than 40-kms of private railway (for transport of sugarcane)

d. Airports

Haiti has 2 international airports (Port-au-Prince and Cap Haitien) and 5 domestic airfields (restricted to small craft) Cap Haitien can accept large planes such as 727s Until recently, Cap Haitien had regular DC6 connections to the U S Outside of Port-au-Prince and Cap Haitien, airport facilities are basic However, air traffic is less of a priority than ports or roads

Cap Haitien and Port-au-Prince airports are in need of major upgrades Private interests have expressed interest in managing these facilities A privatization process is underway for Haiti's airports

e Power

Haiti's power costs to customers are very high compared to other competing countries (e g Dominican Republic, Mexico, El Salvador, China)

The electricity supply is managed by a parastatal, Electricite d'Haiti (EDH) EDH has a national monopoly on the generation, transmission, distribution and commercialization of electric power

Electricity service is insufficient and unevenly distributed It is available to only 45% of the population in Port-au-Prince Outside of Port-au-Prince, EDH provides grossly inadequate service to the general population, especially in rural areas -- but only 3% of the population in the rest of the country have access to electricity Even in Port-au-Prince power supply is unreliable Failures and blackouts are common

The situation has improved lately in the Cap Haitien area, since an Independent Power Producer recently started generation ⁷

Total energy losses are very high (51.3%), and billing and collection are also very Less than 25% of energy produced is paid for EDH has had net operating losses since 1989, and suffers from numerous other technical and managerial problems

7 IDB Project Report

GoH has accepted that electricity generation would benefit from private sector involvement, and the modalities are under study. GoH has included EDH amongst the public enterprises to be privatized. The IDB is assisting the implementation of management and operating improvements at EDH, and is assisting the privatization process, through a technical assistance program. The planned improvements will, however, still leave important gaps that are priority for private sector.

f Telecommunications

Haiti suffers from very inadequate domestic telephone coverage. Haiti has between 6 and 8 telephones per 1000 people -- about the same coverage as poor Africa countries. The connection completion rate is also inadequate. The cost of telephone service is high, and users look for alternative means of communication. Costs for international connections are very high.

Many businesses in the capital area use 2-way radios for communication. The country has no cellular operators. Licenses have been applied for (One firm has reportedly invested USD2 million, but has not been permitted to proceed).

Only 2000 lines serve areas outside of Port-au-Prince. 600 are reportedly not working. Throughout the country, telephone service is interrupted during heavy rains.

Internet service is offered by two companies. New Internet providers are waiting for lines. Internet lines are currently very congested, connection speed is slow, line quality is poor, and costs are high.

Responsibility for telecommunications rests with a parastatal, Teleco. Privatization is planned, but will likely meet with significant government opposition.

3 Infrastructure and Secondary Cities

The lack of infrastructure, and the severely degraded nature of the existing infrastructure, has severely restricted economic activity outside of Port-au-Prince. Secondary coastal cities were historically relatively self-sufficient in transport infrastructure. As mentioned, many businesspeople referred to earlier times, when infrastructure was located on a decentralized basis specifically to take advantage of decentralized economic resources and opportunity. In many instances, relatively efficient infrastructure served a thriving commerce that extended to many rural areas of the country.

According to the World Bank, capacity for international traffic was concentrated in Port-au-Prince on the basis of a Transport Master Plan prepared in the late 1970s. Local and transit traffic were to be developed through expansion and upgrading of road network and coastal shipping facilities. Substantial expansion of Port-au-Prince port and airport took place. However, the road network was upgraded and expanded, and was not maintained. This effectively cut off the secondary cities from the center, and hence from international markets. The infrastructure connecting the secondary cities and their hinterlands were also left to degrade.

Development of infrastructure and related services are a crucial element of any private sector strategy centered on secondary cities. USAID can support several actions to encourage the provision of infrastructure to these cities and their hinterlands. Specific infrastructure-related actions directed towards secondary city clusters can include

- Actions to facilitate the processes of strengthening specific clusters, such as joint public-private planning mechanisms, strengthening of urban management and services, strengthening of municipal finance, etc
- Focus infrastructure and service investments on particular clusters particularly ports and airports, power, communications, rural roads, business service centers. Geographic co-location of donor programs. Facilitate intermodal linkages and service linkages on a cluster-specific basis
- Collaborate with other donors to support infrastructure development centered on specific secondary cities

4 Privatization and Competition

Infrastructure-based services in Haiti are generally expensive and of poor quality, when they are available. GoH has accepted that these services must be privatized and costs recovered through user charges. However, the privatization process is slow and uncertain, fraught with vested interests.

While emphasis is still needed on privatization, and every effort should be made to ensure that privatization is implemented equitably and rapidly, other avenues should also be pursued as a means of furnishing infrastructure and related services.

In particular, competition should be permitted in the infrastructure sector. Several attempts have been made by private Haitian investors to invest in and provide services: ports, electricity, communications, etc. Plans are being discussed for many such investments.

Until now, such attempts to introduce private services that compete with parastatals -- or that offer services that parastatals are not providing -- have met with blockages at the level of Government approval. Such investments offer great potential, however, and step around the contentious issue of privatization.

Another initiative would be the establishment of local oversight boards for service provision. In the Haitian situation, where service is shoddy, expensive and non-responsive, the parastatal provider has no direct responsibility to customers, to stakeholders. Local management boards, representing community stakeholders (business, population, local government), could be mandated to lobby and advocate for improved service provision and interactive planning.

C Isolation from Markets and Technology

While there are exceptions, such as the assembly sector, most of the Haitian economy is very isolated from external markets. Agricultural producers, for example, have little or no knowledge of external markets or their requirements, but operate exclusively through a small number of exporters specialized in the coffee, cocoa, mango and essential oil trades. The structure of export commerce is highly oligopolistic, and no effort is made to transfer knowledge on buyers, pricing, standards and other export market conditions to farmers.

Even in the case of assembly, where individual Haitian producers maintain direct links to their external customers, the low quality of infrastructure services serves as a barrier to the adoption and absorption of technology. Many specialized garments require the use of more highly-automated, programmable sewing machines, for example, which are simply not adaptable to the fluctuating voltages produced by the Haitian electrical utility, for example. Technologies requiring reliable refrigeration are similarly not practical under current Haitian conditions of electricity supply, meaning that Haitian producers are effectively barred from participating in certain higher-value product markets. High-cost and unreliable telecommunications are a serious obstacle to the development of more extensive direct links between Haitian producers and potential export markets, even in Port-au-Prince and much more so outside the capital city.

Internally, the situation is also severe. Bad roads and bad or non-existent telephone service represent formidable barriers for small farmers attempting to produce for the domestic market in competition with easily transported import commodities being delivered into the capital. Limitations in the availability of Customs officers restricts usage of secondary ports, further contributing to the isolation and transport cost disadvantages of many regions outside the metropolitan area.

D Institutional Weaknesses

The wrenching economic trauma undergone by Haitian businesses over the last ten years, and in particular since 1993-1994 has wreaked havoc with the finances of virtually all of Haiti's business associations and chambers of industry and commerce. With little or no financial capacity, these organizations are unable to maintain adequate staff to effectively provide even routine services for members, much less undertake new programs to address the myriad issues that arise as the economic crisis deepens. Membership in such associations is in many cases dwindling, and dues collections from members are down.

One positive result of the financial hardship being undergone by private business organizations at the present time in Haiti, is that they have on several instances been forced to join forces in order to organize a response to pressing legislative proposals and other issues such as privatization, and maintain some kind of a united front in their dealings with the government. Some degree of consolidation in the number of business organizations is probably required under the circumstances. Donors such as USAID can encourage further collaboration among private sector organizations by providing support to multi-organization task forces organized to address specific priority issues,

rather than providing broad budgetary support to individual organizations as they have tended to do in the past. Not only can the task or project basis for supporting private sector associations encourage a coalescing of interests among them, but this approach by donors also avoids the risk of their being perceived as playing favorites in their dealings with the private sector.

The Executive Branch of the Haitian government has historically always been highly centralized and dependent on the Presidency. In an attempt to limit the potential for abuse by future Haitian presidents, the Constitution of 1987 severely limited the powers of the President, and established a Prime Minister as head-of-government, with the requirement that the nomination of prime ministers by the President be approved by a majority of both houses of Parliament. Thus, the present constitutional structure of the Haitian government confers great authority and power on the Parliament, but does not require that the administration represent the majority party in Parliament, or even a necessarily a majority coalition.

Government under the Constitution of 1987 has only been tested in practice for a brief period in 1991, and more recently since September 1994, under the tutelage of the United Nations. So far, it appears that the potential for conflict and stalemate between the Parliament and the Executive built into this structure has far exceeded the possible benefits of having so finely balanced the distribution of power between these two principal branches of government (there has never been a strong judiciary in Haiti, and, while the current Constitution theoretically grants equal powers to the three branches, in practice the judiciary has yet to establish its co-equality).

Beyond these structural issues, lack of institutional experience, lack of financial resources and an inability to attract high-quality personnel to staff positions make the institutions of government in Haiti weak and ineffectual. The handicaps faced by municipal and departmental government agencies are compounded further by total dependence on the central government for financial administration, meaning that even local taxes and other revenues specifically earmarked to finance decentralized units of government must pass through central government tax collectors, who frequently withhold or seriously delay disbursements back to the localities of origin.

E Inaction by Government

As indicated above, a variety of factors impinge on the ability of governmental organizations in Haiti to provide a timely response to everyday challenges. We do not pretend to be providing a comprehensive analysis of the causes of governmental inaction. We do, however, urge that the fact of its existence be recognized as a major constraint for the implementation of all kinds of donor programs in the country -- including efforts to revive the foundering private sector economy -- and recommend that future programming deliberately provide for implementation alternatives that are not dependent on public sector performance, and consciously avoid allowing implementation to become the hostage of blocking factions within the government.

IV SECTORAL COMPETITIVENESS ANALYSIS

A Assembly and Light Manufacturing

1 Background

Since it first began in a very small way in the 1950s, Haitian assembly manufacturing has been organized exclusively for the U S market. Exports of the Haitian assembly sector first exceeded US\$10 million in 1970⁸. From a value of \$11.9 million in 1970, assembly exports grew at about a 30 percent annual rate to reach \$119.3 million in 1978, equivalent to approximately \$258 million in 1996 US dollars. In 1978, 116 firms were recorded by the U S Embassy to be operating in the assembly sector, of which 71 (61 percent) were in the apparel subsector, 25 (22 percent) in electrical and electronic equipment and another 20 in a variety of other manufacturing areas including medical equipment, sporting goods and toys. Approximately 40,000 people were employed in the Haitian export assembly industry in 1978 and the average hourly wage was recorded to have been US\$1.60 per 8-hour day, equivalent to about \$3.46 per day in 1996 dollars.

Haitian assembly exports were over 60 percent higher in 1978 than in the neighboring Dominican Republic, while employment in the sector is reported to have been about 2.5 times higher.

Export assembly continued to grow during the decade of the 1980s, but at a far slower rate. At its peak in 1989, the Haitian assembly sector numbered about 250 firms, produced over \$320 million in exports (about \$394 million in 1996 dollars), and employed an estimated 66,000 people. The structure of the industry had remained relatively stable, with slightly over 60 percent of gross exports being generated in apparel, 18 percent in electrical equipment, 11 percent in toys and sporting equipment, and the remaining 11 percent in a variety of industries including leather goods, jewelry and medical equipment.

In the meantime, assembly exports had exploded elsewhere in the Caribbean and in Asia. Whereas Dominican exports had only amounted to 61 percent of Haiti's in 1978, by 1989 the Dominican Republic was exporting over \$900 million of assembly sector manufactures to the U S, almost three times now the value of comparable Haitian exports. The Philippines, which in 1978 was exporting slightly less than twice as much as Haiti by 1989 had increased its margin to about 6.6 times, counting only Philippine assembled manufacturing exports to the United States. Clearly, Haiti was losing market share by the 1980s and assembly manufacturing could be considered to be in relative decline -- compared to the explosive growth taking place worldwide -- despite the continuation of a low level of annual growth in the nominal value of exports. The relative decline of Haiti as an

8 Data for the 1970s are taken from, Braun, Carl, R. Lebrun and S. Tardieu, "Industries d'Haiti: Situation, Problemes, Perspectives", ADIH, 1980.

assembly manufacturing site began under the Duvaliers, and accelerated as political instability and civil unrest became ever more commonplace in the post-Duvalier period until the end of 1990

The election of Jean Bertrand Aristide in December of 1990 led to a brief period of democratic rule, but little improvement in domestic stability. After only 7 months in office, President Aristide was deposed by a military coup in September 1991, leading to heightened tensions with the United States and a progressively tighter economic embargo which was maintained until the U S military invasion of Haiti in September of 1994 and the restoration of the Aristide government during the following month

Already by the beginning of the period of Junta rule between 1991 and 1994 and before the imposition of the U S economic embargo, the Haitian assembly sector had passed from relative to absolute decline, with employment in the sector reduced to about 34,000 by the end of 1991. Already weakened by deteriorating competitiveness and market share, the sector was devastated by the effects of the embargo itself. By September 1994, at the time of the military intervention, the number of employees in export assembly had fallen almost to zero, with only some plants keeping skeleton crews on hand

Since that time, recovery has been slow and erratic. Available estimates indicate that one year after the invasion, by August 1995, 91 firms had reestablished operations and were employing 13,839 people⁹. Ten months later, the U S Foreign Commercial Office reported results of their June 1996 survey indicating 94 firms providing 19,442 jobs. By the end of the first quarter of 1997, estimated employment had again risen to approximately 22,000 jobs, while latest indications available from the U S Embassy for May 1997 show a contraction to slightly less than 20,000

Table IV 1 below summarizes subsectoral employment data gathered through the August 1995 survey performed by Capital Consult

Table IV 1 Assembly Sector Employment Data - August 1995					
Subsector	No of Firms	% of total	No of Employees	% of total	Employees/ Firm
Apparel	43	47	9,602	69	223
Electrical/electronic	13	14	1,184	9	91
Other	35	39	3,053	22	87
Total	91	100	13,839	100	152

9 Source Capital Consult, "Resultants de l'Enquete Sur le Secteur d'Assemblage en Haiti (Juillet-Aout 1995)", February 1996

On average, firm size is about half what it was in 1991, when 113 firms employed 33,607 people, for an average number of jobs per firm of 297. Electrical and electronic assembly in particular has come back slowly and relatively weakly, as indicated by an average firm size in this subsector of 327 employees in 1991.

Recent trends in Haitian exports to the U.S., including the main manufactured assembly subsectors of apparel and electrical machinery, and comparative data on exports of apparel to the U.S., are shown in Table IV 2 below.

Table IV 2 U S Imports* from Haiti — \$000 Customs Value

	1996	1995	1994	1993	1992	1991	1990	1989
HTS no All commodities	143478	129765	58717	154257	106902	284654	339177	371875
3 Fish etc	998	2313	289	322	2	2018	2831	2742
7 Edible Vegetables etc	0\ 1	4	0\ 1	0\ 1	0\ 1	26	42	180
8 Edible Fruit	5215	7289	3007	5394	121	7238	5619	5579
9 Coffee Tea etc	308\3	782\3	0\ 3	136	0\ 1	272	125	1320
17 Sugar	0	0	0	0	0	3259	0\1	965
33 Essential Oils	1257	4815	854	1603	0\ 1	2091	4105	3210
41 Raw Hides etc	5071	3820	2267	3880	3111	3315	2797	3008
42 Articles Of Leather	2452	1178	1153	3973	2832	3927	10315	12932
44 Wood and Wood Products	863	474	302	854	1030	1173	1308	1058
46 Straw and Wicker	588\3	439\3	309	612	555	839	1439	1716
61 Knit Apparel	68389	47572	17711\3	48523\3	38120\3	74685	72905	64232
62 Not Knit Apparel	36114	29492	13460	46241	26701	76688	89955	106213
85 Electrical Machinery	3672	3745	3345	7705\3	6359\3	27549	42987	57695
90 Med Instruments	10	0\ 1	62	317	421	3244	4977	5149
95 Toys	4180	4667	4166	13042	11654	23718	35806	35396
804504040 Mangoes Fresh Entered 9/1 5/31	3632	4648	1624	2419	0\3	0\3	0\3	0\3
Kg	6032932	6714590	2741567	4494293	0\3	0\3	0\3	0\3
804506040 Mangoes Fresh Entered 6/1 8/31	1400	2339	0\ 1	1413	0\ 3	0\3	0\3	0\3
Kg	2191784	3235923	0\1	2636106	0\ 3	0\3	0\3	0\3
9506692080 Softballs	1199	1587	1950	6348	5616	10298	12123	12155
#	612399	832481	950744	2720186	2617155	5603244	5978053	6236346
9506692040 Baseballs	854	716	876	1311	927	8209	17161	14598
#	575663	482983	514407	941229	66226	4658001	8649701	8106082
3301260000 Essential Oils Of Vetiver	759	3795	713	1290	0\ 1	1062	2813	1831
Kg	11225	48266	8030	22111	0\ 1	30004	71818	39496
9503411000 Stuffed Toys	0\3	0\3	21	800	823	1507	1870	1841
#	0\3	0\3	27059	256600	414599	541566	1003979	962307

Footnotes

1/ value (shown as 0) is actually zero (0)

2/ means that the data (shown as 0) are rounded to zero these are for values less than \$500

3/ means that the data are not available for that particular time period

* imports for consumption (1989 90) general imports (1991 96)

Source

U S Department of Commerce Bureau of the Census Merchandise Trade – U S Imports by Commodity
March 1997 March 1996 March 1991

As shown above, total U S imports from Haiti fell from about \$372 million in 1989 to \$285 million in 1991, reflecting domestic turmoil in Haiti and deteriorating bilateral relations. Between 1991 and 1994, U S imports collapsed to only \$59 million, less than one-sixth of the 1989 level, reflecting the impact of the increasingly tight U S economic embargo imposed to exert pressure on the military government that had deposed President Aristide in 1991. By 1996, total Haitian exports to the U S had increased to \$143 million, only about 38 percent of the 1989 level, and only 31 percent of 1989 in real terms.

Apparel, Haiti's most important assembly export, went from about \$170 million in 1989, to \$151 million in 1991, to \$31 million in 1994, and back up to \$104 million in 1996, about half of the 1989 level in constant-dollar terms. Electrical and electronic machinery, traditionally Haiti's second strongest assembly subsector, went from \$58 million in 1991 to only \$3 million in 1994, and has not recovered any significant ground since. About the same story is true of toys, which once amounted to almost \$36 million in annual exports, but fell to only \$4 million in 1994 and has not recovered since. Evidently, the apparel subsector has proven itself to be the most resilient of Haiti's traditional assembly industries, reflecting the greater number of U S buyers working in Haiti in apparel than in other subsectors, and the lower investments and exposure of firms operating in apparel because of the relatively simpler and less capital-intensive manufacturing processes used. As will be discussed below, to the extent that near-term constraints and disadvantages can be overcome to enable output and employment in Haitian assembly industries to grow quickly once again, it is apparent that the apparel subsector will continue to lead in such growth, just as it has throughout the history of assembly in Haiti.

2 International Assembly Industry Developments

Because of its importance to Haitian assembly, and because of the ready availability of comparable international data, the description and analysis of international developments in assembly will focus on the apparel subsector.

As shown in Table IV 3 below, U S imports of apparel grew by over \$16 billion between 1989 and 1996, at a compound annual rate of 8.26%. The five largest exporters to the U S are, in order of size, China, Hong Kong, Mexico, Taiwan, and, interestingly, the Dominican Republic. Together, these 5 largest exporters account for almost 43 percent of total U S imports. The fastest growing exporters were primarily South and Southeast Asian countries, though Mexico and, interestingly, Honduras, led the list in terms of annual growth rate during this period. Mexico's phenomenal growth performance is, of course, related to the North American Free Trade Agreement (NAFTA) and the duty-free, unrestricted access this provides for Mexico to the U S market. It is important to also take note of Honduras' impressive growth performance over this period, however, as this country operates under the same, less favorable than NAFTA, U S trade regimen that affects Haiti. This regimen is defined by the provisions of Section 9802.00.80 (formerly Sections 807 and 807A) of the U S Tariff Code, which provide for duty exemptions on the value of U S -made or -cut components that are assembled in qualifying Caribbean basin countries, i.e. U S duties, which range

roughly from 15 to 40 percent *ad valorem*, are only assessed on value-added by the foreign assembler and not the total Customs value of the imported article of clothing

Table IV 3 HAITI U S Imports of Apparel, Knit and Non-Knit, 1989 to 1996						
			millions of U S dollars			
					Annual Growth	Market Share
Country of Origin	1989	1994	1996		1989-1996	1996
Total, world	21,767 3	33,250 4	37,929 5		8 26%	100 00%
Countries With Increasing Exports						
Honduras	86 6	648 3	1,239 8		46 27%	3 27%
Mexico	535 2	1,785 9	3,742 9		32 04%	9 87%
Bangladesh	319 6	847 5	1,020 8		18 05%	2 69%
Pakistan	185 3	440 7	567 4		17 34%	1 50%
Thailand	377 6	902 9	1,058 9		15 88%	2 79%
Dominican Republic	639 0	1,538 0	1,720 1		15 20%	4 53%
Indonesia	566 6	1,029 6	1,368 2		13 43%	3 61%
India	538 8	1,184 1	1,249 9		12 78%	3 30%
Jamaica	223 1	453 2	504 5		12 37%	1 33%
China	2,616 7	5,085 6	5,025 5		9 77%	13 25%
Philippines	815 9	1,316 5	1,458 8		8 66%	3 85%
Italy	800 1	902 9	1,272 2		6 85%	3 35%
Malaysia	429 2	633 7	650 3		6 12%	1 71%
Countries With Decreasing Exports						
Hong Kong	3,794 3	4,323 7	3,927 6		0 49%	10 36%
Taiwan	2,546 3	2,022 2	1,825 1		-4 65%	4 81%
South Korea	2,539 9	1,884 6	1,423 8		-7 94%	3 75%
Singapore	624 1	469 7	326 8		-8 83%	0 86%
Haiti	170 4	31 2	104 5		-6 75%	0 28%

The Dominican Republic also operates under the same conditions as Haiti, and, even though growth has slowed since the ratification of NAFTA, it has been able to add over \$1 billion to its annual apparel exports during the same period that Haiti has been losing ground

The international market for assembly services has become much more competitive than it was during the 1970s and early 1980s when Haiti made its first efforts to establish its position as a leading Caribbean assembler. Unlike its international competitors, Haiti has also been losing competitiveness since that time. However, as will be discussed more fully below, Haiti's competitiveness problems are easily identified and generally of a kind that can, in principle, be corrected in a relatively short period of time if sufficient importance is attached to doing so. On the one hand, market share is beginning to be relinquished by the first Asian "tigers" who have now developed to a point where their competitiveness lies in more sophisticated, higher-value manufacturing. Their gradual abandonment of erstwhile very large markets, and the transition of some of the second-wave Asian "tigers" such as Malaysia and Thailand to a more advanced stage, will make ample room for an essentially new competitor like the hoped-for "new Haiti" to enter and expand at a rapid rate, if and only if the serious impediments to recovering lost competitiveness are given the necessary priority. Furthermore, as is exemplified by Italy, it is even possible to have high labor costs and still be competitive and grow, even in as hotly competed an apparel market as the United States.

Other than the increasing proliferation of competitive sites for apparel assembly around the world -- served by continually improving international transportation systems -- two broad industry trends appear to be underway that will affect the way Haiti must compete if it is to regain its competitiveness as an assembler in the future. First, whereas U.S. apparel firms have achieved a high level of efficiency in offshore assembly under production-sharing arrangements, this successful apparel trade has so far focused primarily on basic garments whose production involves standardized runs, simple tasks and few styling changes. This is much different from U.S. apparel imports from the Far East, which represent a cross section of domestic demand. More recently, however, U.S. firms have expanded apparel production sharing to garments requiring higher levels of production flexibility and sewing skills¹⁰. It can be anticipated that this trend will be intensified as U.S. firms and their offshore production partners gain experience and skills in these more demanding product lines.

Second, industry participants in Haiti report a change in the nature of the production sharing relationship which is also expected to predominate over time. As competitive sources of supply have proliferated over recent years, except for assembly plants directly owned and controlled by them, U.S. firms have become less willing than in the past to share in the investment costs and financial risks of establishing new assembly operations or expanding capacity at existing installations. Whereas in the 1970s and early 1980s U.S. firms contracting assembly services in Haiti usually provided or financed machinery, cut goods and other raw materials, and technical assistance, the

10 Jordan Kalman, "Production Sharing Under U.S. Trade Laws", *Bobbin Magazine*, November 1996

market today more frequently demands that the Haitian assembler be able to self-finance and sell a finished product, manufactured to the importers specifications. Thus, a higher degree of performance and financial risk is placed on the contract manufacturer that wishes to be competitive, and he must absorb these risks within narrow profit margins held low by the intensity of international competition. In order to successfully compete in the coming decade, the Haitian assembler will not only need to be very good, but will also need to be much better capitalized than has been necessary in the past.

3 Business Systems Analysis

Again taking the apparel subsector to represent the factors affecting Haitian competitiveness in export assembly, we begin below by tracing the principal steps in the value-added chain for apparel assembly in schematic form, identifying and quantifying cost and quality factors that exert a first-round influence on international competitiveness. The assembly process is broken down into three main components, inbound transportation of cut pieces and raw materials, domestic processing and assembly of same, and the outbound transportation of finished goods. The principal competitiveness factors that are internal to this assembly process are the financial costs associated with each step, the time involved in completing these, reliability and availability factors affecting competitiveness, and the quality levels achieved or affecting each assembly step. In Table IV 4 below, values estimated to be representative of Haitian assembly industry conditions are compared to estimates from competing countries -- namely Mexico and Honduras -- and an overall comparative assessment of Haitian performance is developed.

Table IV 4 Business Systems Analysis of Haitian Competitiveness in Apparel Assembly

Section 1 Representative Haitian Values

Cost/Quality Dimension	Transport In		Processing/Assembly				Transport Out				
	Maritime/Overland	Port/Customs	Labor	Mktg /Admin Technical	Space	Utilities	Maritime/Overland	Port/Customs	Air	Airport/Customs	U S Customs
\$ cost ¹¹	\$2,000	1,200	1,875	3,500	200	900	2,000	200	3,800	?	2,000
time cost	4	2-10	3	n a	n a	n a	4	2	1	0	1
reliability/avail	fair	poor	fair	poor	good	poor	fair	poor	fair	fair	good
quality	fair	poor	good	fair	fair	poor	fair	poor	fair	fair	good
Section 2 Representative Comparable Values (Honduras, Mexico)											
\$ cost ¹²	500-2,000	100-450	2,600	less than Haiti	400-600	300-600	500-2,000	100	3,000	?	0-2,000
time cost	2-4	0-2	3	n a	n a	n a	2-4	0-2	1	0	1
reliability/avail	good	fair	good	good	good	fair	good	fair	good	good	good
quality	good	fair	good	fair	good	fair	fair	fair	good	good	good

11 Representative costs are based primarily on information provided by informants and are expressed on a per 20-ft container = 1,500 dozen basis Port-in costs include approx \$900 wharfage and \$300 handling Labor costs are based on all-in cost of U S \$3 and productivity of 2.5 doz/day Marketing, administrative and technical support overheads are calculated as a residual based on industry estimate of \$3.25/doz total OH, including rent and utilities Space costs based on \$10/m²/yr and allocation of 10 m² per worker Utility costs are electricity at \$0.15 per kWh, 1 kW/worker, 2,000 kWh/10-hr day, 300 days & 100 containers output/yr

12 Sources include FIDE for Honduran data, and the Secretariat of Economic Development of the State of Jalisco and *Bobbin Magazine* for Mexico

Table IV 4 Business Systems Analysis of Haitian Competitiveness in Apparel Assembly

Section 3 Comparative Assessment ("+2" = very favorable, "0" = neutral, "-2" = very unfavorable)

\$ cost	-1	-2	+1	-1	+1	-2	-1	-1	-1	?	-1
time cost	-1	-2	0	n a	n a	n a	-1	-2	0	-1	0
reliability/ availability	-1	-1	-1	-1	0	-2	-1	-1	-1	-1	0
quality	-1	-1	0	0	-1	-2	0	-1	-1	-1	0
Overall score	-4	-6	0	-2	0	-6	-3	-5	-3	-3	-1
Potential score	-4	0	+2	0	0	0	-3	0	0	0	0

As most of the estimates presented in Table IV 4 are self-explanatory, we will focus the discussion on issues that merit particular attention. First, is the inordinately high impact of poor quality/high cost port services on the competitiveness of Haitian assembly exports. As was discussed at length in the discussion of Haitian infrastructure deficiencies in Section B above, Haitian port charges are up to ten times as high as those of the most efficient regional competitors such as Costa Rica, and three to four times as high as more typical values in the region, such as those of Colombia and Panama. Delays in gaining access to a berth, in loading and unloading, and in moving containers in and out of the port of Port-au-Prince add significantly to transport costs and turnaround times for Haitian assemblers, constituting a major competitive disadvantage at present. The upside, however, is that these are all eminently correctable problems that presumably will be corrected in the course of current efforts to improve administration and subsequently privatize operations of Haitian ports.

Overhead costs, in particular marketing and administration costs, are high in Haiti on a per unit basis. The main issue here is short production runs and inadequate export volumes and capacity utilization in the Haitian assembly industry, which, again, are problems that are correctable in principle. More difficult is the retention and re-attraction to the industry of competent technicians and mid-level management. Their emigration in large numbers has put the Haitian assembly sector into a weakened condition in which it is less able to meet international reliability and quality standards than it needs to in order to be competitive. This problem will take somewhat longer to overcome, as the stability and attractiveness of employment conditions for mid-level technicians and managers will have to be restored, and new people trained in order to bring back adequate numbers to the industry.

Factory space is currently cheap in Haiti relative to assembly sites such as Honduras and Mexico, for example, where rentals at industrial parks run from \$2.50 to \$3.50 per square foot per year. Electricity, however, is inordinately expensive and totally unreliable, forcing assemblers to individually generate power with small, inefficient diesel generators. Plans are in place to privatize Electricite d'Haiti and allow new private generation to enter into the market, so that, again, this is a problem that in principle can be easily resolved, although implementation of seemingly simple solutions has a tendency to become impossibly complex and time-consuming in Haiti, however.

Finally, a major competitive disadvantage shared by other Caribbean assemblers in competition with Mexico is the imposition of high *ad valorem* duties on the value-added component of assembly exports shipped to the United States. As noted elsewhere, duty rates range from about 15 up to 40 percent, and duties add 6 to 10 percent to the landed cost of apparel items produced in the Caribbean Basin. This is a significant cost advantage for Mexican assemblers. Pending Caribbean accession to NAFTA, granting of NAFTA-parity, or the negotiation of separate free trade agreements, serious consideration should be given by the United States to granting Haiti a special temporary 10-year exemption from import duties on manufactured assembly products, as a means of compensating Haiti for some of the losses that came about as a consequence of the economic embargo and military

intervention, and to provide it with a temporary competitive advantage while the industry is reorganized and rebuilt

In Section 2 of Table IV 4 , estimates comparable to cost and quality estimates for Haiti are presented for a range of competitors represented by Honduras on one end, and Mexico on the other. As noted above, both countries have achieved truly impressive success in export assembly during the 1990s and continue to occupy leadership positions among assemblers in the Caribbean Basin. Availability of relatively low-cost rail and truck transport links into the U S confers an enormous transportation cost advantage on Mexico, which, added to its duty advantage as a member of NAFTA and favorable labor and energy costs, make it a formidable competitor for the U S market. Its advantages are reflected in the enormous growth it has achieved in assembly exports to the U S over the last 5 years. Nevertheless, the total U S market is huge and still growing, some more advanced Asian countries are beginning to diversify out of apparel assembly, and, as shown by Honduras, it is still possible to compete effectively with Mexico and other competitive sites, based partly on the U S industry's interest in maintaining diversified sources of supply and, more importantly, on the basis of quality and reliability of service.

With reference to Section 3 of Table IV 4 , a qualitative ordinal assessment of the relative severity of specific problems for Haitian competitiveness confirms the importance of addressing port and cargo handling costs and operating efficiency at Port-au-Prince as the single most important competitive disadvantage currently faced by Haitian assemblers, among disadvantages that are "internal" to the export assembly industry itself. Second in importance, only by a hair, is the negative impact of unreliable and high cost electricity, an observation confirmed by industry informants in Haiti.

In our judgment, the cost and other factors pertaining to Haitian labor are a neutral influence at the present time, with cost advantages canceled out by instability and insecurity issues that are keeping Haitian workers from currently achieving their well-recognized high historical standards for reliability and productivity. Deficiencies in the availability of competent middle-managers and technicians, and the high unit costs of carrying needed marketing and administrative overheads on a reduced volume of output, are a significant negative competitiveness factor at present, as was pointed out above.

By the qualitative assessment system presented in Table IV 4 , Haiti scores a minus "33" on a scale that goes from a possible plus "80" to a possible minus "80", with "0" representing average or "neutral" competitiveness in the Caribbean region. In our judgment, Haiti can over time achieve at least a neutral score on all factors except the cost of transportation -- where Mexico will always enjoy a distinct cost advantage compared to any and all other offshore assembly sites in the world -- and it can also in the future gain a slight competitive advantage based as much or more on the quality and productivity of Haitian labor as on its relatively lower cost. In our view, Haiti could easily improve its overall competitiveness score in the next few years from the current minus "33" to only

a minus "5" on a 160-point scale. A minor competitive disadvantage based principally on transportation costs relative to Mexico should be fairly easy to overcome with aggressive marketing and a reputation for high-quality and reliable service.

4 Strengths, Weaknesses, Opportunities and Threats

To complement the business systems analysis presented above, it is equally important to identify and analyze strengths, weaknesses, opportunities and threats that may be entirely qualitative or even external to the assembly business system itself, but that may have an equally important influence on overall competitiveness.

In this sense, the principal strengths of the Haitian assembly industry are, in our view, the following:

- First, a good reputation and a "following" internationally, based on historically high-quality performance,
- Second, a cadre of experienced and competent entrepreneurs in the industry with good marketing connections and good reputations internationally,
- Third, high-quality, reliable and productive Haitian labor, which more than any transitory and ultimately undesirable dramatic cost advantage, has always enabled it to find an appreciative international market in the past,
- Fourth, Haiti enjoys physical proximity and many personal and business links to the U.S. market, advantages that are not available to its Asian competitors or even enjoyed to the same degree by other Caribbean and Latin American assemblers, and
- Fifth, and this may prove to be most decisive in the medium- and long-term, Haitian culture and society harbor world-class design talents and a milieu that is conducive to the adaptation of Haitian design capabilities to a wide range of activities, as assembly moves more towards self-standing manufacture, in apparel as in other subsectors, the Haitian design talent will undoubtedly enable its entrepreneurs to create and capture unique and high-valued niches that will not be available to the traditional straight assembler.

Other than those identified through the business systems analysis presented above, the principal weaknesses of the Haitian assembly sector have to do with insecurity, infrastructure and environmental issues facing the country as a whole. Most important is the lack of social and political stability, which puts the physical security of people, facilities and goods unnecessarily at risk. Second, the lack of collateral infrastructure, particularly communications, water and urban sanitation,

urban and interurban roads, which make life and business more costly and less enjoyable than in other competing sites around the world. Third, the lack of adequate schooling and health facilities are a major deterrent for the relocation of managerial and technical personnel from the U S to Haiti. Finally, both the realities and the image of Haiti as a country characterized by desperate poverty and merciless exploitation make many individuals and companies reluctant to associate themselves. Despite the unfairness of recent highly-publicized attacks such as those involving Kathie Lee Gifford in Honduras and the Disney Company in Haiti, international companies can suffer major damage to their public images as a result, and they will take pains to avoid taking unnecessary risks in this regard. Haiti will first need to consolidate a new reality -- no matter how tentatively to begin with -- and then work hard to develop and disseminate a more positive image of itself, one that will encourage companies and individuals to associate themselves with the country rather than frighten them away.

A final major weakness of the Haitian assembly industry not explicitly brought out by the business systems analysis presented above is its extreme financial weakness brought about by the collapse of their operations during the embargo period, and by a sustained period of operating at thin or nonexistent margins since then. While hard data on this point are not available, numerous industry informants and their bankers confirmed that a large portion of the industry has been and currently continues to operate at a loss, and that lack of equity and lack of collateral are keeping many former operators from coming back even in a small way, despite their having years of experience as successful owner-managers of multi-million dollar, thousand-employee operations in former periods prior to the embargo and subsequent invasion. The undercapitalization of this group of assembly entrepreneurs who were financially ruined by the embargo and subsequent invasion is a major impediment to the recovery and expansion of the industry at the present time.

In terms of opportunities, we have already mentioned a worldwide industry trend towards moving the production of more "high-end" products overseas, as well as a move towards developing self-standing, full-service offshore manufacturing capabilities to meet the demands of the U S market. High labor skills and design talents available in Haiti should allow Haitian firms to take advantage of these trends, if the increased financing needs associated with such a transition can be met.

A second major opportunity available to Haiti as a special window that will be open to it for at least a few more years, is the assistance and special preferences that it may be able to receive from the United States and other industrial countries, as well as from the international financial institutions working in Haiti, on the basis of its "special" circumstances and its "special" needs. There is strong sentiment and a decided interest in finding ways to help Haiti in a meaningful way, but Haiti must show that it is able and willing to make good use of the assistance and special opportunities that may be given to it, or these sentiments will, as may already be happening, subside entirely. For assembly, it is likely that a well-organized campaign to obtain temporary special trade preferences would be well-received in the U S Congress and Administration, if a credible case could be presented that such an opportunity would not be squandered. The Haitian government, in particular, must be ready

to demonstrate that it is committed to maintaining order, rehabilitating the country's infrastructure, and otherwise establishing the conditions that will allow business to prosper. So far, such a commitment by the Haitian government to market economics and business development has not been evident.

The major threats to the Haitian assembly industry are domestic. As for the rest of the Haitian economy, continued social and economic instability and continued inattention to the basic business climate and infrastructural needs of the private sector will lead to its continued stagnation or collapse. Conditions have truly reached the critical point in Haiti today, and little time remains to begin addressing these fundamental problems in a serious and competent fashion. Radical and destructive elements of the U.S. labor movement also pose a threat in that their greater access to U.S. media allows a one-sided and distorted image of Haitian labor conditions in the assembly sector to be propagated easily by them, with little play or coverage given to Haitian attempts to provide a factual, realistic and more balanced response. As they have in the past, the U.S. Embassy and other agencies of the U.S. government, as well as other public interest groups that support Haitian development, must continue to intervene when necessary to ensure that the American public is provided with a well-balanced and complete view of Haitian economic, labor, and business issues.

While Mexico, China, India and others will continue to be formidable competitors for the Haitian assembly industry, and while it is unlikely that Haiti will ever recover its old monopoly for the production of baseballs, for example, such competition should really not be viewed as a threat but rather as a necessary condition for the development of a strong and competitive industry.

B Agribusiness

Agriculture is the most important employer in Haiti accounting for approximately 66% of the workforce. The most recent data from the World Bank has the sector contributing 43% of GDP, although other studies cite figures from 30-35%. The sector contributes significantly more if one includes the inputs, transport, processing and distribution of agribusiness products.

Haiti once produced 60% of the world's coffee and 40% of the sugar imported by England and France in the late 1700s.¹³ It was the richest, most productive and most competitive colony in the Western hemisphere accounting for 40% of French foreign trade. The agribusiness sector was traditionally based around sugar, coffee and cocoa for exports and the traditional food crops such as plantains, yams, sweet potatoes, rice and cassava. Some non-traditional exports, such as mangoes and essential oils, also became competitive more recently. This sector will produce an

13 Federal Research Division, Library of Congress Dominican Republic and Haiti Country Studies, Washington, D.C. 1991, p. 206

overview of the competitiveness of the major agribusiness sectors and will then go into detail analyzing the case studies of two illustrative business systems mangoes and cocoa

Haiti has lost its comparative advantage in sugar with the break-up of the plantation structures after independence. The cost of production in Haiti is now 2-3 times the world market price. Also, producing zones closer to the equator have greater advantages as the harvesting period is year-round and expensive plant and equipment can thus be amortized over 12 months of production instead of 9. Other countries, such as Australia, are extremely efficient in their industrial processes. Even the enjoyment of a favorable U.S. quota with prices well above prevailing world prices has not provided an incentive as much of this quota has gone unused. Sugar is also used in Haiti for the production of rum and moonshine, the latter enjoying an important domestic market. It is difficult to see Haiti regaining competitiveness in the sugar industry under current conditions without major foreign investment. This in turn would be controversial given the need for direct control over some portion of producing land to ensure supply. In the Dominican Republic, for example, the record is mixed. The sugar parastatal Consejo Estatal de Azúcar is unable to produce at competitive prices while the two private sector producers -- Central Romana owned by a U.S. based group and the Dominican-owned Viccini Group -- have been able to achieve commercially viable production.

Haiti could be competitive in coffee and cocoa production given the altitudes of its mountains and existence of varieties that could obtain a premium price. The existence of high quality producers in nearby countries (Jamaica Blue Mountain and Trinidad premium cocoa) demonstrates the potential. However it currently lacks the supply factors and support clusters which would enable it to achieve this potential. Production of coffee has fallen from about 43,000 tons in 1980 to about 30,000 tons in 1987. Both markets can expect to enjoy rising prices over the next several years, as supply is not expected to keep pace with demand.

Mangoes, essential oils and other specialty products are a potentially attractive market for Haiti. Mangoes will be treated in depth below. Essential oils, especially extracts from vetiver, lime and bitter orange, have generated up to \$5M in foreign exchange. Sisal and cotton, which used to be important cash crops, have not been significant in recent years because of changing market conditions for the former and the production and ecological problems associated with the latter.

The domestic food system is based on corn, sweet potatoes, rice, sorghum, beans, bananas and plantains, manioc and taro root. Mangoes, citrus, avocados, other fruits and vegetables and medicinal herbs make up the balance. The lack of effective demand because of low Haitian incomes is an important constraining factor as pointed out by the LACTECH Food Security Study. Efficient production is also constrained by the severe fragmentation of small landholdings. Government protection in areas such as rice, cereals and vegetable oils has also impeded competitiveness while penalizing consumers. The supporting physical and institutional infrastructure is among the weakest in Latin America as demonstrated by the condition of irrigation facilities and the lack of applied research and extension. Vocational and technical education in agriculture is also deficient.

However, some Haitians are now being trained under a European-funded program at the leading Dominican Agricultural College, ISA, which is located less than 2 hours from the Haitian border at Santiago de los Caballeros

Efficiencies in the Haitian food staple system could bring important advantages to both farmers and consumers. If value could be added, costs reduced, or effective demand boosted for Haitian staple crops, this could also have an important impact on farmers as well as on the nutritional well-being of consumers.¹⁴ It is important to consider whether improvements in the food commodity systems for local consumption can be improved in the context of a private sector strategy. Improved processing and commercialization of some staples could provide better price incentives to farmers and/or lower costs to consumers. This requires an understanding of the key local food staples: yams, sweet potatoes, plantains, bananas, manioc, malanga (taro root), beans, corn, rice and similar products. Manioc is processed and sold as both flour and flat cassava bread, although this staple is being increasingly displaced by wheat which is usually part of foreign assistance imports. Plantains are another important staple and can also be dried, turned into flour or made into chips for snacks. Malanga (taro root) could be dried in the countryside rather than in the city, adding value in rural areas and reducing costs of transport. This glutenous tuber is then fried into patties.

The goal of the GoH agricultural program should not be self-sufficiency in production but improved caloric and nutritional intake by its people based on modernized systems which lower the cost of food to the majority of consumers while improving the productivity of producers. Excessive emphasis on uncompetitive rice production in the Artibonite Valley (the most fertile area of the country) and the protection that this requires works against the goal of food security. This orientation around a protected and non-competitive rice growing industry penalizes consumers and has a disproportionately negative effect on the poor who spend a higher portion of their meager resources on food. Technically speaking, the re-orientation of Haitian agriculture around more productive and cost-effective crops could provide Haitians more food at lower cost but would also entail some painful short term restructuring that would affect producers of domestically produced rice. The Haitian rice producer is part of a system that is familiar and a transition to another system would have to be carefully undertaken. The protection of the domestic vegetable oil industry also results in higher prices to consumers of a commodity that represents a surprisingly high source of calories for the poor consumer (often the second most important source of calories in a poor person's diet).

Haitian agro-industries are based on processing of cereals, oilseeds, sugar cane, alcoholic beverages, essential oils and some limited processing of coffee for local consumption. Many of these have been

14 In "USAID Strategy to Improve Food Security in Haiti: A Proposal," by James Riordan, Roberta van Haeften, et al (February, 1997), the authors make the point that lack of effective demand (poverty) is the root of Haiti's food security problem and emphasize the importance of providing a favorable investment climate and broadening access to markets.

built upon an import substitution model and are not highly competitive, especially those that were under state ownership

The livestock industry suffers from lack of demand and the relative poverty of the Haitian consumer who cannot afford much meat in the diet. Cattle are grown in small numbers on the basis of low-cost extensive grazing. The chicken industry faces competition from imported chicken parts and, unlike the Dominican Republic, has been unable to establish an effective production and distribution system providing live or fresh-killed chickens to lower-income consumers because of demand constraints. Chickens and pigs are in evidence in rural areas and provide supplemental nutrition or income to small farmers. However, a brief and cursory visit to the rural areas would seem to indicate that the rural pig industry, while important, has never recovered the vitality it had before the US-funded eradication program. Goats also provide some supplemental income or nutrition in rural areas.

The business systems analysis demonstrated the potential to increase rural incomes in mangoes and cocoa.

1 Case Study Cocoa Business System

The competitiveness of Haitian cocoa can only be understood in the context of the wider agribusiness system within which it operates including the consumer, the chocolate industry, the producers and the supporting services and institutions. These will be analyzed in turn.

Consumers continue to demand greater volumes of chocolate -- demand is growing about 3% per year. Growth is modest in Europe and the USA, but new markets are developing a taste for the product. The Japanese, motivated by strong promotional campaigns touting the health virtues of chocolate, are increasing their demand at a rapid rate. Other Asian chocolate markets, including China, are beginning to develop. Latin American demand is also growing as incomes rise. Demand prospects are good and will probably continue to grow at these rates barring any shocks to the world economy, global trade conditions, or the discovery of health factors related to cocoa.

The cocoa processing industry requires about 2.7 million tons of cocoa a year, and is increasingly worried about its growing dependency on West Africa and also about securing supplies of premium cocoa. The industry will likely pay slightly more attention to Haitian producers in the future. The rapid decline of Brazil as an international supplier and the increasing dependence of the industry on West Africa make producers vulnerable to climatic and political factors which affect that region. The Ivory Coast and Ghana together supply over half of world demand and are both affected by harmattan winds and other factors. As a result, the industry is interested in the supply offered by Latin America and Asia to diversify risk. Also, there is a growing trend towards the processing of more cocoa in Brazil and Ivory Coast, which limits the availability of exported cocoa and makes the industry all the more interested to secure supplies, especially of higher quality cocoa. The processors

are increasingly concentrated and three companies now process nearly 40% of exported cocoa. Cargill and ADM are expanding their operations.

Most producing countries have failed to invest in cocoa expansion in recent years. Brazil, once the world's second largest exporter, now barely exports cocoa as its own production has declined due to poor farm maintenance and witches' broom disease. It is also processing more of its own production to serve the MERCOSUR market. Malaysia has also been converting some of its land from cocoa to palm oil production. In West Africa, sizeable increases in production in the last two crop cycles have occurred but this seems mainly due to good weather, improved farmer incentives through devaluation and the elimination of fixed prices dictated by the cocoa board under the former system that has now been liberalized. Only Indonesia seems to have undertaken a major expansion. As a result of these supply and demand factors, world stocks have declined from nearly 70% of annual world demand to about 40%. If West Africa fails to produce a bumper crop in the near future, world stocks could decline sharply and prices could rise to much higher levels. Indeed, the dramatic improvement in cocoa prices in early June 1997 is largely attributable to concerns that an "El Niño" weather pattern could hurt the West African harvest. Another factor contributing to this tendency is that within one year, the International Cocoa Organization (ICO) will have completely sold off its once substantial stocks from its failed attempt at commodity price stabilization. With this overhang off the market, prices will also be set to rise.

Haiti can look forward to at least 10 years of better cocoa prices. Cocoa is now rebounding from a long bear market characterized by over-production and low prices which fell to as low as \$800-\$1,000/ton before rebounding to current levels which fluctuate between \$1250 and \$1550/ton. This bear cycle is now over. An idea of likely price levels in the future can be had by looking at the former price floor of about \$2,000 per ton which had been established by the ICO. Prices at one time had risen as high as \$3,500 to \$4,000 per ton, a level attainable during the course of the next long-term commodity price cycle. Contributing to this positive price outlook is the fact that cocoa, despite the development of some quick-yielding varieties, generally takes about 5 years between planting and first commercial harvests with full capacity reached after 8-10 years. Therefore, price signals work in the market with an extended lag time, exacerbating price fluctuations.

Low price incentives flow through to the producer, limiting the incentive. Intermediaries known as "speculateurs" buy cocoa at the local level and transport it to 2-3 major cocoa exporters in Port-Au-Prince. These intermediaries provide useful functions including the occasional provision of informal credit, a knowledge of cocoa production regions, and transport. There is a natural tendency for the speculateur to maximize profit margins in price negotiations with producers and they tend to be protective of their markets. The producer is currently paid between 4-5 gourds per pound (last year's prices) which works out to about \$600/ton. The price varies according to the quality of the cocoa and the transport cost from the zone of production to the exporter. Transport costs are said to add about another 20% and the speculateur gets his own margin, which is difficult to determine precisely. Transport alone would bring the landed cost to the exporter to at least \$720 at current prices. The exporter then sells the cocoa on the world market but is said to get a price about \$150-\$200 below

world market prices because of the generally low quality of the product and the lack of fermenting process at the local level. Depending on how the exporter timed his sale last year, this would mean a price of anywhere between \$1150 to \$1350 per ton. After subtracting insurance, freight, and exporter costs, the difference provides a contribution to the overhead and profit of the exporting firm. There is also some small local processing whereby cocoa beans are grilled and ground into a paste and turned into “batons” or bars which are then sold for boiling in milk, perhaps with sugar for local consumers. However, this represents only a small portion of the total volume.

The cocoa production system has various inefficiencies and faces important constraints. Tens of thousands of Haitians are involved in some way in caring for or harvesting cocoa trees. Unlike Malaysia, which organized cocoa production around large plantations, and unlike Indonesia, which is based on a comprehensive smallholder incentive program, Haitian cocoa is more informal. The Haitian producer is motivated more by the need for survival and diversification of risk than maximizing potential cash income. Consequently, the producer will typically have a few cocoa trees as a supplementary source of income rather than a small holding entirely devoted to the crop. The producer will provide some minimal tending of the tree, collect the cocoa pods, take the beans out of the hulk, dry them, and ship them. Attempts to get local producers to add value by fermenting the cocoa at the farm level to improve the quality have not proven successful as the extra effort is not adequately compensated by the incremental price. The scale of production also works against this. The producer must contend with pest problems such as rats and birds as well as diseases and other infestations. The producer has also faced a low price incentive in recent years and sees cocoa as insurance -- collecting, drying and selling it when and if the price warrants. The responsiveness of these price signals should be improving for the reasons mentioned above. Even more of the price can flow through to the producers if they were connected more efficiently to their exporters. The current lack of good information flows to the producer from the exporter allows the intermediary to capture a certain rent.

Key constraints include the small scale of holdings, insecurity, bad roads, and the lack of price incentives to overcome the above problems. The low prices prevailing in the market in recent years have depressed the incentives to produce. This has been exacerbated by the low scale of production and the additional costs imposed by a poor road infrastructure, especially in rural areas. The general insecurity and poverty of the Haitian small farmer also creates a reluctance to rely on one crop and especially one that takes several years to produce. The lack of information and communication between producers and the exporter means that price signals and distribution both come through small-scale intermediaries.

Strengths, weaknesses, opportunities and threats (SWOT) Strengths include an important existing base of production, Haitian experience with this crop, and an existing distribution and export system. Cocoa trees retain soil and thus help the ecology while also being of help to very poor rural Haitian peasants. Cocoa creates economic activity outside the capital city while also generating foreign exchange. The weaknesses are poor supporting infrastructure, highly fractured production, low value added and very low volumes (3,400 tons versus 48,000 in the Dominican Republic or 1,100,000 in

Ivory Coast) However the opportunities are significant as cocoa enters a long term cycle of higher prices, and as production of traditional suppliers such as Brazil and Malaysia declines. There is an interest on the part of international buyers to develop non-West African and premium sources of supply. Threats include pests and disease and the possibility that other suppliers may begin to plant as prices rise and incentives improve for Indonesian and West African producers.

The potential exists for doubling exports without new planting. Although data on tree populations in Haiti is very poor, one could realistically expect a doubling of cocoa exports just on the basis of improved price incentives over the next several years. Data would suggest that Haiti exports about 3,400 tons per year even when incentives are not very good. Small farmers will collect more and take better care of their trees when prices are high. Experience in other countries shows that one could expect up to a doubling of exports just on this basis. This would lead to an export of about 7,000 tons. One could hope for exports to grow to between US \$8-10 million per year, which would rival mangoes. More importantly, it would provide needed additional income to desperately poor small farmers in outlying regions. New production schemes should nevertheless be introduced carefully, as other countries will at some point expand their plantings as prices rise.

The major constraints are insecurity, infrastructure and isolation. The in-depth review of the cocoa situation in Haiti confirms the themes of the wider study. The twin signals of price incentive and risk are affected by insecurity, infrastructure and isolation from markets. These act to increase the risk and reduce the price flowing through to the producer.

Recommendations include helping to link farmers to markets, provide better town-level information and communication, improve rural infrastructure and address rural insecurity. Interventions in this sector could improve ecology, peasant income, foreign exchange generation, and secondary city economies and are more likely to have short-term impact and be feasible as they are based on systems that Haitians already know. Larger supply-side interventions to expand planting and provide some practical applied research are being looked at by the Europeans just as the United States once helped develop a project for small farmers that at one time sold product to Hershey. However, such schemes should be viewed with caution in light of previous failures. They are not easy and require a long-term commitment. Demand-side interventions, such as providing towns with more effective communication and information can help to link them more closely to exporters. This will eventually provide more of the price incentive to the farmer directly, which would be further helped by better transport infrastructure and organizational linkages. Promoting sellers cooperatives could help reduce the isolation between producer and market and improve the price incentive that gets down to the producer. Insecurity could be reduced if exporters would use the futures market and then pass on a firm future price to the producers and the gatherers.

2 Mango Business System

Consumers are demanding more and more mangoes in fresh and processed form. There are some clearly defined segments in this market. There is the curious yuppie (conscious of health and interested in variety), the ethnic market, the organic niche and the food processing industry with its own various sub-segments. The intensifying rivalry between Minute Maid, Tropicana and smaller beverage manufacturers is putting a growing variety of fresh premium juices on the market with ever more exotic flavors. This requires them to buy more mango puree and pulp. Frozen mango sections are also required by companies that make fruit salads for salad bars, for which there is an increasing demand in the USA. Dehydrated mangoes go into trail mix while mango cheeks are cut up and mixed with yogurt. One of the most interesting markets for Haiti is currently the ethnic market of Caribbean and Asian consumers who are familiar with the Haitian mango variety (Mexican mangoes serve much of the mainstream market). This market is growing not only in the U.S. but also in some parts of Europe.

Approximately 40,000-50,000 Haitians are involved in gathering mangoes which are collected by about 70 buyers ("fournisseurs") who in turn supply these to about 10 exporters who select, clean and hot water dip the mangoes to eliminate larvae. They then select again, grade, pack and sell to a network of about 50 different importers, wholesalers, and retailers. These mangoes are then sold through about 3-4 U.S. supermarket chains and a much larger network of family grocery stores, typically owned by Asian- or Hispanic-Americans in major urban centers serving the ethnic market. About 30-40% of mangoes are rejected for export and sold at lower prices in Haiti through a network of about 500 "marchands" who in turn provide them to thousands of retail sellers.

Mangoes have a very low cost to plant or graft. Once producing, they continue to produce with little maintenance. Mango trees are resistant to hurricanes and drought and the mangoes themselves travel well. The local producer or collector of mangoes will typically receive 5-6 gourds, or about \$0.35 per dozen although the actual price varies greatly depending on distance between the producer and the exporter in Port-au-Prince. Buyers who are able to get their mangoes to the exporter's gate will receive about \$1.03 per 12 dozen bag (17-18 gourds). The exporter then processes the mangoes and ships them, incurring about \$2.50 to \$3.50 in costs in the process. The wholesaler then sells these at about \$6-7/dozen to the retailer who in turn sells them to the consumer at about \$8-10/dozen.

There is additional value in this business chain which could be captured at the local level through better collection and transport. Putting producers in closer communication with the 10 exporters could also help producer capture more of the value as could an effort to assemble mangoes in one central spot at a given time for recollection by the exporter. This is difficult when telephone systems don't work. The poor conditions of the trunk roads add a bit to the cost but it is the poor condition of rural roads that really add cost for the producer. It takes time and effort to walk the mangoes to town from more isolated areas and this raises the cost and lowers the price incentive. If producers would cool their produce in water (where possible), store in the shade on wood (rather than hot asphalt), this would help extend shelf-life. If the mangoes could be brought to a common assembly

center in the nearby town, and the exporter or transporter could be contacted by telephone, such efficiencies would mean better price incentives and more income flowing through to the very small producer

Strengths, Weaknesses, Opportunities and Threats The strengths include resistance to drought, wind, and damage. The benefits are thought to affect 300,000 to 500,000 directly or indirectly in some way. There is an existing base of trees and a tradition. It provides decentralized economic stimulus. It helps the poorest population groups. It also generates foreign exchange. It provides an impetus for food production that also winds up on the local market or which can improve rural diets. There are over a hundred varieties in the country of which only one is being exploited for export in a major way. The weaknesses include bad rural roads which raise costs (or reduce price incentives), insecurity regarding land ownership and harvest which limits the incentive to plant more land in tree crops, the lack of communication and the lack of a research and development base. Opportunities include a growing market, the presence of the USDA pre-inspection service and the proximity of the US market. There is also a major opportunity to add value through agro-processing which would create more economic value for the producer who would be able to sell even non-export grade mangoes. Exporters are looking at these possibilities but only one currently processes mangoes. An opportunity also exists to improve the efficiency of the farm-to-market process. Threats exist from other producers who are also selling to this market.

3 Concluding Remarks on Agro-enterprise

The above analysis has demonstrated the importance not only of agriculture but of the entire agro-enterprise system to Haiti. The specific case studies have provided a window on some of the practical problems faced by participants in two areas where Haiti has a natural and competitive advantage. This analysis has demonstrated that insecurity in the rural areas keeps production at low levels among a risk-averse population. Isolation from the markets was illustrated by ignorance of true prices and the high intermediary costs associated with the current distribution system. These high costs are also caused by infrastructure deficiencies which increase the time and cost of getting things to market and by lack of communication mechanisms which could be used to communicate FOB and other market prices to the producer. Incapacity is shown by the lack of training institutes serving this sector and the paucity of applied research and extension. Lack of a rural credit system serving small farmers is also a major problem. The inaction of government also impedes local initiatives that require government permission and, if received, could begin to mobilize private capital for decentralized infrastructure projects that could address the isolation problem. The proposed effort to develop supporting infrastructure in the South for direct export of essential oils is well known to the Mission and there are other similar examples that could help reduce the isolation of producing regions. The road projects that are currently being planned will also help to reduce this isolation.

C Tourism

1 The Current Situation of Tourism

a The World & Regional Context

In the postwar era, the travel industry has expanded at a robust average pace of over 7% per year for the period 1950-95. Since 1970 the pace has been 5% per year, with total world tourist arrivals more than tripling over the quarter century 1970-95, rising from 166 million to an estimated 561 million. The Caribbean is one of the world's prime destination regions for resort tourism, and its growth since 1980 has slightly outpaced the trend in world tourism, with an average annual expansion in tourist arrivals of 4.7% during the 1980s, rising to a pace of 6.6% in the early 1990s (Appendix F, Exhibit A). During the 1991-94 period, the region drew an average of just under 800,000 more arrivals in each year, nearly twice the growth rate achieved during the decade of the 1980s (405,000). In reality, if the expansion of the pleasure cruise industry were added to these figures, then the growth figures for tourism in the Caribbean would be higher still.

In 1994, the Caribbean generated receipts of \$11.6 billion out of a world total of \$346 billion. The region's growth trend in total receipts has paralleled the world growth trend. However, the receipts per tourist arrival for the Caribbean is substantially above the world average, in 1994 \$851 for the Caribbean, versus \$633 for the world. Again, receipts realized from cruise passengers are probably not reflected in these figures. As regards the general outlook for tourism, the WTO has forecasts for world tourism that reflect a slackening of growth, to an annual rate of 4.4% for the latter half of the 1990s, falling to 3.6% for the first decade of the new century.

b Caribbean Tourist Arrivals

Some interesting dynamics in Caribbean trends can be observed in exhibit B. Jamaica, which suffered a collapse of tourism in the 1970s, is clearly on the rebound during the 1980s, starting the decade at under 400,000 in 1980, and reaching the one million mark by 1991. Jamaica succeeded in 'repairing' its image in the USA and promoted heavily to rebuild the industry. Its growth rate has since moderated in the 1990s. More recently, Cuba has emerged as a prominent destination in the region, with over 700,000 arrivals in 1995, reflecting an addition of 79,000 tourists per year on average since 1991. However, it is by far the Dominican Republic that has expanded its trade most vigorously, averaging an addition of 129,000 tourists per year since 1991, to reach a level of 1.9 million in 1995. This country has achieved this by catering not only to the nearby North American markets, but also to the distant European ones, encouraging low cost charter air services that many European tour operators rely on. Figures for 1996 indicate that just over half of all tourists (54%) come from Europe. As a result, if statistics for the four countries that surround Haiti are compared with the regional statistics, it is clear that in the early 1990s, Haiti has been in the center of a tourist

surge (8% expansion per year, 248,000 more tourists added each year) which has totally bypassed it

c Total Receipts from Tourism

As regards total receipts from tourism (Appendix F, Exhibits C & D) the performances of Cuba and of the Dominican Republic are outstanding. Cuba has expanded receipts over 1990-94 an average \$152 million per year, and the Dominican Republic \$65 million, through a combination of higher tourist volume, and in the case of Cuba, an almost doubled average receipt per tourist. As a group, in 1994 Haiti's four neighbors generated 3.6 million tourist arrivals and approximately US\$3 billion in total receipts.

d Expansion in Lodging Capacity

The expansion in lodging capacity among Haiti's neighbors has been extraordinary to make possible this growth, with the Dominican Republic leading the group at a construction pace of 2,500 rooms (average yearly addition for 1991-95) followed by Cuba with 1,900 rooms (Appendix F, Exhibit E). The case of Jamaica is interesting as a destination with a more mature industry, its expansion averaged nearly 900 rooms per year over this period. Clearly, investment of very substantial proportions has made possible this construction, if an average US\$75,000 total development cost per room is assumed, then during 1991-95, Cuba has been investing roughly \$142 million, and the Dominican Republic \$186 million in new lodging construction (hotels, resorts, inns).

e Haiti's Former Tourist Industry

In the 1950s, industry experts indicate that tourism was already rising in Haiti, which along with Cuba, emerged as one of the Caribbean's top destinations in the postwar era. In the 1960s, Haiti and other Caribbean points benefitted from the embargo of Cuba which shut down the tourism industry in that country. Similarly, in the 1970s the troubles in Jamaica provoked a shift of tourism to competing destinations. Tourism in Haiti continued to grow in the 1970s and early 1980s when there were poles of hotel capacity on the Côte des Arcadins and at Port-au-Prince which brought in North American and European vacationers in significant numbers. These tourists were made up of both resort tourists, and cultural tourists drawn by the country's unique culture. Tourist arrivals peaked in 1985, and again in 1989 when they rose to just under 150,000 in those years (Appendix F, Exhibit F). From 1985-90, the share arriving for vacationing purposes was approximately 60% and the business share less than 15%. Statistics show that for 1989-90, about 59,000 in each year were visitors of Haitian birth, suggesting the strength of the ethnic or Diaspora market in these numbers.

f A Unique Cultural Destination

A key factor in Haiti's former success was the uniqueness of its traditions, arts and crafts. This uniqueness is due to its African, French and Creole heritage, which has created an unusual racial and cultural blend that is evident in language, food, in traditions and in other ways. There is a fascination about Haiti's culture, especially in the French-speaking world, where the Citadelle La Ferriere is a major heritage symbol in the francophone world. Haiti also drew a mix of literary and culturally attuned travelers that would stay in Port-au-Prince. Port-au-Prince was the country's main gateway and the focus of tourism, with Cap Haitien a second gateway. Because road links were so poor with the Dominican Republic, and with weak business ties between the two neighbors, there is little evidence of any coordination in the form of joint overland tour packaging with the Dominican tourism industry. It appears that in those times Haiti derived no synergy from its proximity to the Dominican Republic.

g The Cruise Industry

In addition to air arrivals, the ports of Port-au-Prince and Cap Haitien drew significant cruise traffic through several cruise operators, who would offer inland excursions to the port cities and beyond for their passengers. At that time, a sufficient choice of excursions from these ports was possible, and security for the passengers onshore was adequate. The tourism master plan indicates that annual calls at Port-au-Prince reached 160 (120 at Cape Haitien) prior to the collapse of tourism in the mid 1980s. Annual arrivals of excursionists peaked in 1979 (188,000) and after sinking during the 1980s, again revived in 1988-90 when it approximated a level of 192,000 per year.

h Causes for the Collapse of Haiti's Tourism

An environment of security for tourists is indispensable if significant numbers of foreigners are to circulate freely and voluntarily in any foreign country. Three main factors have brought on the total demise of tourism to the country. The first is the onset in 1983-4 of the AIDS epidemic in the USA with reports that the incidence of that illness was higher in Haiti than in any other country in the hemisphere. (At the time, the exact methods of transmission of the disease were not yet clearly known.) The second factor was the period of political turmoil from 1986 into the early 1990s. The third factor was the trade embargo lasting three years which led to a prolonged cessation of business between US operators and Haitian suppliers. Because in the Caribbean, it is the US and Canadian travel markets that are dominant, the embargo has served as a major deterrent for tourism. Major beneficiaries have been the reviving tourism industries in Jamaica and Cuba, and a growing industry in the Dominican Republic. During these years of turmoil, several hotels along the Côte des Arcadins and in the Port-au-Prince areas, were shut down or converted to other uses.

The tourism master plan estimates that the visitor-nights spent in hotel accommodation (as opposed to private homes) averaged 547,800 each year for the period 1980-85, and only 62,400 for 1992-94.

Total visitor arrivals did not fall to the same degree, because of the increase in arrivals of Diaspora Haitians, who typically stay in private homes rather than hotels

For a few years during the embargo, all cruise activity was suspended. However, it was reported that RCCL, one of the top two operators in the world, and the sole operator of the Labadie port, paid its employees a subsistence wage throughout the hiatus, in order to keep the team intact for an easy resumption of service

1 Current Dimensions of Tourism to Haiti

Tour and cruise operators immediately cite the lack of security for travelers in Haiti as the key deterrent for a resumption of tourism. The image that the traveling public now has of Haiti is extremely negative. It is clear that the damage to the country's image is severe in the USA, the top Caribbean market. There is evidence that the damage to the country's image in Europe is less severe, with a small number of Europeans now flying into Haiti and driving in from the Dominican Republic.

Recent data (Appendix F, Exhibits F & G) indicate that over the last two years, visitor arrivals have recuperated to reach the 150,000 level for the first time since 1989. However, the market is dominated largely by returning Haitians living in the USA and Canada, staying in private homes and shunning commercial lodging. There is also a substantial segment of business visitors and persons on official business for foreign governments or agencies. The volume of true vacationers to Haiti is estimated to have fallen to as little as 30-40,000 persons per year during 1992-94, and it is not clear if the volume of vacationers is much higher now than it was then. An attempt to measure the total receipts in Haiti by tourists (of foreign or of Haitian origin) coming as vacationers and not for business or official purposes was made. This estimation, which is based on estimates provided by industry leaders, yielded total dollar receipts in 1996 of only US\$24 million nationwide, with three fourths solely attributable to Diaspora spending, and \$2.6 million of the balance derived from the sole location of Labadie, the cruise enclave. An estimation of permanent job creation attributable to tourism by vacationers only amounts to just over 800 jobs. If an allowance is made for construction jobs, the total would probably fall still short of the one thousand mark.

There is some evidence of a revival in tourism to the country and rising investor confidence. In 1995 the Club Med reopened, and the Secreteriaire d'Etat au Tourisme started operating. Royal Caribbean finally resumed operations at Labadie. One of the top German tour operators, TUI, returned to Haiti in 1996. Hotel occupancy had risen at Port-au-Prince hotels by 1997 to the point that some expansions are under way or planned. The completion of the tourism development plan in 1996 signaled the government's high priority for tourism. However, industry leaders, from both the hotel world and cruise industry, consistently voiced one key obstacle to the vigorous resumption of international tourism to Haiti: the insecurity of the social environment which is making land-holding risky, making road access unreliable due to occasional closures for political demonstrations, and

making for a virtually lawless environment in the provinces. Interestingly, capital scarcity was not cited as a major obstacle.

2 Competitiveness Assessment of Tourism

The analysis of the tourism sector is split into two sections, each to evaluate two very different types of tourism, one being the traditional hotel and resort (stay over) type in which the visitor stays over at least one night in the country, and the other being the cruise industry, in which the passengers always overnight on board the ships and not on shore in the country being visited. Because spending patterns and economic implications are quite different between these two types of tourism, they are evaluated separately. Because cruise tourism shows some promise for expansion in the short term, it is discussed first. Because the economic effects of the cruise industry are less well known, and are causing some controversy, they are examined in more detail than those of traditional tourism.

3 Business Systems Analysis For Tourism

For each of the two types of tourism, the industry is characterized according to the same framework. This framework starts with a presentation of some industry magnitudes, and continues with brief discussions of consumer trends, retailing channels, the producers, relevant suppliers, the products, the desired result of any USAID actions, and recommended actions. At several points along this framework the implications for Haitian tourism are highlighted.

a Cruise Industry

Industry Magnitudes

Dominance of the Caribbean -- The Caribbean region is by far the most active region for the world's cruise industry, followed by the Mediterranean basin. Approximately half of world cruise activity is concentrated in this region.

Industry Boom 1980-95 -- The North American market has tripled from 1.4 million passengers in 1980 to 4.4 million in 1995, at an average 7.6% annual growth. North American capacity in 1996 was 106,000 passengers and 129 ships (average ship capacity of 821 passengers).

Decreasing Dominance of Port of Miami -- While remaining by far the top port in North America in terms of passenger volume (1.3 million in 1995), the port of Miami has seen its share drop from over one half of the total activity at North American ports in 1982 (723,000 out of 1.4 million) to just under one third (1.3 million out of 4.1 million in 1995), several new ports have entered the cruise industry along the Atlantic and Gulf coasts.

Expectation of Continued Expansion -- The North American Fleet is expected to continue expansion to a size of 141,000 berths by the year 2000, representing an average annual expansion rate of 6%

Implications for Haiti

The industry continues to expand its activities in the Caribbean, and is interested in opening new ports of call in the region

Consumer Trends

US Eastern Seaboard Focus -- Approximately 50% of US cruise passengers originate from Atlantic coast states (1995), up from 47% in 1983

A Tool for Destination Sampling -- Surveys of passengers indicate that tourists choose cruising to easily visit or "sample" different types of destinations in one trip, there is some indication that such exposure to destinations arouses tourists' interest in them and creates the possibility of return visits on future trips

Increasing Market Segmentation -- Operators are offering cruises designed for specific interests and events aimed at penetrating special interest groups such as singles, senior citizens, gambling, serious shoppers, families, conferences/ convention participants, self improvement devotees, scholarly groups, for example This is following trends in traditional hotel and resort tourism

A Broadening of Source Markets for Caribbean Cruising -- Operators are tapping new markets such as South American countries and second tier European ones in addition to the UK, France, Germany and Italy

Adaptation to Aging Population -- The cruise product has great appeal for the middle aged and seniors who seek a comfortable travel experience with a low probability of unexpected problems The continued aging of the American population appears to be a factor favoring the cruise industry in this respect

Implications for Haiti

The generation of positive word of mouth by cruise passengers visiting Labadie can serve to stimulate regular tourism to the island Also, the success of Haiti's neighbors in drawing tourists of European nationalities is an excellent opportunity for Haiti, since Europeans may be easier to attract to Haiti than Americans

Retailing Channels

Heavy Reliance on Travel Agencies -- The CLIA document indicates that some 95% of industry sales are generated through travel agents rather than direct sale to the public. Travel agents have great influence in directing consumers' selections of destinations at the point of sale, their sales offices.

Emergence of the Cruise Industry into Mainstream Tourism -- Just as the travel agency field has diversified substantially to focus on specific niches, the cruise industry is similarly diversifying and broadening the scope of agencies marketing cruise packages.

Typical Cruise Cost -- A typical 7-night cruise will cost a passenger \$1,764 all-inclusive (airfare included) for a daily average of \$252, this is roughly equal in price to a comparable 7-night package in a Caribbean resort (\$1,839 for a Bahamas resort).

Agency Commissions -- There is pressure to cut agency commissions as has happened in the airline industry. An average package retailing for \$1,800 would yield a commission of 8% or \$144.

Implications for Haiti

Haiti's public relations efforts must focus in part on overcoming the negative image of the country held by the travel trade (i.e. travel agents and tour operators) in North America.

The Producers - The Cruise Operators

Industry Structure -- There are approximately 50 operators serving the industry's largest market, which is North America, including US and Canadian ports. There is some concentration in the industry, as there are 10 large operators that control the largest share of capacity. There are both publicly traded companies as well as family owned ones. A number of the large operators have European origins.

Supply-led Growth -- Because of the rising popularity of cruising, operators have expanded capacity steadily for a number of years, without harm to occupancy factors. The ability to finance new ship construction has to some extent determined the pace of growth of the industry.

Increasingly Sophisticated Vessel Design -- With the increasing ship size and capacity, the more recent ships contain extensive leisure and entertainment services like full service resorts. Some of the newest vessels have capacity for 3,000 passengers.

Diversification of Home Ports -- The trend has been to base ships at new ports on the US Atlantic and Gulf coasts to further broaden the convenience of cruising for populations in secondary metropolitan areas. Houston, New Orleans, Tampa, and Port Canaveral are examples of secondary departure points.

Rising Use of Remote Home Ports -- Some operators are basing vessels at offshore ports such as San Juan, Barbados and Aruba, requiring a longer flight for passengers to reach the port city, but eliminating 1-2 days of steaming at sea into/out of the North American port city. Within a year, a cruise terminal at Jamaica's historic pirates' haven of Port Royal, located near Kingston's Sangster International Airport will be completed, and may prove effective in drawing cruise business to the Kingston area.

Implications for Haiti

Because of continued industry expansion, the need for new ports, and the past success of Cap-Haitien and Port-au-Prince as cruise ports, it is probable that more operators can start service into Haitian ports if conditions are right.

The Suppliers

Concentration of Linkages at Home Ports -- Because of the efficiencies of arranging at the base port for procurement of goods and services for the full sailing season, (food, fuel, vessel maintenance, hotel supplies, etc.) these linkages tend to largely bypass the ports of call where ships typically stay only 5-10 hours. However, at each port of call, vessels are commonly charged port taxes per passenger, which represent an injection into the local economies. The Florida Caribbean Cruise Association indicates that in the Caribbean, these charges range from one to fifteen dollars (Appendix F, Exhibit K).

Limited Labor Absorption -- Operators typically create a few hundred onshore jobs at each port of call, and to a limited extent draw on this pool of labor as a manpower source for crewmembers on board their ships, in this way the onshore jobs can serve for local workers as gateways to crew positions on board vessels and for a few, in the operating companies. There are employment agencies specializing in cruise recruitment, and many developing countries including some Asian ones are represented on board vessels cruising the Caribbean.

Linkages for Local Businesses -- Shore excursions (typically costing \$20-40 per person), food and beverage consumption and shopping can represent direct injections of foreign currency. A recent survey of Caribbean passengers^s revealed that 79% of passengers purchased organized shore excursions, and that per cruise the average total spent on excursions was \$194. The same survey found that most passengers use local transportation.

at ports of call, and spend an average \$50 per cruise on onshore transport. Another found that average spending per passenger in port, all things included, ranged from \$47 to \$10 (US & territories excluded). The range for crewmember spending onshore per visit was \$20-72.

Duty Free Sales -- A number of Caribbean ports provide extensive shopping possibilities, typically for high cost luxury items. A recent trade survey of Caribbean passengers revealed that over 80% of passengers purchase duty free items, and that the average amount spent was \$448 (per buying passenger per cruise).

Quality of Port Management -- The Labadie enclave port arrangement, which is a sole user operation, is extremely simple since it is the private operator that operates the "port" thereby eliminating the need for any port authority. It is a fully integrated (internalized input) product for the operator. Efficient and well priced port management services are essential for any port to develop as a cruise port.

Implications for Haiti

It appears that city ports, which offer possibilities for different shore excursions, will generate more of a stimulus for the local economy than enclave ports because of the increased foreign currency expenditure made by the passengers on local touring and transport services.

The Products

Reliability of Product -- The shore experience must be problem-free and this requires efficient orchestration of tender vessels (where needed), harbor piloting and port operation, ground transportation, tour organization, arts & crafts marketing, personal security and other services, all for hundreds of passengers at the same time (at Labadie usually over 2,000), persistent failure of any link in this chain will cause harmful negative word-of-mouth forcing an operator to suspend the excursions and even drop the underperforming port of call. The ports of Port-au-Prince and Cap-Haïtien are examples of formerly successful ports of cultural interest that lost service once the safety of passengers could no longer be assured.

Diversity of Excursions -- A highly profitable component of the cruise industry is the marketing of varied shore excursions to the passengers at each port, operators can expand offerings at existing ports, and also enter new ports near interesting places. Cultural heritage calls can be very popular (Old San Juan in Puerto Rico, Cozumel near some of Mexico's Mayan sites, old town Cartagena in Colombia are three examples).

Product Innovations for Differentiation -- Because of intense competition, operators are developing unique and exotic ports of call, in remote locations where they can obtain exclusive rights (examples in the Bahamas and at Labadie), they invest in outfitting the

compound to offer an idyllic, controlled experience, spending as much as \$29 million (as at the new Disney cruise line's enclave island in the Bahamas) Other operators have expanded geographically to Panama, the Pacific coast and Alaska, seeking new shore excursions and proximity to the western US populations Another innovation is the land-sea package combining a cruise of several days with a stay of several additional days at an island resort

Implications for Haiti

When cruise ships were calling regularly at Haiti, Cap Haitien had served as a port of call for several operators, offering excursions around its old town and inland to the Citadelle and Sans Souci Palace The Cap Haitien vicinity has a capability to revive this dormant activity by meeting the industry's continuing need for new ports and experiences to offer There are beaches, a historic town, major cultural landmarks [the Citadelle and palace], and interesting crafts Jacmel also offers a variety of these same attractions albeit on a much smaller scale

Desired Results

Actions by the USAID mission to stimulate cruise tourism can be designed to achieve several benefits One is job creation at locations situated well away from Port-au-Prince, likely locations can include

- Labadie shores or other points along the north coast
- Ile de la Tortue
- Mole St Nicolas
- Ile La Gonave
- Ile A Vache
- Baie St Louis du Sud or other points along the south coast
- Cap Haitien (existing city port)
- Jacmel (existing city dock)
- Jeremie (existing city dock)

Because of the crucial issues of control and security, and because of the much reduced need for community preparedness in a rural locale, it is simpler to set up an enclave operation to be managed by one operator, than it is to rehabilitate a city port to be used by various operators It is plausible that one or more enclave operations will be started up before the first city port is readied for cruises Each such enclave operation can be assumed to directly generate initially 200-300 full time equivalent jobs, increasing with frequency of weekly ship calls (and passenger throughput)

An additional benefit of cruise tourism is to familiarize local tradesmen with dealing with foreign tour companies and with directly handling groups of foreign tourists The stakeholder businesses

include restaurants, taxis & transport operators, shops and souvenir stands, craftsmen, local tour guides, and performing cultural groups, among others. In a sense the cruise industry can serve as a *classroom* for investors and for service providers who can develop traditional tourism [inns, lodges, guest houses, etc.] at a later stage. This is a process of *acculturation* and of *learning by doing* that in outlying locations can be led by the cruise industry.

Another benefit of expansion in the cruise industry is that it will signify that business conditions are adequate for cruise tourism, by extension this should reduce the perception of risk for potential investors in hotel and resort projects. In this way, the expanding cruise industry can fulfill a *pioneer function* to build investor confidence in traditional tourist investments in resorts, inns, guest houses and restaurants.

A final benefit will be to open a *gateway for Haitian workers* into jobs in the cruise industry itself. The skills of the hospitality trade are directly transferable to ships (which are simply floating hotels) and also to hotels and resorts. As to where to begin, for enclave operations, several locations on the north coast are reported to be suitable. For city ports, the town of Jacmel appears to be a suitable candidate for near term development.

Estimated Economic Results

It is quite possible that one or two more enclave operations could be developed at secluded spots on islands or at spots on the north or south coasts. As regards the city ports, re-establishing service into them will require more advance preparation, particularly in social aspects of villager awareness and preparedness of stakeholders and local officials. Exhibit L sets forth a scenario of cruise expansion into four unspecified locations, assumed over a six year period. Capital costs have been ignored since, as at Labadie, offshore anchorage and tender service can be used instead of dockside operation, and because at some points (Cap-Haïtien, Port-au-Prince, Jacmel, Jérémie) docks already exist and require only upgrading. In the case of enclave ports, a low cost option similar to Labadie, is envisioned, and not the capital-intensive type of *festival destination* into which some operators are investing many millions of dollars (most recently at points in the Bahamas).

In a typical year, after the four operations mature, total annual net income, both direct and indirect, is estimated at \$18 million. Total annual passengers is 800,000 and direct/indirect job creation is 1,800. If extensive capital investment per port is required, say one half to one million dollars, the local content would generate income to the local economy (not estimated). Its foreign content should be well under half the construction cost. As these operations develop a menu of different onshore excursions (unlike today's Labadie operation), income would be higher than that stated. In the case of the remote locations, the objective is to lure operators into establishing natural enclave ports at high potential points in Haiti, into which they will later invest substantial sums in upgrade programs after an initial season or two of satisfactory operation. (The tourism master plan does not focus on this type of tourism, so a comparison of projections is not possible.) The above forecasts

of cruise traffic are intended to serve for benchmarking purposes as progress in this type of tourism is monitored Appendix F, Exhibit L does not include a forecast of future capital investment in ports

Recommended Actions

Because of the expansion of the cruise industry into more Caribbean points, of the past success Haiti achieved as a cruise destination, and in view of the low capital outlay required to start operations, this study proposes measures to spur creation of cruise ports by Haitian and foreign interests within a 2-3 year time frame The measures support both the enclave type of operation, as well as the city port operation, which appears to be more beneficial for the local economy, but is more difficult to prepare for from the socio-economic standpoint The reforms and programs recommended by the Private Sector team below are described in some detail in chapter VI

b Stay over Tourism

Industry Magnitudes

Caribbean Tourism Growth Exceeding World Growth -- Growth in Caribbean arrivals has outpaced the world average, 6.6% vs 5.4% for 1991-94, reaching a volume of 13.6 million visitors in 1994, gross receipts for the region amounted to US\$11.6 billion by 1994

Strong Caribbean Growth since 1991 -- The region added an average of 791,000 visitors each year over 1991-94, excluding the volume of cruise passengers [stay over visitors only], this is quite noteworthy in view of the robust expansion of cruise tourism in recent years

Strong Rise in Receipts for Caribbean Tourism -- Over the period 1991-94, the average annual expansion in gross receipts from visitors was US\$891 million, reflecting an 8.8% annual growth rate

Strong Caribbean Average Receipt per Visitor -- The average receipt per visitor in the Caribbean reached \$851 versus a world average of \$633

Geographical Diversification -- The region's main markets are North America and Europe, as well as intraregional travel, the dominant market for each island is either the North American one or Europe

Haiti's Poor Performance -- By nearly all indicators, the collapse in tourism to Haiti has been dramatic, however a rebound in arrivals had been achieved by 1996, to 150,000 arrivals

versus 70,000 in 1994. Vacationers represent probably only about one third of this figure, with the balance including visiting friends and relations, business and official visitors.

Implications for Haiti

Clearly tourism in the region continues to expand, and the causes for Haiti's under performance lie within the country itself, and not in the region.

Consumer Trends

Increasing Market Segmentation -- This trend has already been explained in the cruise section above and is fully relevant for land-based tourism in the Caribbean. Other special interest segments include divers, hikers, sports fishermen and yachtsmen, and persons attending cultural events such as festivals and carnivals, or business events such as trade shows and conferences.

US Eastern Seaboard Focus -- The eastern half of the US is the prime market for visitors from North America, while the UK, France and Germany are the top European markets.

European vs. American Markets Compared -- There is evidence suggesting that as compared to the US market, the European market on the whole makes longer trips to the Caribbean, spends less per day, is less demanding as to physical comforts, is more interested in local culture and flora & fauna, and is more likely to use charter air services for the journey to/from the Caribbean.

A Broadening of Source Markets for Caribbean Tourism -- Hoteliers are tapping new markets such as South American countries and second tier European ones in addition to the top source countries of the UK, France, Germany and Italy.

Image of the Caribbean -- The region promotes itself as a collection of paradisaical tropical islands offering fascinating nature in both land and sea, as well as a collection of varied cultures.

Image of Haiti -- The image of Haiti in North America remains very negative, and in recent years has been reinforced by widespread media coverage of the political troubles and waves of boat people arriving on the Florida and Cuban shores. Because coverage of Haitian affairs in Europe is less extensive, it appears that Haiti has suffered less image damage in Europe.

Implications for Haiti

The European traveler may be more tolerant of the substandard conditions [hotel conditions, urban crowding, panhandling, etc] and substandard product, that Haiti offers, than the American traveler. A major element of Haiti's tourism revival strategy should focus on building increased European arrivals

Retailing Channels

Dominance of Tour Operators for European Markets -- The vertically integrated tour operation characterizes much of Europe's long-haul tourism, in which retailing, air transport, and local lodging and excursions are offered by fewer companies than in the case of US tourism. The European market makes greater use of charter flights into the Caribbean to cut the cost of the long transatlantic flight.

Dominance of Travel Agents for North American Market -- Travel agents provide advice to US consumers on selection of destination and package tour, often agents have first hand knowledge of conditions at various destinations in a region and with their advice steer the thinking of the consumer.

Brand Loyalty -- There is significant repeat patronage for travel agents and for specific destinations, some of which derive as much as 30% or more of trade from past visitors, according to consumer surveys.

Primacy of Word of Mouth -- Consumers turn to friends, relatives and travel agents for advice on travel conditions. The booming field of travel journalism (print, broadcast, & internet) is an increasingly influential force in forming and even molding consumer tastes and perceptions.

Implications for Haiti

Because there is so little air service [either scheduled or charter] or package tour offerings between Haiti and Europe, in the short run Haiti must draw Europeans already entering the Caribbean through gateways such as the Dominican Republic or the French Antilles which benefit from extensive air links to France. The "island-hopper" formula which combines two or more destinations appears to be ideal for Haiti in the short run.

The Producers - The Travel Trade

Travel Wholesalers serving the US Market -- Key players packaging Caribbean holidays include companies like Liberty-Gogo (New Jersey), American Airlines' FlyAAway

Vacations, Carlson, Empress Travel, and American Express Club Med (France) is also a major tour operator for the US market to warm weather destinations

European Tour Operators -- Few of these operate any significant volume to Haiti, but operate substantial programs into the Dominican Republic and Cuba, there are charter flights between European points and Santo Domingo, Puerto Plata and to points in Cuba and Jamaica as well LTU and TUI (both from Germany) are two of Europe's foremost operators, both of which serve the Dominican Republic

Emerging Caribbean Operators -- Sandals of Jamaica and Gulf & Western hotels of the Dominican Republic are examples of Caribbean based firms offering inclusive holidays from North American points The Sandals organization now controls the airline Air Jamaica which intends to expand operations between North American points and numerous Caribbean islands, in competition with American Airlines

Implications for Haiti

Many tour operators are already marketing the neighboring Caribbean islands around Haiti, and know the region well They could be induced to offer extension (side trips) into Haiti, given adequate conditions

The Suppliers

Suppliers of Information -- Many countries competing for the North American and European markets attempt to manage their promotion and PR programs through designation of special representatives in key countries, and even through use of official tourist information offices in target cities They aim their image-molding efforts to travel trade professionals, and to the traveling public, often they appoint PR firms to develop marketing campaigns for them

Local Suppliers of Tourist Services -- There are Haitian travel agencies that have bus fleets and personnel to provide ground handling and tour packaging services for groups of tourists, this pool of resources has shrunk as the industry declined, but could easily expand with increased tourism Haiti's travel industry is concentrated in the Port-au-Prince area and currently survives mainly on serving the outbound market (Haitians traveling abroad)

Importance of Lodging in Developing Linkages -- Lodging typically accounts for 40% or more of the visitors average daily expenditure (\$40 in the case of an average daily expenditure of \$100 inside a country), somewhat like a cruise ship, a hotel centralizes many of the goods and services a visitor consumes food & beverage, entertainment, shopping, laundry, guide services Consequently, each room of capacity in Haiti generates about 1.5

permanent direct hotel jobs (estimate of Haitian hotel managers), and may create an additional 3-4 jobs when indirect and induced effects are considered

Weak Internal Transport -- Good internal road and air service is needed to link outlying areas to Haiti's main gateway, Port-au-Prince and its airport. Comfortable intercity air-conditioned coach service is not available in Haiti at present, internal air services are via unpressurized commuter aircraft and are not always reliable. Some internal air services are operated with Dominican aircraft and crew.

Diverse Additional Services -- The Port-au-Prince area has a variety of various businesses that tourism relies on, including restaurants, art galleries and crafts shops, restored stately homes, entertainment houses, a rum factory, a variety of museums and some scenic mountain drives. These all can serve as inputs adding value to the visitor's stay.

Implications for Haiti

The basic elements to produce and market tour packages to Haiti are available already, although some need improving such as the intercity transport and lodging capacity. The basic business infrastructure to handle tourism is already in place.

The Products

Dominance of the Holiday Package -- Most visitors entering the region on holiday do so on pre-arranged (and often prepaid) terms specifying air travel and accommodation for all or part of the entire trip. Many visit only one island, and some visit two. Few will visit different islands that are far apart.

Increasing Diversity of Products per Increasing Market Segmentation -- Tour operators are offering more different types of packages to match the expectations of different segments of travelers. The stock beach vacation package is now competing with packages offering themes such as soft adventure as in river rafting or scenic hiking, English, French or Dutch heritage in the tropics, "roots" experiences for African Americans, tennis, golfing or yachting, and casino gambling to name a few well developed activities in the region.

Continuing Dominance of Beach Resort Tourism in the Region -- Despite the development of new themes to market travel to the Caribbean, along with the development of alternative lodging such as guest houses, condos and camping, and despite the impressive rise of cruise travel, the beach resort is expected to remain the mainstay of tourism in the region, even as the scope of the tourists' interests and activities broadens. The industry is devising many variations of the basic beach resort holiday.

European Packages versus American Packages -- Industry operators indicated that Europeans tend to stay an average of 10-15 days in the region versus approximately one week for Americans, Europeans are more inclined than Americans to visit two or three locations

Implications for Haiti

Part of the solution for expanding tourism in Haiti is for it to provide some competitive beach resort capacity that can be marketed internationally to both North American and European markets. This will enable the packaging of mixed themes such as beach plus Caribbean village life or beach plus the Citadelle and Sans Souci Palace, that will be appealing to different segments

Desired Results

Three scenarios of growth in tourism activity have been prepared to present three different paces at which the industry might expand. All cases assume no further deterioration in the socio-economic environment, or any resumption of major civil strife. The case of low growth assumes basically a socio-economic status quo with little improvement in business conditions, over the time frame to 2004, tourism basically rebounds and grows to a limited extent beyond its former magnitudes. The middle case assumes clear improvement in conditions, with a moderate penetration by Haiti into the region's tourism, and the high case assumes not only improvement in conditions, but a substantial Haitian penetration into the region's tourism industry. Exhibits V-mid and J-mid provide the magnitudes for visitor generation and job creation, for the middle scenario.

Tourists are distinguished as between excursionists and stay over tourists. The excursionists include cruise passengers and also road visitors from the Dominican Republic on brief visits of no more than one day, with no overnighing. Stay over tourists stay a minimum of one night, and are split into those choosing commercial lodging, mainly hotels, and those staying in private homes, comprised mostly of Diaspora Haitians living abroad. These distinctions are made because the different groups have different spending patterns and impacts on the local economy. The forecasts presented are intended to serve as benchmarks for monitoring growth in the industry. Careful monitoring should distinguish incremental activity from total activity, and it is incremental activity that is presented in these forecasts. The tourism volume already existing as of 1997 is the base for future growth, and is not included in these figures.

Stay over Tourists - Commercial Lodging

It is the tourist using commercial lodging, who remains an estimated average of 7 days in the country, and substantially boosts aggregate demand in the local economy, at an estimated average of \$97-\$100 per day. This type of visitor represents more of a stimulus to the local economy than the excursionist, who by definition remains at most one day, spending possibly \$40 per day. Appendix F, Exhibits N, O & P present three possible levels of expansion. They have been prepared on the basis of the pace of expansion in recent years (Appendix F, Exhibits E-H) at other Caribbean

destinations. In all cases, the pace of expansion starts slowly and gathers momentum. This is because it will take time for Haitian developers to familiarize themselves with the methods to manage risk and tap sources of foreign capital. For each year, the addition to the rooms stock is stated along with the capital requirement, which assumes an average US\$75,000 per room including the cost of land, of relevant infrastructure and of soft costs such as interest during construction and working capital. The term hotel capacity is used to refer not only to hotel and resort capacity, but to other forms such as timeshare, condos and villa developments. For simplicity, the capacity for all types is expressed as equivalent hotel rooms.

In the case of medium growth, Haiti adds 3,850 rooms by 2004, requiring a total investment over the period of \$289M, and a yearly average investment of \$41M for 550 rooms. These numbers are not large compared to those in Appendix F, Exhibit E, which shows substantially higher construction rates elsewhere in the Caribbean. By 2004, Haiti could offer a total hotel stock of 4,700 rooms including the existing stock of 850 rooms. It would far surpass its former peak capacity of just under 3,000 rooms that it offered by 1980 before the collapse. Appendix F, Exhibit N presents the case of slow rebuilding of the former stock over this period, with a net addition of only 2,200 rooms. In this case, capacity would most likely be focused in Port-au-Prince and Cap-Haïtien, and be serving largely the business markets. This scenario fails to produce the desired social benefit of rural development through development at outlying non-urban locations. Even with this level of growth, Haiti would still fail to win a significant place in the region's tourism marketplace, remaining largely bypassed.

Appendix F, Exhibit P presents a scenario of strong growth, with an addition of nearly 6,000 rooms requiring an aggregate investment of \$443M. In this case, substantial development occurs outside Port-au-Prince and Cap-Haïtien, and it is probable that a new development focus such as Fort-Liberté, Aquin or St-Marc will be well under way. Haiti has squarely gained investor confidence and is building capacity for the mainstream resort market that predominates in the Caribbean. It gains the status as the "hot new market", currently enjoyed today by the Dominican Republic and Cuba.

This expansion in capacity translates into visitor arrivals as portrayed in Appendix F, Exhibits V-low, V-mid & V-high. A factor of 65 tourists per available room is used to derive the resulting incremental tourist arrivals. By 2004, the incremental hotel tourist count is 250,000 (Appendix F, Exhibit V-mid), about 6 times the estimated 43,000 for 1997. The main hurdle in building up this kind of tourism is getting investors to fund suitable hotel projects.

Stay over Tourists - Private Lodging

Consisting primarily of Diaspora Haitians, this segment of demand is important because the average stay is longer, some 9 days, even though the average daily expenditure is substantially lower, here assumed to be \$40. This market is less responsive to tourism promotional efforts since much of it is motivated not by leisure habits or cultural interests, but by long time family and business ties.

For 1996, it was estimated at 108,600 visitors, just over two thirds of the 150,100 total visitor count. Three growth rates are used, 3%, 5% and 7% with the 5% rate approximately equaling the WTO forecast for the general rise in Caribbean tourism over the medium term. By 2004, the incremental count reaches 45,000 visitors (Appendix F, Exhibits V-low, V-mid & V-high)

Road Excursionists

Because statistics for the border crossings at Malpasse and Ouanaminthe are poor, this study assumes a level of 100 daily visitors for 1997. This flow consists of tourists staying at Puerto Plata, Barahona and Pedernales, visiting Haiti for the day. Theoretically, it should also include Dominicans, but statistics distinguishing these types of border traffic are not available. The growth and expenditure assumptions for this segment are the same as for the stay over tourists using private lodging.

Estimated Economic Results

According to the mid-level scenario, stay over tourism would expand by 296,000 in 2004, for a grand total of 450,000 tourists (Appendix F, Exhibit Q). Tourists staying in hotels, 250,000, would form the bulk of that expansion for 2004. As regards the flow of excursionists, it would be dominated by the cruise industry, which would produce 900,000 additional visitors by 2004, resulting in a cruise total of over 1 million. These numbers translate into additional jobs in the economy as presented in Appendix F, Exhibits J-low, J-mid & J-high. According to the mid-level scenario, in 2004, hotel-tourists generate over 23,000 jobs, with the home-tourists producing 2,800. The cruise industry produces just under 2,000 jobs. Total job creation is 28,000 (16,000 and 42,000 for the low and high scenarios).

Incremental Effects of Expanded Tourism by 2004

<u>pace of growth</u>	<u>jobs</u>	<u>visitors</u>
low	16,401	897,080
mid	27,956	1,210,605
high	42,364	1,556,560

Recommended Actions

Needed Reforms

Additional reforms relate to improvements in access, and to basic infrastructure. Professional management of the country's two gateway airports, at Port-au-Prince and Cap Haitien, up to international standards, is indispensable, and extremely urgent. There are safety and security

problems hindering operations at both of these airports, and should any one problem become acute, it would be a threat to continued scheduled air service from the USA. It is urgent that the government devise an arrangement to pass management of these facilities to professional hands. A second reform related to access is that of border facilitation by streamlining formalities at the road crossings with the Dominican Republic. The free flow of tourists, of their guides, and of the vehicles that carry them is essential for trans-border tourism to grow unhindered.

Specific Programs

Additional programs are recommended to meet several objectives. An investment advisory program is designed to bring together information and to make it available to the investment community. This will in part lift the fog currently enshrouding the investment environment for commercial real estate. In order to update more of Haiti's businessmen in the latest business trends, a program to strengthen the relevant trade associations is proposed. This program will also equip these associations to get more advantage from foreign associations, and to better represent the interests of their memberships vis-a-vis the Haitian government through more effective lobbying efforts.

One measure to counter the dearth of statistical information related to tourism businesses is the creation of a database and newsletter that will monitor trends and developments on a permanent basis. This will make feasibility work on projects proposed in Haiti less arbitrary, thereby improving the investment environment. An program is also proposed to review the adequacy of the tourism training institute which is to be upgraded with French assistance, and is ultimately to graduate some 430 students a year in various skills.

Finally, a program to promote historic renovations, namely renovations of distinctive old structures for commercial uses such as *auberges*, restaurants, and shops for example, is included. These structures, along with the Citadelle, are the hallmark of the country, prominently featured in much of its print and video publicity. Increased restoration of such buildings will improve Haiti's cities and towns for international tourism, and it is a type of investment that is highly worth promoting.

D Handicrafts

Haiti is justly renowned for the richness and diversity of its handicrafts. Materials used in their fabrication range from wood, metal and leather to sequins, glass, shells, horn and papier mache. Haitian paintings also span an incredible diversity, from simple, traditional themes reproduced in large quantities for the high-volume, low-cost tourist market, to highly sophisticated and powerful works by artists who are collected around the world and whose individual canvases fetch prices well into the tens of thousand of dollars.

This segment of the handicrafts "industry" is composed primarily of small "ateliers" or workshops directed by a master artisan who develops the designs, finds markets, finances the purchase of materials, manages the business and supervises production of anywhere from two or three up to two or three dozen craftsmen who work either at the master artisan's workshop or at their own homes. Orders are often informally distributed among a network of craftsmen and women who regularly work with the master artisan, and who are paid on a part-time, piecework basis and only derive a part of their incomes from this work.

This more "traditional" segment of the Haitian handicrafts industry has a significant domestic business fashioning decorative items for sale to Haitians, both residents of Haiti and members of the Haitian diaspora overseas, and in serving international travelers visiting Haiti for business or pleasure. Their most significant export market currently is in the Dominican Republic where most wood carvings and other "traditional" handicrafts sold at Dominican resorts and in Santo Domingo are, in fact, produced in Haiti. Other export markets for "traditional" handicrafts include the U.S. and Canada, and the other French-speaking islands of the Caribbean, Martinique and Guadeloupe. An incipient but potentially large additional export market in the Caribbean consists of the Bahamas, Barbados and the other islands of the Eastern Caribbean and, potentially, the northern coast of Venezuela and Colombia, including the cruise ships that call at these ports. According to one expert¹⁵, most of the handicrafts currently being sold to tourists arriving in the Bahamas are currently of Taiwanese manufacture. Over 1.7 million stay over tourists and 1.5 million cruise ship passengers currently visit the Bahamas every year, and Haiti has distinct advantages in cost, quality and diversity which should allow it to compete successfully in this close by Caribbean market.

Readily available statistics on Haitian exports do not adequately distinguish between handicrafts and other "manufactured" products, and the Private Sector Assessment team did not have the time to conduct the original research that should be done to better quantify and understand the handicrafts sector. However, it is evident that just the value of exports to the Dominican Republic must already be at least in the range of \$2 to \$5 million U.S. dollars annually. Current exports to other markets, plus exports of Haitian art, must bring the total value of export receipts from these sources to easily double the range cited above.

The "traditional" segment of the Haitian handicrafts industry is also estimated to employ about 75,000 people on a regular, albeit intermittent, basis. As was described more fully above, Haiti has a major opportunity to develop a significant, largely new, tourist industry which could grow very rapidly during the next two decades, under the right conditions. This explosive growth in potential tourist arrivals to Haiti obviously signifies an enormous growth potential for the sales of Haitian handicrafts right at home. Thus, the "traditional" segment of the Haitian handicrafts industry would appear to have strong growth prospects both into an expanding Caribbean export market -- where it is poised to become the dominant supplier -- and in the domestic market, linked to potentially good

15 Charles Maynard, "Prospects for Tourism Development for Haiti -- The Lessons of the Caribbean Region", presentation to USAID/Haiti, April, 1997.

prospects for the successful development of a significant cruise and stay over tourism industry over the next two decades

Alongside the “traditional” handicrafts industry, a more “modern” assembly manufacturing-oriented handicrafts industry has been developed in Haiti mostly in the last decade. This segment is represented by approximately one-half dozen companies operating out of industrial factory shells in Port-au-Prince who are essentially manufacturing decorative home furnishings and other “artisanal” products entirely for export to high-volume consumer markets in the U S and other parts of the world including, in one case, Asia. The range of products manufactured by this group of exporters is diverse, including articles of wood and wicker, wrought iron, textiles, and other materials. Many of the items, as familiar as the wooden decoy and smaller decorative ducks sold throughout the United States, derive value from their design and from their surface decoration, where the traditional skills of Haitian artisans are being transferred successfully to a more organized manufacturing setting.

Traditional Haitian design characteristics are not evident in the products of this segment of the industry, as it is primarily competing in the manufacture of products designed in and for the destination market. However, as at least one manufacturer operating successfully in this area is showing, there is scope for “anticipating the market” from Haiti and developing marketable designs that are acquiring a recognizable modern Haitian character that may ultimately provide the basis for differentiating the Haitian manufactured handicrafts product and capturing a more protected, less competitive and higher margin market niche. One manufacturer visited by the team employs a full-time design staff of six people and has been successfully marketing their conceptions as far away as Asia.

Asian manufacturers of housewares and home furnishings, are probably the most dangerous competition for this segment of the Haitian “handicrafts” industry, and these manufacturers -- which include Indian and Chinese firms in particular -- are very competitive indeed, from the design, cost, quality and marketing perspectives. Intellectual property rights in new designs are difficult to protect in this highly competitive market, making it necessary for Haitian manufacturers to be continually updating and adapting their product offerings to meet the ever-adapting challenges of their international competition.

Firms operating in this segment of the industry in Haiti are presently few in number, but quite large when compared to the typical firm in the “traditional” segment of the industry. Employment ranges from 2 to 3 hundred up to a couple of thousand people at each of the half-dozen or so firms currently operating in the “modern” segment of the industry, for a total estimated employment of something in the range of 4-6 thousand. The larger firms often divide their production between “assembly-line” fabrication done “in-house” for certain items, to sub-contracting of decentralized production from more traditional artisans or groups of artisans, for others. Thus, there are linkages between the two segments of the handicrafts industry, and all manner of gradations between the two. That is to say, some of the larger traditional master artisans working outside of the Port-au-Prince manufacturing

environment are moving away from their distinctly Haitian cultural base and into more “commoditized” product markets, and are accordingly also beginning to organize production more along manufacturing lines, even if in a more decentralized manner

Both segments of the industry are extremely competitive and have good potential for continued growth. For the “modern” segment, strengths, weaknesses, opportunities and threats largely parallel those of the assembly manufacturing industry in general, as were described above. Both segments benefit from Haiti’s unique cultural and artistic heritage and from the prevalence of creative and dexterous workers who are able to produce a distinguishably high-quality product. The principal weaknesses of the traditional segment of the industry are those of small businesses everywhere, i.e. lack of developed management skills, undercapitalization, lack of access to credit on competitive commercial terms and weak marketing capability. A major opportunity for the traditional Haitian handicrafts sector consists of the potential to tie into a booming tourism market at home, while the major threats it faces are those that would stymie the development of Haitian tourism and interfere with the ability to Haitian artisans to compete efficiently for other segments of the Caribbean tourism market.

As will be discussed below, USAID assistance aimed specifically at the handicrafts sector should focus particularly on the “traditional” segment of the industry, as the needs of the “modern” sector will be adequately addressed if the objectives of the proposed program for assembly manufacturing are met. The traditional segment will require more focused attention, largely along the lines of small-scale enterprise assistance programs with special emphasis on organization for effective export marketing.

V PARAMETERS FOR STRATEGY DEVELOPMENT

A Structure of the Current USAID Program

The USAID/Haiti program is composed of three strategic objectives 1) SO1, focusing on democracy, justice, and human rights, 2) SO2, focusing on economic growth, and 3) SO3, focusing on health, population, education, and food security

SO1 has two programs the Democracy Enhancement Program (DEP) and the Administration of Justice (AOJ) program DEP includes the human rights activities, strengthening governance and assistance to Parliament The AOJ program includes training of judges, and the prosecutor's case tracking system At this time, neither DEP nor the AOJ program has focused on economic growth issues It is clear, however, that both programs could play key roles in improving the environment for economic growth DEP has already established a structure for community dialogue, which could play a key role in developing a public-private sector dialogue AOJ, already playing a key role in training judges for criminal proceedings, could play a key role in developing better adjudicative systems for commercial cases These opportunities are more fully described in the matrix of private sector program recommendations

SO3 has two programs Education 2004 and Health systems 2004 Dialogue with the SO3 team leader has identified several opportunities for using private sector mechanisms to achieve the goals of this SO The education program, in particular, has developed technologies for distance education which might be appropriate for the public education campaigns outlined in the private sector program recommendations Similarly, opportunities exist to develop local production of fortified cereals and other foods that can help improve the nutritional status of children, as well as to utilize private marketing and distribution channels for a wide range of products including, e.g. water purification tablets, deworming medicines, etc Privately organized and managed clinics providing a range of services from primary through acute care offer an important opportunity to make up for some of the deficiencies in Haiti's public health system SO3 has venture capital resources available to it to support small projects in the areas named above, and several small projects involving a collaboration with private businesses are at early stages of development

SO2 has three programs ASSET, PRET, and COFFEE ASSET is composed of three elements, PLUS, which brings soil management technologies and introduces commercial agricultural opportunities to rural farmers, a rural, community managed environmental action program which includes building soil conservation structures and the introduction of commercially managed forests for rural areas, and policy and management assistance to the Ministry's of Agriculture and Environment COFFEE has succeeded in commercializing mountain grown Haitian coffee, under the label of Haitian Bleu The PRET program is currently focused on three elements financial intermediation, non-financial assistance to microenterprises, and policy reform Each of the

elements of SO2 seeks to use market forces to achieve increases in either employment or income for poor Haitians

In addition, SO2 has been developing the following activities as precursors to the development of a new private sector program in 1997 development of new agricultural export crops, formation of an agricultural export association, development of niche markets for handicrafts in the cruise industry, development of new cruise business for Haiti, and development of a training program for tourism service personnel

B Structure of Other Donor Programs

Multilateral and bilateral support is very significant in Haiti The activities supported by other donors and lenders are important for the private sector USAID's and other agencies must coordinate their activities to collaborate in achieving common objectives, to avoid unnecessary duplications, and to maximize the inter-connections amongst initiatives

Bilateral and multilateral priorities and program have already been established in many cases, at least through 1998 There is considerably more flexibility in planning for 1999 and thereafter

The focus of key donor commitments¹⁶, are as follows

<i>Donor</i>	<i>Focus of activities</i>	<i>Commitments (USD m)</i>
IDA	Policy reform, poverty alleviation and social sectors, rural development and environmental rehabilitation	390
IDB	Policy reform, agriculture, water and urban infrastructure, transport, education	715
IMF	Policy reform	165

16 Source The World Bank, from donor estimates submitted to the World Bank for 1995-97, except for IDA and IDB (1995-99)

European Union	Policy reform, governance, agriculture, transport, energy, humanitarian assistance	380
UNDP	Governance, humanitarian assistance	50
France	Governance, water and urban infrastructure, humanitarian assistance	95
Canada	Governance, energy, private sector development, humanitarian assistance	75
Germany	Agriculture, water and urban infrastructure, energy	70
U S A	Policy reform, governance, health, humanitarian assistance	265
Other	Various	210
Total		2,415

Appendix G presents commitments by major sector (for sectors closely related to private sector development) by country, and lists major projects related to those sector

The shared interests of the various donors speak strongly for much donor collaboration and coordination. The implementation of donor/lender-supported activities should be coordinated amongst agencies and with the government. Especially for encouraging decentralized economic clusters, collaborative focus on agreed pilots is an important step.

The World Bank, IDB, EU, and several bilateral donors are addressing some immediate infrastructure urgencies. Privatization issues are similarly the focus of several agencies, including USAID. While some basic services still require commitments, Haiti is now at a stage, in terms of donor activity, at which it will benefit from increased focus on policy development and implementation, and from vision-directed, multi-year programs to encourage sectoral growth and business development.

The IDB interests correspond to many of the elements of the proposed Haitian Private Sector Development Strategy, and USAID should endeavor to work with the IDB as a strategic partner. IDB projects include focus on infrastructure and services, privatization, industry, decentralization, governance and policy reform, education and agriculture, amongst others. A small IDB program element focused on concrete investment facilitation (Mr. Weets is the chief actor for the IDB) is a good, “hands-on” model that should be supported and replicated.

The World Bank’s lending program, very significant, but smaller than that of the IDB, similarly support the thrust of the Private Sector Development Strategy. The World Bank Program includes initiatives in infrastructure and services, agriculture and rural development, and governance and policy reform, amongst others.

The program of the European Union still requires definition. It will include numerous complementary elements. The EU’s program specifically includes small initiatives focused on private sector development and on tourism.

Many bilateral donors are also focusing on complementary activities. Thus, there are numerous donor commitments to support private sector development, and there appears to be relatively consistent views amongst agencies as to the requirements for private sector growth. However, there is a need for leadership within the donor community with as to the vision for Haiti’s business sector, and how that vision can be achieved. USAID is recognized as the intellectual leader in private sector development, and this is a role that we recommend for USAID.

C USAID Comparative Advantage

USAID’s comparative advantage in Haiti derives from three quite different factors. USAID/Haiti’s comparative advantage lies first in the nature of the geopolitical strategic interest of the United States in creating and maintaining a politically and economically stable environment, second, in the institutional capacity of USAID globally, and third, in the unique capacity of the USAID/Haiti Mission.

The geopolitical interest of the United States in Haiti is quite high, given the geographic proximity of the country, the presence of significant numbers of Haitian-Americans in key political states in the United States, and the political capital that the current Administration has placed in its success in returning Haiti to democracy and stabilizing the transition process.

The institutional capacity of USAID in private sector development is quite significant. USAID has been a leader in the field for twenty years, and remains an innovator in the field, whether it is in the development of capital markets, or the creation of models for developing nationwide dialogue and futuring exercises. USAID has led efforts worldwide to reinvigorate economic growth through

market mechanisms in difficult situations, the most recent of which include Bosnia, Eastern Europe, South Africa, and Cambodia. In all of the preceding countries, USAID led the process of achieving development goals through targeted technical assistance and market mechanisms. USAID was the donor who developed sustainable models for microenterprise lending, and the development of high performing export promotion models. As a result, USAID has a large reserve institutional memory as well as current resources to draw upon.

The Haiti Mission itself has significant and unique comparative advantages. First, the Mission has a long history in Haiti, and has therefore had the opportunity to develop linkages with many sectors of Haitian society and with high level counterparts. Also as a result, USAID/Haiti has a high level of credibility (an important advantage which should not be undervalued). In fact, the recent Mission "Futuring Exercise" found that USAID/Haiti was highly credible. The credibility of USAID/Missions world-wide has played an important role in their effective achievement policy reform goals. Second, the Mission has a larger presence in Haiti than any other donor. This means that not only does the Mission have greater resources in terms of program management and planning, but it also has greater information resources as well. Third, the Mission carries authority to plan and implement programs that far exceeds that of other donors. Therefore, the Mission has greater flexibility and responsiveness, which is informed by the staff's daily contact with decision-makers. Lastly, the Mission's linkages with Washington provide it with access to a large pool of experts who can be drawn on quickly and appropriately.

D Proposed USAID Private Sector Coordination Role

Despite their unfortunately too-negative image in Haiti, privately-owned and operated enterprises exist and are universally granted legal recognition and protections because they perform a range of socially-useful and necessary functions better than any other social institutions yet devised. As has been recognized even in the still-communist People's Republic of China, no economy can sustain high rates of growth for an extended period without them. They are just as important for the development of a society in all its dimensions, and just as worthy of respect, as are schools, police forces, courts, legislatures and houses of worship.

Enterprises can not function in a vacuum, however, but require a complex framework of laws and supporting market institutions to be present in order to function well. These include a legal framework that defines and protects private property rights, a system to uphold and enforce contractual rights and obligations, freedom to buy and sell/lend or borrow on privately-arranged terms without undue outside interference, freedom of movement of persons and goods, freedom from restrictions that arbitrarily limit access to markets or services, legal protections and avenues of redress against predation by other firms or by the agencies of government, and a host of other well-known conditions provided by society to enable firms to operate freely for the common good. Societies that have achieved a high-degree of economic success have gone further still, even to the point of defining one of the principle objectives of government as being to do everything that it is possible to do for business, except protecting it from competition.

Haiti lacks a healthy business culture. During its entire history, the evolution and role of firms as social institutions has been stunted, and their numbers have tended to be dominated, first, by a neo-colonialist mercantilist elite organized around the exportation of primary agricultural products grown on large plantations or by an exploited peasantry, and later, by a type of crony capitalism allied to a dictatorial and predatory state for the purpose of restricting market access and potential competition so as to enable the extraction of large economic rents from a defenseless population. Despite the existence of highly capable and visionary individual entrepreneurs in Haiti, and their continual attempts during the last generation to emerge as the dominant paradigm for a new era, the development of a modern and progressive business community based on open competition in an international marketplace has been repeatedly stymied, generally by the inappropriate actions of government, sometimes with the support of international donor organizations.

The lack of a healthy business culture, and the lack of experience with a strong, stable and progressive business community whose activities are clearly to the benefit of the society at large, have generated a mentality among large segments of the Haitian population that is fundamentally distrustful of business, and that holds the majority of businesspeople in low esteem. This mentality is unfortunately fairly prevalent among public officials, who, even in the best of cases, tend not to have much regard for private enterprise, and little understanding of how their actions can harm or can help, both directly and indirectly, the development of stable, growing businesses. Decisions are made based on political, ideological, or analytical/academic grounds, with very little direct observation of what is actually going on, or of what effects policies and programs are actually having. Virtually no communication takes place between the private sector and the government that actually succeeds in the transfer of information. Even when infrequent dialogue occurs, the parties speak a different language and see things from distinctly different perspectives.

Donors, in turn, are national or international public sector organizations that operate primarily through their relationships to government. Their primary dialogue is with members of the government of whatever country they happen to be working in and they often find it difficult to obtain reliable information on what is happening in the business community despite the efforts they may make to establish and maintain contacts. The macroeconomic dialogue is particularly dominated by government, as donor contacts with the private sector tend to be established at the operational sectoral levels, following their own internal organization. For these reasons, sometimes inadequate attention is given to the impact of donor-supported public sector programs on private businesses, either for good or for ill, or on how implementation alternatives can qualitatively improve or harm the environment for private sector development.

These issues are particularly important in a country like Haiti that has so few stable institutions either in the public or private sectors, and where the few private enterprises that remain following a decade of turmoil and instability, are very weak and unable to advocate effectively in their own behalf. In such a situation, the very fact of channeling large amounts of resources through the government -- for public works or general budgetary support -- puts the government in a dominant monopolist position in relation to the private sector and inevitably distorts the functioning and future

development of domestic markets. Decentralization can be a partial response to guard against this danger, but additional efforts need to be made to find ways to deal with and assist private enterprises directly, and enable them and the markets they operate in to grow to the point where they can effectively fulfill their societal function.

At some level, sustainable economic growth means the growth of efficient private enterprises functioning in open and competitive markets. If Haiti's formal sector businesses fail, there is very little likelihood of being able to bring about sufficient growth to have an impact on poverty. Because of their historical underdevelopment, compared even to other poor developing countries, and because of their extremely weakened condition at the present time, the international donor community can not take the survival of private enterprises and of market institutions for granted in Haiti. They are not in a position, as a general rule, to adequately look after themselves in a system that is tending to be distorted towards ever increasing governmental predominance, partly as the unintended result of donor activity itself.

For the above reasons, we believe it is important for the donor community as a whole to raise its consciousness of business and market development issues in the structuring of their programs in Haiti, and to recognize the central importance that the development of a healthy business community has for the achievement of growth, employment and quality-of-life objectives. Within the donor community, it is important that one or more organizations explicitly take on the responsibility of continuous monitoring and reporting of private sector conditions and the deliberate function of identifying and developing new mechanisms whereby the donor community can operate in a manner that minimizes market distortions and that is more directly supportive of enterprise development. Among the donors, we believe that USAID is uniquely well-situated to take on this set of leadership, coordination and support roles -- for reasons that have been enumerated above -- and we urge the mission to carefully analyze the current situation and take on responsibility for fulfilling this much-needed and vitally-important function.

VI OPTIONS FOR A PRIVATE SECTOR DEVELOPMENT STRATEGY

A Introduction

In this chapter, we present and briefly describe a long list of alternative activities for the consideration of USAID/Haiti. These activities are specifically-designed -- in light of current USAID and other donor programming -- to complete the set of actions that the Private Sector team believes are important for overcoming the specific sectoral and economy-wide constraints impeding more rapid development of the business sector and the Haitian economy, which were analyzed at length in Chapter IV, above.

The activities listed are all recommended for implementation. We believe that they are all important for achieving the strategic private sector objectives enunciated earlier. However, we recognize that certain activities are less critical than others, and that there may well be scope for either delaying startup or scaling-down certain activities, while others need to be implemented quickly and as designed in order to accomplish their objectives. We have attempted, therefore, to provide guidance to USAID in distinguishing among those recommendations that we consider to be time- and scale-critical, and those in which there may be greater flexibility in regards to implementation. A scoring system devised to convey this guidance will be described below.

Also, the team recognizes that it will neither be possible nor appropriate for USAID to attempt to implement all activities itself. Many of the activities proposed fit well with the ongoing programs and capabilities of other donors working in Haiti -- and less well perhaps with those of USAID. For these, USAID may seek to collaborate with such other donors in activity design and development, leaving implementation to them. Again, the team has attempted to provide guidance as to how closely each activity fits with USAID experience and capabilities in Haiti, and this second scoring system is also described below.

The macro-structure of the proposed Private Sector Development Strategy for Haiti is composed of three main program areas:

1. **Private Investment and Employment Generation Program** These are activities that are designed to directly influence private investment and employment generation at the sectoral and general-economy levels. This is also the largest component of the proposed strategy, as measured in terms of proposed funding levels.
2. **Public-Private Partnership Program** These activities are aimed at improving the quality of policy formulation, legislation and regulation of private sector activity, and in general at helping to bring into being an effective dialogue and functioning partnership between the

public and the private sectors in Haiti. This is a vitally important programming area for private sector development in Haiti, although it should be recognized that progress on some fronts within it may be slow. For this reason, it will be important for the overall strategy to advance simultaneously with elements of all three programs, and to design activities within each in such a way as to allow them to advance independently of one another, to the extent possible.

- 3 Human Resources & Institutional Strengthening Program. Again, this set of activities is as important as either of the prior two, but impact achievement will be more indirect and may proceed at a different pace from either of the other two main program areas recommended. Complementarities should be recognized and exploited by USAID management as implementation progresses, but care should be taken to avoid having lack of progress in one program area adversely affect implementation in the other two.

As shown below, the Private Sector team estimates an annual USAID and other donor funding requirement of approximately \$32 million dollars beginning in FY1998 to fully support the proposed Private Sector Development Strategy, and total expenditures of almost \$134 million, concentrated over the next four years, but extending up to 10 years for certain activities.

Table VI 1 below contains a full list of the activities of the proposed Private Sector Development Strategy for Haiti, grouped in the three major program areas described above, and by their sectoral or economy-wide design-scope. An initial estimate of cost for each activity is summarized in Table VI 1, as is the recommended duration of each. The basis for these estimates is given in individual activity descriptions presented in sections B through D of this chapter, below, as is the basis for the priority classifications given.

Priorities, as described above, are intended to provide guidance on two issues: the amount of flexibility there may or may not be in activity implementation in order to achieve full employment impacts, and, USAID priority in terms of the "closeness-of-fit" of each proposed activity with other aspects of USAID experience and capabilities in Haiti.

Employment Priority is indicated as being “core”, “high”, or “medium” according to the following criteria

Criteria Defining “Employment Priority”			
Priority Indicator	Magnitude of Employment Impact	Urgency of Timing	Importance of Minimum Scale
“core” or “C”	high	high	high
“high” or “H”	high	flexible	flexible
“medium” or “M”	medium	flexible	flexible

USAID Programming Fit is indicated as being “Unique/Special”, “Good-Fit”, or “Opportunity” These are intended to indicate the team’s judgment as to whether there is anything that makes USAID especially appropriate among all the other donors to implement the activity in question, whether there is a good fit between the proposed activity and other Agency and mission experience and capabilities, such as the programs of the other SOs, for example, or, whether the activity may represent a good opportunity for the USAID mission, but may not necessarily match mission experience and capabilities as closely as others

Table VI 1 Summary of Private Sector Program Recommendations

Program/Activity	Annual Cost Increment	Duration (years)	Total Cost Increment (\$000)	Time to Achieve Impacts ST/MT	Employment Impact Priority C/H/M	USAID Programming Fit U/G/O
I Private Investment and Employment Generation Program	22,775		105,100			
Assembly Sector	400		600			
Obtain "Super 507" Waiver	100	1	100	ST	H	U
Obtain Temporary Special Trade Preferences for Haiti	100	1	100	ST	H	U
Plan New Industrial Parks & Infrastructure Outside PAP (2)	200	2	400	MT	H	O
Tourism	925		1,200			
Private Management of Docks	100	2	200	ST	H	G
Airport Concessions & Upgrading	100	1	100	ST	H	G
Cruise Industry Revival Support	300	1	300	ST	C	O
Tourism Readiness Programs Jacmel, Jeremie & Cap Haitien	100	2	200	ST	H	G
Port-au-Prince Cruise Attraction	75	2	150	MT	H	O
Citadelle/Sans Souci Upgrading	250	1	250	ST	H	O
Agribusiness	4,250		26,300			
Market Town Collection & Processing Centers (20)	1,250	4	5,000	ST	H	U
Rural Credit Expansion	2,500	8	20 000	ST	C	U
Market Information Program	200	5	1,000	ST	M	G
Export Infrastructure Planning	300	1	300	MT	M	O
Handicrafts	350		1,300			
Handicrafts Export Market Familiarization	250	4	1,000	ST	H	U
Linkage to Tourism Development	100	3	300	MT	H	G
Construction	5,550		24,050			
Rural Road Rehabilitation	2,000	3	6,000	ST	H	G
Rural Road Maintenance	500	8	4,000	MT	H	U
Irrigation Systems Maintenance	500	3	1 500	MT	H	U
Low-Income Housing Guaranty	2,500	5	12,500	MT	H	U
GOH/Donor Procurement Materials Specifications Review	50	1	50	ST	M	O
Economy-Wide Activities	11,300		51,650			
Money Market Development	200	1	200	ST	M	O
Housing Finance System Design	100	2	200	MT	H	G
Financial Market Information	50	3	150	ST	M	O
Contractual Savings Systems	250	2	500	MT	H	O
Formal Sector Funding of Informal Lenders Pilot Program	500	5	2,500	ST	H	U
Equity Capital Mobilization	4,000	3	12,000	MT	H	O
Partial Credit Guarantees for Working Capital & Investment	1,500	10	15,000	ST	C	U
Privatization of SOEs			0		C	G
Liberalization of Ownership & Management of New Public Utilities & Infrastructure	250	2	500	MT	C	G
Export & Investment Promotion	2,000	5	10,000	MT	H	G

"One-Stop Shop" for Investment Approvals & Licensing	250	5	1,250	ST	M	O
Local Private Enterprise Initiatives Funding	600	3	1,800	ST	H	U
Geographic Coordination & Focusing of Private Sector Initiatives	250	6	1,500	MT	H	U
For-Profit Business Service Centers (20)	350	3	1,050	ST	H	U
Regional Demonstration Centers (5)	1,000	5	5,000	ST	H	G
II Public-Private Partnership Program	5,350		13,550			
Assembly Sector	350		900			
Port & Customs Administration for Secondary Cities	250	3	750	ST	C	G
Free Trade Zone Legislation	50	1	50	MT	H	G
Facilitate Dialogue Labor Issues/ Counter Negative Press	50	2	100	ST	H	U
Tourism	50		50			
Tourism Investment Code	50	1	50	MT	H	G
Agribusiness	200		400			
Pricing & Trade Policy Reforms	200	2	400	MT	H	G
Economy-Wide	4,750		12,200			
Macroeconomic Policy Development & Implementation	0		0		C	G
Security & Law Enforcement	0		0		C	U
Urban & Rural Land Tenure Studies & TA	250	2	500	MT	H	O
Improved Cost Recovery & Accountability in Decentralized Service Delivery	400	3	1,200	MT	M	O
Improve Local Tax Collection	500	3	1,500	MT	M	G
Public Interest Regulation of Privately-Managed Utilities	250	2	500	MT	C	U
Public-Private Cooperation in Local Land Use Management	300	2	600	MT	M	O
Tax & Regulatory Reforms & Enforcement to Strengthen Formal Sector	250	2	500	MT	M	O
Policy Mentoring	300	2	600	ST	C	U
National Futures Scenario Planning	1,500	2	3,000	MT	H	U
Communications, Civic Education & Participation	600	3	1,800	ST	C	U
Agents of Change & Promoters of Dialogue	100	5	500	MT	M	G
Parliamentary Policy Research & Analysis Support	300	5	1 500	ST	M	O
III Human Resources & Institutional Strengthening Program	3,650		14,950			
Assembly	100		300			
Organize On-the-Job Training	100	3	300	ST	M	G
Tourism	350		750			
Tourism Database	150	1	150	ST	M	O

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Tourism Training	100	3	300	MT	M	O
Tourism Public Education & Readiness Program	100	3	300	MT	H	G
Agribusiness	1,000		5,000			
Applied Agricultural Research & Extension (20 agents)	1,000	5	5 000	MT	C	U
Handicrafts	800		2,700			
Arts & Crafts Improvement Program	350	2	700	MT	M	O
Handicrafts Training & Design Centers	200	5	1,000	MT	M	O
Handicrafts Export Marketing Association Support	250	4	1,000	ST	H	G
Construction	100		200			
Building Trades Skills Training	100	2	200	MT	M	O
Economy-Wide	1,300		6,000			
Business Associations Support	400	5	2,000	MT	C	U
Local Government Training	500	4	2,000	MT	H	G
Peace Corps Program	0		0	ST	H	U
Public Education	400	5	2,000	MT	H	G
Total, Private Sector Strategy	31,775		133,600			

The following pages contain a brief description of each of the above proposals, organized in the same order as in Table VI 1 This section is intended as a reference for USAID program designers The less detail-oriented reader may wish to skip ahead to Section C, "Next Steps in Strategy Development and Implementation "

B Description of Individual Action Proposals

1 Private Investment and Employment Generation Program

a Assembly/Light Manufacturing

Obtain "Super 507" Waiver of Restrictions on Export/Investment Promotion/FTZs

Given the special priority of Haiti for U S foreign policy, USAID should request a waiver of Section 599 legislation enacted in 1993 to prohibit AID from supporting programs in developing countries that have a negative impact on U S jobs, especially assistance to export assembly and the development of Free Trade Zones "Super 507" provisions apparently authorize the U S Secretary of State to exempt particular programs from the provisions of this legislation, on the basis of the higher U S foreign policy interests In general, Section 599 legislation ignores the U S job-creating effects of expanding developing-country capacity to import U S -made goods based on the growth of their own manufactured exports to the U S In the case of Haiti, the U S enjoys a huge bilateral trade surplus which would only expand as a result of increasing Haitian foreign-exchange earnings from export assembly and FTZs Further, it is hard to imagine Haitian labor seriously threatening U S jobs given the very small size of the Haitian assembly industry (one-fiftieth the size of China, for example, in terms of apparel exports to the U S) Haitian free trade zones would compete more with other third world countries than with U S manufacturers, a fact which should be verified in a subsequent USAID-funded study

It is proposed that the USAID mission budget approximately \$100 thousand to enable it to conduct this and other short studies that may be needed to document the importance of the assembly industry as a vehicle for job creation in Haiti, and minimal nature of the threat posed by the Haitian assembly industry for U S jobs

This activity is indicated as having a high priority in terms of employment impact, meaning that it should be done on an urgent basis, but that there may be some flexibility in funding if mission or AID-Washington staff are sufficiently able to document the case for a waiver without need of outside consultants The activity is designated as being "Unique/Special" in terms of USAID experience and capabilities, as this is clearly something that can only be done by AID as opposed to any other donor

Obtain Temporary Special Trade Preferences for Haiti

The severity of the Haitian crisis, their possible negative repercussions on the U S , and the depth of the U S commitment to Haiti are such as to amply justify special measures to assist Haiti in reestablishing its economy and consolidating a stable democratic framework for self-government. Special, temporary (10-year) specific trade preferences for Haiti, enacted in advance of broader, regional trade initiatives that are under consideration. An example of such a special trade preference might be a temporary duty-exemption on apparel and other manufactured goods assembled in Haiti under Section 9802 of the Harmonized Tariff Schedule of the United States (formerly known as the 806/807 programs). This would give Haiti a temporary special advantage in competing for assembly business with other, more powerful and better-advantaged countries such as Mexico in particular, while encouraging the preservation of a maximum of U S -content in Haitian assembly exports back into the U S.

In our view “NAFTA-parity” is too broad and complex a concept to permit expedited consideration and approval for Haiti, and we therefore propose identification of specific preferences such as temporary duty-exemption that would primarily have the effect of making Haiti a more attractive place for foreign business to consider.

As above, the Private Sector team recommends funding a modest budget of approximately \$100 thousand to permit USAID/Haiti to identify the most appropriate specific preferences to be requested and to prepare the necessary documentation for Administration and Congressional consideration.

The activity is designated as having “high” employment impact and “unique/special” USAID priority for exactly the same reasons as for the activity immediately above.

Plan New Industrial Parks/EPZs & Supporting Infrastructure Outside Port-au-Prince

Cap-Haitien and Gonaives both have adequate port infrastructure to rapidly be adapted to service the needs of an decentralized export assembly in or around those cities. Les Cayes and St. Louis du Sud have conditions which may also be favorable for the development of decentralized export assembly operations providing jobs outside of the overly congested capital city, though these will require more extensive port investments in order to accommodate even small container-carrying freighters.

Before private groups or other donors can adequately assess their capacity to finance the infrastructure required to establish decentralized export assembly operations in any of these 4 leading locations, studies will be needed to establish minimum requirements to expand maritime freight service to these locations, identify and cost out the infrastructure improvements that will be needed in order to establish initial operations, and verify investor interest in the projects. USAID can play

an important catalytic role in the development of decentralized export assembly operations in one or more of these locations by funding the necessary prefeasibility studies. It is proposed that USAID budget \$400 thousand for expenditure over the next two years to enable it to fund two such prefeasibility studies. The activity is judged to be of high priority in that its employment impacts are estimated to be high, but that timing of implementation and suggested funding could be modified in light of developments over the next few months.

In particular, passage of Free Trade Zone legislation such as is being drafted for consideration of the Haitian Parliament would generate greater urgency in beginning these studies. Failure to pass such national legislation should not be allowed to thwart decentralization initiatives for export assembly, however, as it may still be possible and desirable to negotiate specific legislation or regulatory authorization for individual projects.

b Tourism

Private Management of Cruise Docks

The sooner some mechanism can be found to bring the cruise dock at Cap-Haïtien under private management (concession, lease, management contract) even in advance of (or in the absence of) the privatization of the national port authority, the sooner it can be reconditioned, put under reliable management, and promoted to the cruise operators for resumption of service. If necessary in advance of privatization, a politically acceptable formula must be devised to pass the operation on to private hands as soon as possible.

Similar observations pertain to existing dock facilities at Jacmel and Jérémie, as well as to any minor new facilities that might need to be put into place to support cruise ship operations in locations such as Ile de la Tortue, Ile de la Gonave, Ile à Vache, etc. It is proposed that \$100 thousand per year be budgeted for 2 years to allow USAID to assist in the planning and implementation of arrangements allowing for private management of these facilities. This activity can generate a significant amount of employment in a short period of time, particularly through its linkages back to the handicrafts sector, and fits well with USAID/Haiti's experience and capabilities in privatization of public services.

Gateway Airport Management Concessions & Upgrading

Professional operation of the nation's two key gateway airports is indispensable for tourism expansion. It is urgent that separate concessions for the operation and upgrading of the Port-au-Prince and Cap-Haïtien airports be awarded to professional entities capable of operating airports safely, and in full accordance with international norms; proper operation will avoid any harmful safety advisories by the FAA. Professional management of airport operations, including baggage

handling and customs, and good organization of taxi, van and car rental services can make the entry and exit experience much more pleasantly memorable for tourists, which is an important part of improving the country's image for tourism marketing purposes

A budget of \$100 thousand is proposed to permit USAID to contract the services of an expert to identify the investments necessary to upgrade safety and passenger convenience features of the two main airports, including ancillary services, as a basis for negotiation of a satisfactory management contract with whatever concessionaire may be selected by the GOH

The recommended improvements can make a significant difference in tourism-related employment in the short-term, especially in Cap-Haïtien, and, again, the activity is judged to fit well with USAID/Haiti capabilities and interests in regard to privatization

Cruise Industry Revival Support

This activity is designed to formulate an investment promotion strategy to secure investment in cruise ports in the short term. The related result is the increase in the number of cruise calls, total passengers and spending in Haiti through the opening of new ports to additional cruise companies. The activity has two components:

Information Packages -- These will contain data on 10-15 potential cruise ports such as marine surveys, meteorological data, photographs, land ownership status, descriptions of underwater and shoreline areas, availability of utilities, road access, and descriptions of potential onshore and offshore excursions in each vicinity. Points at isolated and small town locations such as Môle St Nicolas, Labadie Shores, Jacmel, Jérémie, Tortuga I, Gonave I, or Ile A Vache, can be included, as well as the ports at Cap-Haïtien and Port-au-Prince. Any existing brochures or videos containing images of Cap-Haïtien, Jacmel or Jérémie are to be included in the respective information packages.

Promotion Strategy -- Experts will analyze the latest operating and investment trends in the Caribbean cruise industry to identify those operators requiring the type of calls Haiti can offer through analysis of factors such as market position, itinerary types, vessel sizes, and future fleet plans. They will create a short list of potential North American and European target cruise operators, and determine optimal legal and financial conditions for port operators. They will define an investment search strategy of specific actions, to be coordinated with any other tourism investment program. The strategy will define any support budgets and the roles of Secrétaire d'Etat au Tourisme, and of any business entities such as the chamber of commerce. Finally, the experts are to launch the investment search by undertaking the first steps of the strategy themselves, such as a formal presentation at a trade show, investment conference or to the Florida Caribbean Cruise Association or Cruise Lines International Association.

As broken out in detail in Appendix F - Tourism Sector Report, the estimated cost of these activities is slightly less than \$300 thousand, and a first phase the activity can be successfully completed within a one-year time frame. From the perspective of employment creation through tourism development in Haiti, the revival of the cruise industry in Haiti is considered to be a core activity and a necessary first step in any program seriously intending to eventually develop large-scale Caribbean-style tourism in the country. From the perspective of USAID programming fit, the activity is considered to be a good opportunity for USAID, and an excellent means for USAID to develop a leadership role in the tourism sector if it decides that this become a sector of concentration.

Tourism Readiness Programs Jacmel, Jeremie, Cap Haitien

Probably more than any other town in the country, Jacmel poses the least problems for international tourism. The objective of this program is to maximize economic benefits to the Jacmel community, and to minimize possibilities for any resulting social disruption. This program is to coincide with the successful award of the dock to a private party for operation as a cruise dock. As such, it will be a selling point in attracting a dock operator. The related result is the physical and social preparedness of the community for cruise and even traditional tourism which will rise once the road to Jacmel is upgraded. As are described in detail in Appendix F, the tourism readiness programs will contain three components: 1) a villager awareness component, for sensitization of business people, and service providers to techniques of dealing with foreign tourists, 2) a town upgrade component, whose purpose is to implement miscellaneous minor works to improve the functionality, safety and appearance of the town center, and 3) an excursions development component to promote local goods and services to cruise lines and to Haitian and Dominican tour operators for inclusion in their tour packages to the Jacmel vicinity. Jeremie has similar conditions to Jacmel from the perspective of tourism readiness, and a similar 3-part program is recommended there.

Probably more than any other town in the country excepting Port-au-Prince, Cap Haitien poses major problems for international tourism, because of the population density and extreme shabbiness of the town. Yet because of its past success as a cruise destination, its strong potential today as a competitive destination, and its clear function as an economic stimulus for the north, a separate package of activities is proposed to recondition the city for tourism initially through cruise ships. This program is proposed to precede or (at the latest) to coincide with the successful award of the cruise dock to a private party for reopening as a cruise dock. The related result is the physical and social preparedness of the community that will make possible the problem-free growth of cruise traffic, much as it has been able to grow at Labadie. A profitable cruise industry here can lead to eventual investment in hotel capacity in the north of Haiti in future years.

The program recommended for Cap Haitien is structured like the preceding programs with some significant adaptations to incorporate the rich cultural and historical resources of the North, including the Citadelle and Sans Souci Palace, historic Milot with its arts & crafts, old town Cap Haitien, Labadie & Cormier Beaches, Haiti's colonial history and the Caribbean slave trade, Creole culture and cooking, plantation visits, etc. Cap Haitien must compete with other Caribbean ports to win the

business of cruise ships. The excursions inventory can be a major promotional component to draw cruise ships in view of the importance of excursions as a profit center for the cruise operators. The Citadelle is a marquee attraction that could be used as a major promotional magnet, but it is an opportunity that at present is barely performing.

A budget of \$100 annually for two years is proposed to enable USAID to provide supplementary advisory services to local governments and the Secretariat of Tourism in implementing the readiness programs recommended for these three high-potential cruise ports. Such support is judged to have high potential for generating employment in a wide range of product and services niches including handicrafts, and also has a good fit with USAID/Haiti capabilities and interests in supporting decentralization, improving public services delivery from local governments, and developing functioning and effective public-private partnerships.

Port-au-Prince Cruise Attraction

A comparable program to revive cruise tourism to Port-au-Prince can be designed very much along the same lines as the Cap-Haïtien program. However, because of some major improvements needed in the Port-au-Prince metro area to improve transport conditions and to develop marketable attractions, we recommend launch of this program only after successful establishment of the industry at one or two other locations, possibly within a 3-4 year time frame. Traffic conditions in the greater Port-au-Prince area have deteriorated to the point that tour groups cannot be reliably transported to different locations according to any time schedule, which is essential for cruise operation. Secondly, the private sector needs time to develop some marketable attractions locally, such as gingerbread house restorations, arts & crafts villages, construction of hotels, restaurants and private gardens and the like. Thirdly, the port area contains some unsightly development, and one or two beautification projects may be necessary to prepare a limited area to handle cruise ships.

In view of the above, this is proposed as a follow-on program, not as a launch one. A tentative cost would be approximately \$75 thousand annually for two years, primarily to provide expert advisory services to the municipal government of Port-au-Prince and the Tourism Secretariat. The community awareness component would be more costly, since the target population is much larger, but the town upgrade component might be less costly, since major urban improvements will be made progressively in the city as soon as resources are organized irrespective of any cruise industry.

Citadelle/Sans Souci Upgrading

The Citadelle is Haiti's marquee attraction and must be managed properly to avoid any deterioration from increased usage. This program is proposed as a companion to the tourism preparedness programs described above, and should coincide with promotion of cruise tourism for northern Haiti. Its purpose is that of a tourism readiness or preparedness program that will include a facilities component of essential but relatively minor works, and a management component to put into place.

a viable management framework to manage the increased visitor flow. It is not an archeology program, but rather a park management program. The nearby Sans Souci Palace is also to come under this program.

It is proposed that USAID provide a \$250,000 matching grant to augment a like amount from private sources to create a half million dollar fund to supplement limited public sector resources available. The travel trade is fully aware of the untapped potential of this resource, and should be willing to contribute to the cost of an upgrade program of this kind.
serve as co-manager of the site, in charge of visitor facilitation

c Agribusiness

Market Town Collection and Processing Centers (20)

USAID can foster simple but improved post-harvest handling, storage and distribution systems which can limit loss, add value, and help the farmer participate in receiving more value by eliminating inefficient intermediary steps. Through technical assistance, training and physical inputs, helping to support rural town collection centers that can make storage, transport and distribution more efficient can do this.

Helping to foster direct links between farmers and processors or exporters, as has recently been done in the case of mangoes, has also been shown to be effective in increasing the price incentives to farmers. This could be part of a rural micro-finance strategy which would allow entrepreneurs in rural areas to set up such collection facilities. Such centers should include a communications capability (perhaps using wireless technologies) that would serve to communicate market prices prevailing in the capital city to producers and would also help coordinate transport pick-up in a more efficient and coordinated way. The collection center would have simple pre-cooling facilities for perishables and temporary storage sheltered from the elements.

USAID can assist in helping to modernize the post-harvest phases of Haitian staple crops. This would include identifying areas for small scale private investment in improvements to packaging, processing and distribution of key staples. This can add value for both consumer and farmer. Initiatives in Africa can provide some guidance on this.¹⁷ Specific technologies and targeted support to food industries can help to identify and implement innovations, which improve the efficiency of the food staple system. Implementation and investment would be privately-driven.

17 For example, USAID/Ghana is exploring such possibilities with the support of the Regional Bureau for Africa.

A USAID budget of \$1.25 million annually for four years is proposed to support the development of 20 centers. This would include some capital and credit to refurbish collection centers, put in wireless radio communications, promote the concept, provide training, work with local transporters and provide technical assistance. The initiative would result in substantial increase in rural incomes in the target areas, with moderate primary and considerable secondary employment generation impact.

The activity is considered to be a high priority element of the Haiti Private Sector Development Strategy. The activity is also judged to be one in which USAID has unique or special capability, as USAID has worked closely in market development for rural production, in Haiti and elsewhere, with similar rural communities. The initiative could easily be focused on specific decentralized economic clusters.

Rural Credit Expansion

USAID can facilitate investment in crop upgrading and investment, and in productive rural enterprises, through a program of rural credit. USAID/Haiti is already considering such a program, financed through Title 3 funds, and is currently providing agricultural credit. Access to short-term and medium-term investment capital is currently a major constraint to improved agricultural output and business growth. Local financial institutions, and intermediaries in the distribution chain, can play important roles in program implementation. The program can also assist the formalization of enterprise in Haiti.

A USAID budget of \$2.5 million annually for eight years is proposed for the rural credit program. This large bulk of this would be extended as credit or credit guarantees, although some costs would be incurred for management, promotion and technical assistance. If guaranty authority can be obtained to support USAID credit programs in Haiti, the annual USAID obligation to the rural credit program could support 8 to 10 times leverage in terms of the total amount of loans made to farmers and other agribusinesses, depending in part on the strengths of the financial intermediaries selected to participate in the program.

The activity is considered to be a core element of the Haiti Private Sector Development Strategy. It is considered to be a necessary element for achievement of the full employment impact objectives of the Strategy. The activity is also judged to be one in which USAID has unique or special capability, as USAID has positive ongoing and prior experience in rural credit programs in Haiti and many other countries worldwide, and has worked closely with the target populations.

Market Information Program

Actions to provide agricultural producers with market price, quality and timing information will allow producers to capture greater value at farmgate, to add value through simple processing or packaging, and to respond to market needs for quality and timing. Similarly, bringing middlemen

and exporters into closer contact with markets will allow them to better understand market requirements and to respond to these requirements. USAID assistance could include dissemination of information via several media and intermediaries, improved communications, training and some technical assistance.

A USAID budget of \$200,000 annually for five years is proposed for the market information program.

The activity is considered to be a medium priority element of the Haiti Private Sector Development Strategy. The activity is judged to be one that represents a good fit with USAID's strengths and experience. It is targeted at the rural population and production systems with which USAID/Haiti is already working, and USAID has carried out similar initiatives in other countries.

Export Infrastructure Planning

A small program of studies, focused on identifying infrastructural or facilities constraints to agricultural exports, will identify bottlenecks or blockages and recommend solutions at a prefeasibility or feasibility level. Examples would include facilities for warehousing or cold storage. A one-year study or series of studies, costing \$300,000, is proposed.

The activity is considered to be an activity of medium priority for the Haiti Private Sector Development Strategy. It represents an opportunity for the USAID program to facilitate Haiti's response to export opportunities, and to increase the value of exports. USAID's ability to provide access to specialized expertise matches the needs of this initiative.

d Handicrafts

Export Market Familiarization

As was described above, significant export market potential exists for "traditional" Haitian handicrafts, in the U.S. and Europe, as well as elsewhere in the Caribbean including major resorts and cruise ports throughout the region. Also, an important potential was described wherein Haitian artisans working both in "factory" and in more traditional settings may be able to successfully produce for the U.S. and European gift and housewares markets, competing for the production of items designed abroad in these markets on the basis of quality and cost.

In order to develop these potentials, it will be important for Haitian artisans to have the opportunity to become acquainted with these new markets, including the companies operating in them and their particular requirements. Working through the Handicrafts Export Marketing Associations that will be described below as a proposed Human Resource and Institutional Strengthening initiative, and/or

through the new Export and Investment Promotion center that is also recommended, this activity would be to organize and provide grant funding to partly subsidize the costs of international travel, participating in trade shows and other aspects of export market familiarization for Haitian artisans

Funding for this activity is proposed at \$250 thousand annually for four years. It is considered that the activity will have a high impact on employment generation, and that it has a specially good fit for USAID programming, based on the inherently small-business character of the targeted beneficiary group.

Linkage to Tourism Development

Despite its obvious relevance and importance, it is important not to overlook the need for funding explicitly to enable handicrafts production and marketing opportunities to be identified and developed in a fully integrated manner with each major tourism project that is undertaken in Haiti in the next few years. As has been learned through experience at the cruise terminal at Labadie, for example, it is not only necessary to plan for physical facilities to market handicrafts in an appealing manner, but it is also important to organize suppliers in a way that ensures equitable access to the market and minimizes the potential for disruptive conflicts between them.

A modest level of funding at \$100 annually for three years is proposed to support the work of designated individuals or perhaps a special committee that could be organized to represent handicrafts associations, tour operators, facilities operators and the Tourism Secretariat to carry out these functions. This expenditure is judged to have a high potential to contribute to employment creation in the handicrafts sector, and to have a good fit with USAID programming objectives, again primarily because of the small business characteristics and needs of the client population.

e Construction

Rural Road Rehabilitation

A strong rural roads network can yield enormous benefit by linking rural areas to larger towns, urban centers and markets. Programs are planned by other donors in Haiti to rehabilitate some rural roads, but these programs will leave much of the rural road network in poor or unpassable condition. Rural roads will encourage agricultural production and rural enterprise growth, and will also benefit USAID efforts in SO1 and SO3. It should have large employment and income impact. Road rehabilitation would be labor intensive, and secondary impacts will be vast.

USAID has considerable experience in rural road rehabilitation programs worldwide. Several USAID programs in Africa use Title 3 funds to rehabilitate rural roads. In Tanzania, a bench

marking exercise and subsequent monitoring has demonstrated very high business and employment results

The rehabilitation work would be carried out by local contractors, and can be funded with local funds. The Title 3 program would thus be an excellent vehicle to mobilize local currency to rehabilitate and extend the rural road network. Policy-related conditionality can be developed for maintenance and management issues. Rural road rehabilitation would be a key element in an economic growth decentralized strategy.

A USAID budget of \$2.0 million annually for three years is proposed. This should be sufficient to rehabilitate the necessary stretches of rural roads. USAID would fund rehabilitation works, program management costs, and related, limited technical assistance and possibly, training.

The activity is considered to be a high priority element in the Haiti Private Sector Development Strategy. It is a good fit for USAID. USAID/Haiti is already working with rural populations and this initiative would multiply the results of this focus. USAID has experience with similar programs in many countries.

Rural Road Maintenance

While a concentrated program of rural road rehabilitation can contribute enormously to “jump-starting” rural economies and economies within decentralized urban clusters, continued maintenance of these roads is needed to ensure their availability. USAID/Haiti has supported rural road maintenance in the past, and the program is still considered to have been very successful.

Rural road maintenance should be managed on a decentralized basis, and carried out by local contractors and by local communities. Planning and supervision should be a decentralized function. Increased local financial resources will provide some funding for maintenance, and these can be augmented by USAID, perhaps through Title 2 or Title 3 resources.

USAID assistance would include funding for maintenance activity, and technical assistance and training to implement and oversee contracts, as well as training and organization of community-based maintenance.

A USAID budget of \$500,000 annually for eight years is proposed. This should be sufficient to maintain a large percentage of the rural road network.

The activity is considered to be a high priority element in the Haiti Private Sector Development Strategy. It is an activity for which USAID/Haiti has special capability. USAID/Haiti is already working with rural populations and this initiative would multiply the results of this focus.

USAID/Haiti has implemented previous, similar programs, and USAID has experience with similar programs in many countries

Irrigation Systems Maintenance

Reliable water supply is a problem in many areas of Haiti, and the irrigation works are in disrepair in many locations. An initiative is proposed to rehabilitate and maintain irrigation works.

USAID has had experience in helping to establish irrigation users' associations that can help to collect user fees and maintain irrigation systems. This should be part of any overall initiative involving the repair or expansion of such systems.

A USAID budget of \$500,000 annually for three years is proposed, to provide technical assistance, training and physical inputs.

The activity is considered to be a high priority element in the Haiti Private Sector Development Strategy. It is an activity for which USAID/Haiti has special capability. USAID/Haiti is already working with rural populations and has also worked in supporting irrigation. USAID has implemented many similar programs worldwide, and has special experience in association development and management.

Low-Income Housing

Housing conditions are deplorable for a large proportion of lower-income families residing in Port-au-Prince and, to a lesser extent, in the major secondary cities of the country, all of which have been receiving a large influx of migrants from the countryside over the last decade. Seriously substandard housing is a problem afflicting at least one-half million people in Port-au-Prince alone, or approximately 100,000 households.

Extreme poverty and unstable employment make a large part of the low-income housing problem difficult to solve until economic conditions can be brought about to provide jobs and raise incomes. Even the most rudimentary housing solutions are currently unaffordable for probably about half of the households indicated above, who live at the margin of subsistence and have no ability to save anything from their current incomes.

As is evident from the large amount of self-construction that is observed to be taking place in lower-income areas of Haitian cities, however, a still substantial number of people are able to save at least a small amount, and many devote these savings to improving their housing. Many families are observed to be building simple homes or improving their existing dwellings little by little. As

savings accumulate, they are invested in materials and gradually put into place, in a process that may take several years to complete. Some of the savings being put into self-constructed low-income housing may come from remittances received from family members living abroad, but a substantial amount is clearly savings from current income. As in other parts of the world, housing is considered to be a good investment, particularly in a setting such as Haiti where returns to savings placed in the financial system are low or negative in real terms.

Self-construction over an extended period typically costs more in the end than does the construction of the same dwelling by a well-organized builder. Also, the employment generated under the self-construction mode of development is obviously spread out over a much longer period than would be the construction of an equal number of dwellings by contracting companies. With financing appropriately structured to take advantage of the apparent ability of at least a segment of the low-income population to save on a regular basis, more rapid progress towards alleviating housing conditions could be achieved, and a large amount of employment generation could be brought forward into the next couple of years.

AID has a great deal of experience with low-income housing development around the world, mainly concentrated in the Office of Environment and Urban Programs (G/ENV/UP), formerly the Office of Housing and Urban Programs. Whether by direct funding of medium-term loans to low-income home buyers, or through utilization of the AID Housing Guaranty authority, resources channeled by USAID/Haiti into the low-income housing construction sector will have a rapid direct and indirect impact on employment, and will also contribute to more rapidly alleviating a basic social need. Funding of low-income housing construction in the near term will also help set the stage for the subsequent development of a low-income housing finance system for Haiti, as will be further described below.

Pending completion of studies by G/ENV/UP, it is here recommended that USAID/Haiti provide for funding in the amount of at least \$2.5 million annually for low-income housing construction and finance, to be maintained over at least a 5-year period. Preliminary estimates supplied to the Private Sector team by the AID Office of Credit and Investment in Washington indicate that, if the AID Housing Guaranty authority¹⁸ can be accessed by USAID/Haiti for this purpose, current provisioning rules would support leveraging of the amounts recommended above by about four times, meaning that a financing and construction program of about \$10 million annually could be supported. This would provide for the construction of up to 2,000 dwellings annually, and provide improved shelter for about 10,000 people.

18 Currently, the U.S. Congress is considering a variety of options that would affect the Agency's future ability to operate credit programs resulting in a contingent liability for the USG, and the outcome is not yet clear.

GOH/Donor Procurement – Materials Specifications Review

This USAID initiative is directed towards increasing the Haitian-produced inputs for construction. A large amount of construction activity is anticipated in Haiti, directed towards infrastructure -- particularly road and urban infrastructure -- improvement. In a growing economy, this level of construction activity will continue on a perhaps reduced but permanent basis with public investments in urban and other infrastructure, as well as increasing private investment.

Haitian business is already producing some materials for construction. Additional inputs may be available, or be able to be produced in Haiti. It is important that tender specifications be written to accept Haitian-produced inputs of acceptable quality. Experience in other countries has shown that specifications, written from standardized sources or by international experts, may unintentionally exclude local suppliers. In Haiti, provision of formed paving stones for road construction may be an example.

The USAID assistance would provide specialized expertise to review tenders for public works, and to recommend changes that would facilitate local participation. Recommendations would also be made for development of new Haitian enterprises. A USAID budget of \$50,000 is proposed for this study.

The activity is considered to be a medium priority element in the Haiti Private Sector Development Strategy. It is an opportunity for USAID to facilitate the growth of private enterprise in a new market sector. USAID has an ability to quickly mobilize the specialist expertise required.

f Economy-Wide Activities

Many of the most important and effective interventions open for USAID consideration are not focused on a particular sector, but would be aimed at developing market institutions to increase efficiency and competition, and/or to strengthening Haitian enterprises generally. Many such interventions operate through the improvement of Haitian financial services and export marketing capabilities, as is described below.

Money Market Development

The Haitian commercial banking system has evolved from a base made up of the local branches of three or four international banks, and a half-dozen major Haitian banks developed around leading business groups. Historically, these banks had dedicated themselves primarily to mobilizing resources from the public to finance the operations and investment projects of their affiliated groups. Because of a lack of safe alternatives, banks are able to capture both checking and savings deposits.

easily, and pay very low rates on savings, often below the rate of inflation. Lending rates are kept slightly positive in real terms, meaning that interest rate spreads are high, even though lending rates are not high in dollar terms. At present, the commercial banking system is highly liquid and it is likely to remain so until a sustained recovery in the level of economic activity -- coupled with a greater opening of the banking system to new classes of borrowers -- regenerates the demand side of the credit market.

Because of their lack of standing with the banks and their poor access to commercial credit (again, the issue is access as opposed to lending rates), and because of the low rates paid to savers on their deposits, an informal money market is beginning to develop whereby smaller companies are directly able to issue short-term obligations to savers looking for a higher return than what is being provided by the banks. This is inherently a healthy development for the financial system, one that will ultimately contribute to accelerating modernization and improved competitiveness in the banking sector, while promoting the development of new and more competitively priced products and services for both savers and borrowers in the economy. Because of its positive long-term benefits for the financial system and the economy, a modest amount of USAID support aimed at assisting in the organization and formalization of a money market is recommended. The primary focus of such support would be in assisting the parties already participating in this market, including but not limited to the commercial banks, to gain access to market technology developed in other developing countries in recent years, particularly as regards the basic framework of the market with regard to such issues as dealer qualifications and licensing, listing requirements, disclosure rules for issuers, settlement, etc. Technical assistance and advisory services in the amount of approximately \$200,000 are recommended for this activity, to be expended over an approximately one-year period.

Housing Finance System Design

As a longer-term initiative linked to the direct financing of low-income housing construction, it is proposed that USAID/Haiti reinitiate efforts begun in the 1960s to develop a permanent housing finance system in Haiti. Progress in developing such a system will need to be closely-tied to the development of contractual savings systems in the country such as, in particular, life insurance and privately-managed retirement plans. These pools of long-term savings will complement the savings instruments offered by banks and other financial institutions operating in the lending side of housing finance, and allow them to capture resources that more closely match the tenor of medium- and long-term home mortgage loans.

AID has extensive and in-depth experience in the organization and development of housing finance systems around the world, in recent years also incorporating complementary areas such as urban infrastructure finance. Specialized advisory and technical assistance services can be mobilized by USAID/Haiti with the assistance of the Office of Environment and Urban Programs, which will have a high impact on the stability of the housing construction sector and the employment it creates. An initial program consisting in an investment of approximately \$100 thousand annually for two years

to begin development of a housing finance system would be considered to have a good fit with mission programming objectives and Agency capabilities

Financial Market Information

A number of financial market innovations are described among the list of Economy-Wide Activities recommended by the Private Sector team, including the expansion of guaranteed credit lines operated through the banking system and the development of new financial products and financial institutions as described above. Experience recounted to the team by a number of informants indicates that USAID/Haiti has not sufficiently recognized the importance of marketing financial products and services in its earlier programs, in particular guaranteed credit programs that have been put into place during the last two years. A surprising number of business informants interviewed indicated no knowledge whatsoever of the existence of these USAID-supported programs, and consequently had not had an opportunity to benefit from them.

To remedy this, it is proposed that USAID explicitly budget resources to publicize the availability of new financial services and products being introduced through participating financial sector institutions, and assist the public in understanding and evaluating their costs and potential benefits. A budget of \$50 thousand annually over a period of three years is proposed for this purpose. By improving the effectiveness of USAID-supported credit programs, it is judged that this intervention will have an important supporting role in generating employment, and that it should be viewed as a complementary opportunity to other initiatives undertaken by USAID in the financial sector.

Contractual Savings Systems

Contractual savings refers to a type of financial product that is designed to organize the savings of a pool of users in order to provide them with the means to accumulate resources over a period of time that will allow them to meet definite or contingent future financial requirements. Life insurance in its many variations is an example of a contractual savings product, as are a variety of pension or retirement plans operated to manage the pooled savings of their members to assure the availability of income during old age. Other contractual savings schemes can be and are offered to assist in putting together a fund for college education or other foreseeable future financial needs. Common features of contractual savings schemes are the obligation of members to regularly contribute a predetermined amount to their savings account, and the professional management of pooled funds to attempt to obtain maximum returns commensurate with predetermined risk parameters. Contractual savings industries are usually closely regulated by the state to ensure that fiduciary responsibilities are met and that appropriate capital adequacy standards are adhered to by operators of contractual savings services.

When they are managed professionally within a properly regulated environment, contractual savings schemes have the capability of amassing relatively large pools of capital that must be prudently invested over a substantial period of time. As in the case of Chile, therefore, contractual savings industries have formed one of the important foundations for the development of a domestic capital market, and this has enormous implications for the ability of a developing economy to finance long-term assets such as housing, physical infrastructure and industrial facilities.

Very few if any secure contractual savings products are currently being offered to the public in Haiti, nor does the appropriate regulatory framework for successfully operating such products yet exist. To the extent that life insurance and retirement plans are available to upper income Haitians, this is usually through the local agent of an international provider, and the savings resources mobilized do not remain available for investment domestically. Thus any initiative aimed at developing contractual savings products and a professionally-managed industry must be recognized to be very early stage. Nevertheless, the long-term significance of mobilizing domestic savings more efficiently and developing pools of capital that can be invested in long-term assets is so great that it is recommended that the process be initiated within the next couple of years. Possibly beginning in FY1999, it is recommended that USAID budget \$250 thousand annually for 2 years to support the feasibility, design and policy studies that will be necessary to begin developing a contractual savings industry in Haiti, in conjunction with qualified financial services companies interested in investing in this promising long-term market. The proposed initiative will make an important contribution to employment generation in the medium- and long-term and may be viewed as an attractive opportunity for USAID programming in the financial sector.

Formal Sector Funding of Informal Lenders Pilot Program

Micro- and small-enterprise and rural credit are virtually nonexistent in Haiti, except as distributed on a relatively small and highly-subsidized basis by a few NGOs. Important work needs to be done to assist these NGOs in becoming more efficient in the distribution of credit, as well as in adopting financial policies that will allow them to mobilize savings and onlend these on a more nearly self-sustaining commercial basis.

In parallel, significant opportunities are believed to exist to take advantage of existing financial institutions and other intermediaries already in place and working with micro- and small-enterprises to significantly expand the volume of credit reaching this sector on a straight commercial basis. Product wholesalers and exporters, input suppliers and already established moneylenders are among the intermediaries already in contact with micro- and small-enterprises. These already often do provide credit to their clients as part of the normal course of business, though perhaps not on the scale nor at the cost that is necessary to support the reactivation and expansion of these small firms that will be necessary to achieve high rates of economic growth in Haiti over the next decade.

By making it possible for established formal sector lenders to more securely lend to such commercial intermediaries and informal lenders, USAID can influence the volume of credit being distributed by them among their micro- and small-enterprise clientele, and ultimately, bring about a reduction in the cost of such resources to their final users through the combination of greater supply of funds, greater competition among intermediaries and increasing familiarity with operating successfully within this segment of the market. Whereas input suppliers may currently extract an annualized interest rate of 100 percent or more when they supply agricultural inputs on credit, for example, increased funding of input suppliers may gradually bring this implicit cost down by 50 percent or more. Interest rates will always remain high in comparison with pricing available to preferred direct bank customers, but in principle interest rate differentials will eventually be competed down to where they reflect only the real cost and risk increments of operating in the micro- and small-enterprise credit market. Similarly, prudent, secured refinancing of informal moneylenders' portfolios by commercial banks may in fact be a sound business strategy for them.

Typically, input suppliers, wholesalers and financial intermediaries who regularly do business with the micro- and small-enterprise sector will be able to qualify and control credit risks much more accurately and effectively -- and at much lower cost -- than would ever be possible for a large commercial bank. It therefore makes sense to incorporate these well-informed intermediaries into the credit distribution system for small borrowers, and, by wholesaling funds through them, to increase the flow and reduce the cost of credit to them.

USAID can be highly instrumental in bringing such business relationships into play for distributing credit to this segment of the market by providing advisory and technical assistance services aimed at transferring the benefits of international experience with this type of lending to interested banks and other formal sector lenders, as well as by explicitly encouraging banks to lend more to the types of intermediaries we have identified, by ensuring that successful and financially-sound intermediaries be allowed to qualify for USAID-backed partial credit guarantees. A pilot program to adapt lending techniques utilizing non-financial and informal sector intermediaries to distribute credit to Haitian conditions is recommended, with funding at \$500 thousand annually for a five-year period. The activity is judged to have a high potential to contribute to job creation even in a relatively short period of time, and this type of market-based micro-enterprise finance is also considered to be an especially good fit for USAID programming, based both on the mission's prior experience in-country and on the Agency's vast experience internationally.

Equity Capital Mobilization

At the larger end of the firm- and project-size spectrum, conversations with officials at the International Finance Corporation and direct observation in-country have revealed that a major constraint to the reactivation of private sector investment is the high degree of insecurity regarding political developments in Haiti over the next few years, and the effect this has on the willingness of both the Haitian and international private sectors to commit the amount of equity that is normally

required to obtain long-term loans from international lenders. Projects that might otherwise be very sound from the perspective of an international lender -- i.e. projects with strong and experienced management, a well-defined and growing market, good technology, etc -- are essentially stalled because the project sponsors are not able or willing to risk the normal 50 percent equity that is normally required by international lenders like the IFC for financing new projects. Examples of projects that are either currently under development or that could attract the attention of local and international developers in the next couple of years in Haiti would include electric power generation, telecommunications, port facilities, industrial parks, agricultural processing plants for export, cruise terminals, hotels and other tourism-related infrastructure. Already, a surprisingly large number of groups are actively developing projects of this kind in Haiti. If governmental impediments are removed and certain other conditions improve, it is easy to conceive of investments totaling \$200-300 million dollars being initiated in such projects during the next several years.

Political uncertainties both as to the identity of the nation's future leaders, and, more importantly, as to the policies they will implement when elected, will not easily be removed or reduced in Haiti at least until the next Presidential election scheduled for December 2000 has come and gone. Even after this next election, it will probably take a year for a new administration to develop and begin to implement a policy agenda that is clearly discernible and sufficiently predictable as to provide a reliable basis for long-term investment planning in Haiti. Until, this time has passed and a new direction, if any, has been set, it is unlikely that either Haitian or international investors will be willing to commit the same amount of equity resources to their projects as they would in more stable and predictable settings.

The economic dilemma that is posed by this situation is that -- unless other means can be found to make up the necessary equity base for these projects -- many of them will probably not get funded, and certainly they will not be developed in the number that is necessary to achieve a significant impact on the nation's capacity to grow more rapidly. If they are not funded and developed in adequate numbers, then the economy will not grow rapidly enough to satisfy the legitimate demands of the Haitian population for employment, incomes and improved living standards -- and conditions for future political stability will be further impaired, potentially perpetuating an untenable economic situation into yet another generation. Even if it were possible to substitute a sufficient amount of public investment for the private investment represented by these projects -- which it is not in our opinion -- the quality of growth that would ensue would not incorporate the market- and enterprise-based decentralized decision-making that has been shown by international experience in all of this century to be a fundamental prerequisite for economic growth to be sustained in a society over an extended period of time. The management of investment and of enterprises by governments has simply not been able anywhere to develop the incentive structures necessary to achieve both the efficiency and the flexibility that are needed to sustain high growth over time, and the Haitian government at this time in the country's history is particularly disadvantaged in comparison with other governments' management capabilities. An economic growth strategy premised on public sector investment in Haiti is doomed to certain failure, and in that failure would doom the country to decades of continued economic distress and human suffering.

It is imperative, in the opinion of the Private Sector team, that effective means be devised to enable the Haitian and international private sectors to develop the projects that need to be developed, and to begin soon applying their manifold energies and skills to getting business going in Haiti -- for the first time in the country's history on an open and internationally competitive basis. The interest of the Haitian and international business community in committing their energies and capital resources to developing projects in Haiti must not be wasted -- even if the latter are limited by structurally adverse risk conditions as discussed earlier. Unless the private sector -- large, medium and small, domestic and international -- can genuinely play a leading role in the economic recovery that must begin taking place in Haiti during the next couple of years, it is unfortunately all too likely that the country will be impelled along a path that does not lead to sustainable growth, but only to continuing frustration and the imperilment of an incipient and fragile democracy.

For the reasons enunciated above, we recommend strongly that USAID/Haiti urgently consider a variety of means whereby it alone, or in conjunction with one or more other international donor organizations, can directly remedy the effects of deep-seated political uncertainty and risk on the ability of the private sector to commit equity to otherwise sound, well-structured, high-priority projects.

USAID and/or other donors can address the equity deficiency either by making the equity resources available -- directly or through an intermediary -- or by finding means to mitigate the risks that prevent the private sector itself from being able to accept a conventional degree of exposure. Both approaches, direct funding and risk mitigation to generate private funding, would lead to the structuring of a venture capital fund of some kind that would co-invest with other private project sponsors in order to bring sufficient strength to the proposed ventures' balance sheets and, hopefully, sufficient stability to the projects themselves to enable them complete financing without violating the established norms of international lenders. Some of the options available to USAID and others are described in Appendix C. Here, we wish merely to emphasize the importance that taking action in this area is considered to have for both the quantity and quality of economic growth that can be made possible in Haiti over the next decade, and to outline some of the factors that should be considered in analyzing alternative structures for implementing the equity vehicle.

First, it is crucially important that the structure devised be able to incorporate experienced professional management that has the right compensation and other incentives to make sure that the quality of investments supported is high. This argues for private fund management compensated to a substantial degree on a success basis.

Second, it is important to insulate the investment management decisions of the fund from political influences and considerations -- whether Haitian or American. This argues for separately endowing a trust or other similar vehicle if the funding is to be provided directly, and for clearly stipulating the conditions under which the guarantor may interfere in management decisions if an indirect means is chosen to generate private capital for the fund.

Third, it is important that the fund not attempt to play the role of developer, which means that it will usually co-invest with private developers as a minority shareholder. As a minority shareholder operating in an environment offering less than adequate legal protections for investors, the usual care will need to be taken to ensure that its rights are respected, and that it can divest its ownership without interference from the majority shareholders when the time comes. Specific shareholder covenants and convertibility features can be used to provide large minority shareholders with effective control if specific performance commitments are not met. Also, careful investigation and evaluation of co-investor/managers before committing resources, the role of international co-financiers in ensuring high standards of corporate governance, and the involvement -- where appropriate -- of American co-investors subject to U.S. laws in the development of funded projects, can all play a role in reducing the particular risks faced by the venture fund as a minority shareholder.

An important feature of equity co-investment as a vehicle for development finance is the high degree of leverage it generates. Even if USAID had to obligate \$1 for every \$1 invested by the fund, a minimum of about 5 to 1 leverage would be generated, as follows: each \$1 fund investment at 40% of total equity generates \$2.5 in total equity, and, assuming 1 to 1 loan to equity financing, also generates \$5 in total investment. In cases where a 25 percent co-investment were sufficient, and where long-term lenders were willing to fund 60 percent of the total investment cost -- not unreasonable assumptions -- the leverage generated by \$1 of fund investment goes up to 10 to 1 in total investment.

If appropriate authorization were obtainable from the U.S. Congress, utilization of USAID resources to guarantee private sector resources -- rather than to directly capitalize a fund -- can dramatically increase the leverage exerted by USG resources even beyond these levels. Preliminary and merely indicative calculations performed for the Private Sector team by the AID Office of Credit and Investment indicate that -- even under current high country risk conditions prevalent in Haiti -- only about \$1 would need to be obligated by USAID for every \$4 of private sector resources guaranteed. Thus \$1 of USAID resources would translate into \$4 in fund resources available for investment, ultimately translating into between \$20 and \$40 in total investment based on the range of assumptions explored in the previous paragraph. Ten million dollars judiciously applied through a guarantee mechanism could thus support a quantity of private sector investment large enough to make a real difference in the quality of growth begun in Haiti during the next two or three years. It is therefore urged that the USAID/Haiti, with the support of other agencies of the Clinton Administration, make a serious effort to obtain Congressional support for the utilization of guarantees in Haiti under the general procedures and provisions established by the Credit Reform Act of 1990.

A further attractive feature of the guarantee mechanism, independently of the amount of leverage generated, is that it allows the guarantor to limit the amount or duration of risk that is underwritten.

and, to the extent that perceived risks do not materialize and that guarantees are not in fact called, that it also allows the recovery of resources once the period of exposure is past

In the case of Haiti, as discussed above, the period of high perceived and real political risk is the four-year period between the beginning of 1998 -- the earliest an equity co-investment fund could conceivably begin to operate -- and the end of 2001, the first year of the next Haitian Presidential Administration. This being the case, it would be possible to structure guarantee coverage for private investors in a Haiti equity fund in such a way as to limit their possible losses only during this period, assuming that, for good or for ill, a stable new policy regime will have been put into place by the end of 2001 and that well-structured projects will from that point forward be able to take whatever measures may be necessary to succeed within that newly-defined policy regime

A diesel-fired power project set up in 1998 to provide electricity for a new industrial park, for example, might be seriously hurt by political instability that slowed the development of the park and consequently of its sales. If it had not been physically destroyed or expropriated by 2001, however -- and these are both events that can be insured against -- once political stability were restored it is likely that satisfactory arrangements for operating the plant could be negotiated with the new government, almost irrespective of the ideological leanings of that new government. The proposed equity co-investment fund would make it more likely that both the power generation project and the industrial park could be developed on schedule despite possible political instability during the next few years, thus making it more likely that both projects will be successful

The real threat that currently exists and that will continue to exist until after the elections of the year 2000, the threat that is presently stymying private investment and that can only be countered by some form of risk-sharing by one or more donors, is the threat of continuing instability during a three- or four-year period. Such instability, much more even than the threat of an "unfavorable policy regime", makes it difficult for investors to feel comfortable that all the things that have to come together for a project to be successful will actually do so on schedule. Governments of all ideological tendencies the world over have recognized the need for private sector investment in infrastructure and for the development of major enterprises. Business people the world over have learned to operate successfully under a wide variety of policy regimes. Thus, while a favorable policy regime would undoubtedly help, and while sustained rapid growth of an economy as a whole is unlikely to take place in its absence, the success or failure of individual enterprises of the type being considered depends much more on stability and predictability -- the very qualities that will almost inevitably be lacking in Haiti during the next several years

Even without special authority from the U S Congress to utilize a "credit" mechanism to support the proposed fund, that is, even if USAID/Haiti has to obligate \$1 for every \$1 of investment capital mobilized for the fund, it is recommended that USAID use a guarantee mechanism rather than direct funding. This is because it is most unlikely that 100 percent of investors will ever call their guarantees -- even under rather extreme circumstances -- and consequently because at least a portion

of initially-obligated resources will come back to USAID after the proposed four-year period of coverage is past. The quality of fund management is also likely to be substantially higher if private resources (albeit partially-guaranteed private sector resources) are privately managed on a performance-based for profit basis, than if public funds (even if through the vehicle of a private trust) are managed by contracted management responding to a more almost inevitably more complex set of performance objectives. As indicated above, even without giving rise to any contingent USG obligation, USAID/Haiti should be able to leverage its resources 5 to 10 times in terms of total private sector investment in priority infrastructure projects.

While some additional study will be needed before a final decision on USAID involvement in the proposed equity vehicle can be taken, we preliminarily propose funding of about \$4 million annually for three years. This would help to support between \$20 and \$40 million in annual investments -- without special guaranty authority -- and up to about \$100 million annually with the additional leverage such authority would provide. Clearly, a high direct and indirect employment impact would be expected to result from this level of private sector investment, and more importantly, the work of building the firms and market institutions to make job creation and growth permanently sustainable will have begun through this important USAID investment opportunity.

Partial Credit Guarantees for Working Capital & Investment

Parallel to the need for additional equity to support the development of high-priority large-scale capital investment projects in infrastructure, manufacturing and tourism, there is a pressing general need to vastly expand access to credit for micro-, small- and medium-sized businesses throughout Haiti. As was explained earlier, traditionally Haitian commercial banks loaned money to a relatively small number of "name" clients, large firms or business groups usually having an interest in the ownership of the banks. Thus, the banks do not have a longstanding relationship as lenders to any significant number of smaller companies. These companies therefore don't have an extensive credit history with the banks, and -- particularly in a period of high uncertainty and instability such as Haiti is now living through -- it is very difficult to begin the process of establishing a credit relationship and a credit history now, even when some banks have recognized the need to broaden their clientele.

Partial credit guarantees can be crucially important in helping banks, operating in an extremely difficult credit environment as they are, to make the transition more rapidly and significantly increase the volume of short- and medium-term credits placed with new small- and medium-sized business clients. USAID/Haiti has ongoing, largely successful credit guarantee projects operating now¹⁹, and it is here proposed that programs similar to these be rapidly expanded and broadened in both in scope and in coverage. As was alluded to earlier, it is also strongly recommended that the

19 Two commercial banks are working with USAID on microenterprise lending through the issuance of credit cards with partial USAID guarantees, while the Haitian Development Foundation and SOFHIDES are implementing a partially-guaranteed agribusiness loan program.

new and enlarged credit programs proposed here be aggressively marketed. The public is not currently familiar with their existence, and it is important for small-business lending volume to grow rapidly if this segment is to become profitable for participating banks.

Both short-term working capital and trade finance and medium-term business development loans are needed by Haitian small businesses. Unfilled demand exists in all sectors of economic activity, including commerce, handicrafts, small-scale manufacturing, services, agribusiness, farming and micro-finance. The sectoral focus of new, expanded partially-guaranteed credit programs should be as broad as possible, and both short- and medium-term loans should be made eligible.

Criteria similar to those utilized by AID's worldwide Micro and Small Enterprise Development (MSED) program provide useful guidance: guarantee of up to 50% of the net loss on the principal amount of small business loans, and up to 70% of net principal losses on micro-loans, the former being for amounts of up to \$150,000, and the latter for up to \$5,000, each, up to \$3,000,000 maximum exposure to any single participating financial institution, backing up to \$6,000,000 in micro- and small-business loans, term of guarantees of up to five years, guarantee fees negotiated with participating financial institutions on a case-by-case basis.

The MSED program operates under the rules of the Credit Reform Act of 1990. This requires an appropriation by AID only for the estimated "true cost" of the guarantee or loan, which is estimated as the present value of anticipated claims over the life of guarantee facilities established, net of fees and interest earned. Clearly, anticipated claims need to be estimated on a case-by-case basis, with the quality of participating lenders and specific estimated country risk being important factors in determining the amount that has to be appropriated to support the specific guarantee operation. Historically, for every \$1 appropriated to the program, MSED has been able to mobilize \$25 in micro and small business loans worldwide. In the case of Haiti, higher country risk conditions would probably -- based on preliminary estimates prepared for the Private Sector team -- require a higher amount of "provisioning" and overall leverage that could be achieved would probably be in the range of 10 to 12 times appropriations.

MSED has FY-1997 resources available and can accept limited additional "buy-ins" utilizing USAID/Haiti mission resources. Thus, the MSED program itself can be put into operation in Haiti, in partial fulfillment of the proposed Working Capital and Investment Loan Guarantee program. In addition, it is strongly recommended that USAID/Haiti actively seek specific additional guaranty authority from the U.S. Congress allowing it to establish an expanded credit guaranty program independent of MSED. An annual appropriation of \$1.5 million for 10 years is proposed, which, if special guaranty authority is obtained, would support approximately \$15 million in guarantees and \$30 million in lending annually. At an average loan size between \$50,000 and \$100,000 each, this volume of credit corresponds to 300-600 loans per year nationwide, mostly to support short-term working capital needs across all sectors of economic activity. In our view, this volume is achievable,

and would clearly have a significant impact on the ability of small business to participate actively in the reactivation and subsequent rapid expansion of the Haitian economy

While it may be necessary to offer more than a 50% guarantee initially, this is probably a reasonable target for coverage after the first year or two of operation. It is important that participating banks and other lenders remain significantly at risk in the lending program, to ensure that prudent credit norms and portfolio quality are maintained. The idea, after all, is that the guarantees never have to be called. Rather than higher amounts of guarantees, USAID can provide additional support to participating lenders by defraying some of the costs that these institutions will have to bear in developing a new, volume-based loan market. As suggested above, USAID should, we believe, absorb some of the costs of publicizing information and otherwise contributing to the marketing of the new, partially-guaranteed loan products, and it may also assist participating banks in obtaining and implementing low-cost loan processing and portfolio management technologies to which AID has access through its involvement in micro- and small-business credit programs worldwide. This activity is considered to be a core activity in terms of its importance for employment creation and private sector development in Haiti, and one that is an especially-good fit for USAID programming.

Privatization of SOEs

In our judgment, the international donor community made an important strategic mistake in allowing the privatization of existing state-owned-enterprises (SOEs) in Haiti to become such a high-profile element in the conditionality arrangements negotiated with the GOH. It is much more important, as will be elaborated on further below, to allow private sector participation in the development of new public service enterprises than it is to determine ownership of a collection of mostly decrepit and practically-defunct SOEs. Unfortunately, the disposition of existing assets is a politically-charged issue that can be easily inflamed by any number of groups pursuing all manner of political objectives, and the conditionality established around the subject of SOE privatization has become a very high hurdle indeed, ironically and unintentionally for the progress and effectiveness of major elements of the external donors' planned development programs for Haiti.

That having been said, it remains important for USAID to continue to participate in the process and to help in finding ways to resolve the impediments that have arisen to block progress towards the privatization commitments of the Government of Haiti. It is important to do so precisely because of the very serious harmful impacts that lack of progress towards complying with these commitments is having. Although no additional funding is proposed, it is recommended that USAID remain committed to assisting both the GOH and the other donors working in Haiti to find a workable and politically-saleable approach to the privatization of existing SOEs.

Liberalization of Ownership & Management of New Public Utilities & Infrastructure

From the economic and business development perspectives, it is crucially-important that private sector resources rapidly gain access to infrastructure and public service investment opportunities. Lack of adequate, low-cost electric power, telecommunications and transportation services is among the principal constraints impeding the recovery of the Haitian economy, and seriously eroding its international competitiveness. Representatives of the Haitian government argue that -- in order for the value of SOEs not to be diluted, it is important from a Haitian public finance perspective to implement the sale of existing assets, or shares in existing SOEs, first, only afterwards, can public service sectors traditionally-reserved for the government be liberalized and opened to private investment and competition. This argument had a surface plausibility two years ago. Today, the economic costs already incurred by the whole of the Haitian economy -- including the public treasury -- from the lack of adequate infrastructure services, already far outweigh any possible gains to be had from further delaying liberalization of these sectors of the economy.

It is imperative that private investment and management resources be brought to bear on the challenge of improving the availability and quality of infrastructure services very, very quickly. USAID and other donors should work closely with the GOH to modify existing policies on this subject. Even in the absence of general enabling legislation, the donors should urge the GOH to proceed with private infrastructure development if need be on a case-by-case basis, with specific contracts and enabling legislation to be negotiated specifically for high-priority projects that can be identified and implemented without raising the broad political issues that wholesale policy reforms imply. To put it even more strongly, unless more reliable and cheaper power, good international communications and efficient transportation services are put into place in Haiti in the next two years, the economy has virtually no chance of attaining the high levels of growth that are needed to relieve extreme poverty probably anytime for another generation. The only way that these critical infrastructure deficiencies can be addressed within this time frame is to allow the international private sector to enter, and this must be done now.

It is strongly recommended that USAID allocate approximately \$250 thousand annually for two years to enable it to strongly advocate for the changes that are needed, and to contribute necessary advisory services and technical assistance support. This activity is at the core of any strategy for accelerating job creation in Haiti, and is a very good fit with USAID programming.

Export & Investment Promotion

Rapid economic growth in Haiti can only take place if Haiti becomes an efficient international competitor, primarily in the four sectors identified for this study: export assembly and light manufacturing, handicrafts, tourism, and agribusiness. In order to become internationally competitive and to grow rapidly, investment in these sectors must be opened up to both Haitian and international investors operating independently and in joint venture.

Contrary to much of the current conventional wisdom, AID has achieved very important successes elsewhere in the world through its support of specialized investment and export promotion organizations, usually organized as not-for-profit private sector entities. In Costa Rica, CINDE was a major player in bringing about the export orientation and the foreign investment that have now placed it among the hemisphere's leading successes in non-traditional export development including ecotourism, teak plantations and cut flowers, as well as the more conventional beach resorts and apparel assembly operations. In Honduras, USAID-supported FIDE was the key agency behind development and passage of Industrial Processing Zone legislation, the active marketing of assembly manufacturing capacity worldwide, and the organization of long-term financing to help support the development of new export ventures. In El Salvador and in Jamaica, FUSADES and JAMPRO have played similar roles. And, although these are instances where AID has not played a role, no one would deny the importance that PROCHILE and the Irish Industrial Development Authority have played in bringing about a high rate of export-led growth for their much-admired economies.

We would also be prepared to argue that, in Haiti, despite a normal quota of strategic and management mistakes, PROMINEX could have achieved very important successes, had it not been for the fracturing of any hopes for political stability and progress that happened as a result of political violence and the suspension of presidential elections in November 1987, less than a year after the PROMINEX program had been reactivated with USAID support in the post-Duvalier period.

Regardless of the past successes or failures of PROMINEX, it is now important to reorganize a professionally-managed and aggressive export and investment promotion effort for Haiti, even as parallel efforts continue on other tracks directly aimed at improving Haitian competitiveness and making the economic policy regime increasingly supportive of business, investment and exporting. With the decision to establish an international program taken today, it will still take a year to develop a detailed promotion plan and organizational design, recruit and equip marketing and industry specialists and launch operations in any meaningful way. In our view, the urgency of the current Haitian situation is such that these preparations should begin soon in anticipation of conditions having significantly improved by the time the promotional effort is staffed, equipped and up to speed. Investment and export promotion can and should proceed even if progress towards improving competitiveness and the policy environment is slow, so long as at least a minimum of progress in these areas is being made, some successes in attracting new investments and boosting exports can be made, and these successes will feed back into the policy development process in a positive way. If, under worst case kinds of conditions, the situation deteriorated so badly that achieving even small investment and export development successes becomes impossible, there will always be time to pull the plug, with relatively little having been lost. As is the case with other elements of the Private Sector Strategy that is being proposed, an investment by USAID in setting up a promotional organization and program undoubtedly involves taking risks in anticipation of an assurance of success. In evaluating the possible costs involved, it is important for USAID and other donors to measure benefit not just in terms of the difference between current conditions and any possible

upside to be gained, but in terms of the vaster difference that exists between that upside -- however modest it may appear to be -- and the very large downside that may come from not acting in time

Although a separate, intensive effort will be needed to develop a detailed design of the proposed promotional program, the following general recommendations are offered at this time

- organize promotion by sectors (manufacturing, tourism, handicrafts, agribusiness), and support the sectoral "deal-makers" with a central staff of marketing, communications and legal advisors,
- undertake the promotional effort through a private trust or foundation that allows for membership by existing private sector associations, but can not be linked to any one or accused of representing any particular groups interests over those of others, promoters must be able to work as clear advocates of the businesses and the projects they are promoting -- involvement of the public sector in the management or direction of the program will compromise the promoters' ability to perform as advocates, government involvement should therefore be structured in terms of cooperation, information exchange, and mutual support,
- the overriding principle determining success or failure of the promotional effort will be "additionality", the program must aim to identify and support new investors, develop new markets for existing Haitian products, and develop new products that can be competitive in both existing and new export markets, the initial focus of activity should be on "deal-making", on the generation of orders and the attraction of investors, with policy regulatory reform efforts limited to those that have a direct bearing on specific deals that otherwise look like they can be done in a short period of time, i e , policy advisory and advocacy efforts should be demand driven, and
- build on existing assets, including existing and recently lapsed international business relationships, and the networks and resources of the Haitian diaspora, focus first on reestablishing existing industries and recapturing Haiti's former share of existing markets

Again subject to further refinement through a specific project development effort, we estimate that a budget of approximately \$2 million annually for at least 5 years will be required to operate the proposed export and investment promotion program. Additional funding may be required in the first year to cover extraordinary organization and startup expenses. The activity has a very high potential impact on employment creation (recalling that the correct measure of benefits is the difference between the "with" and "without" cases, not necessarily the "before" and "after"), and has an excellent fit with both Agency experience worldwide and specific mission experience and capabilities in Haiti. USAID support for export and investment promotion will require a specific

waiver of current general prohibitions limiting the U S government's ability to support export promotion activities, however

"One-Stop Shop" for Investment Approvals & Licensing

Facilitating investment through the organization of a centralized facility and expedited procedures for granting regulatory approvals and licenses is a necessary and important activity of the host-country government, but one that is quite distinct from investment or export promotion. Because of its importance in facilitating the process and its complementary value in relation to the proposed promotional effort, we also recommend that USAID or one of the other donor agencies support the organization of a "one-stop shop", an activity that will require funding on the order of \$250 thousand annually, for an initial 5 year period while more permanent GOH funding sources are developed, possibly including fees collected from business clients utilizing the services of the facility. A "one-stop shop" is judged to have a medium-priority in terms of its potential contributions to job creation, but nevertheless constitutes an important opportunity for USAID or other donors to support the private investment process.

Local Private Enterprise Initiatives Funding

USAID can address this initiative at the regional, local and municipal levels. This initiative would provide grant funding to a local government provided that both the public sector and private sector leadership could agree on a priority project that could stimulate the environment for private sector investment and jobs in the locality.

Municipal governments, local chambers of commerce and private sector leaders in Haiti do not appear to work together for planning and implementation of projects and programs. This initiative would provide motivation for dialogue. It would also focus attention on the future and on what could be a productive focus for dialogue -- rather than on the problems or on the blame either side has for a particular problem.

The terms of the grant would require agreement and cooperation of both sectors before approval. The implementation should be by the private sector (by contract, for example), under competitive selection. Another positive impact of this would be to enhance decentralization. It would provide some initial experience for municipal governments in managing some limited resources and consulting with others in the programming of those resources. This could provide valuable experience and pave the way for a later decentralization of tax revenues and public spending.

It is often easier to promote private-public dialogue at the local level around practical and tangible projects that will have an immediate impact on the well being of the local residents. It also focuses attention around the right question--namely how to promote private sector led growth. Such an

initiative would require a promoter to visit and explain the program to municipal authorities and private sector associations in different localities. It might also be supported by a communications campaign. It would also require that the proposal actually have promise for affecting the climate for private sector investment in the locality. The promoter would be a private sector development specialist and would help the local leadership in developing ideas that would qualify for funding.

A board established for that purpose would review the ideas. There would also be a need for a controller function and assistance to the locality in establishing basic procedures to show that the funds, once disbursed, were spent as planned. This might require joint signatures or other checks and balances that would allow the private sector to exercise its leadership and oversight role through a committee.

This strategy has important private sector development objectives but simultaneously addresses some democracy and governance concerns by building grassroots governance capabilities. The approach should not be a mechanism to shore up otherwise ineffectual local governments and strengthen control of groups that otherwise might not be re-elected. Rather, the point is to help build institutional mechanisms for dialogue between the public and private sector regardless of who is running the local government at any given time.

The program could also incorporate broader support (through training or technical assistance) for decentralized, public-private planning. A USAID budget of \$600,000 for three years is proposed for this study.

The activity is considered to be a high priority element in the Haiti Private Sector Development Strategy. It is a vehicle to provide infrastructure and other improvements that will generate business growth and employment, and to encourage decentralized planning and public-private collaboration. It is an initiative for which USAID has a unique or special advantage, and fits well with the ongoing SOI initiatives.

Initiative for Geographic Coordination and Focusing of Private Sector Development

Actions directed towards private sector development in general and towards decentralization of economic activity will, of course, benefit the decentralized economic clusters. These are discussed elsewhere in this report, and include, amongst others, actions directed towards

- Improved national infrastructure and infrastructure management,
- Private sector provision and management of infrastructure and related services,
- Legislation to improvement of municipal revenue generation capability, and to transfer funds to decentralized entities,

- Decentralization of government services,
- Declaration of tourism development areas,
- Improved public-private dialogue and joint planning, particularly at the local level
- Improved public awareness and civic education, and
- Improved security and judicial system

USAID can also select several (perhaps 3) decentralized economic clusters for focused attention. Focusing of resources and assistance on particular locations will maximize the interactions and synergies of the interventions. The locations would serve as both pilots and demonstrations, and increase competition within Haiti as well as competitiveness in the international markets.

The actions proposed in this report should thus, in part, include consistent focus on the particular, selected decentralized clusters. Types of actions that can be directed towards specific clusters can include

- Packages of these same types of programs to encourage business growth, but directed towards individual economic clusters
- Actions to facilitate the processes of strengthening specific clusters, such as joint public-private planning mechanisms, strengthening of urban management and services, development of training facilities and programs, strengthening of municipal finance, etc
- Focus infrastructure and service investments on particular clusters particularly ports and airports, power, communications, rural roads, business service centers. Geographic co-location of donor programs. Facilitate intermodal linkages and service linkages on a cluster-specific basis

In addition, special programs should be developed to further support this decentralized economic development. Examples could include

- Joint economic/business environment planning between cities and surrounding communes and rural areas, and
- Provide a facility to assist businesses to train upstream suppliers and service providers in surrounding communes and rural areas

A USAID budget of \$250,000 for six years is proposed for this initiative, to cover costs of limited studies and technical assistance to coordinate package elements, and costs of other technical assistance and training

The activity should be a high priority element in the Haiti Private Sector Development Strategy. It is a crucial vehicle for decentralizing economic growth, and for rapidly developing competitive segments within the Haitian economy. It is an initiative for which USAID has unique or special advantages. It fits well with ongoing SO1, SO2 and SO3 initiatives. The mix of elements suits USAID/Haiti's experience in many sectors, and USAID's ability to assume a leadership role in coordinating the actions of the various donors. USAID has carried out numerous projects worldwide that have had focus on secondary and tertiary cities.

For-Profit Business Service/Communications Centers (20)

To facilitate access to modern and cost-efficient communications, Internet access, and other business services, USAID can facilitate establishment of local centers offering these services on a decentralized basis. Such facilities should best be run on a private, for profit basis. However, several start-up issues will be relevant.

- The need for a sizable initial investment in computer, telecommunications and copy equipment, and
- The need for a market to develop for the services. In an environment where the business (and other) community is unused to modern telecommunications and information access capability, the community will need to learn their application.

While such start-up difficulties are standard for the U.S., business in Haiti may be unwilling to invest in such a venture without some risk-reduction. This may prevent communities from benefitting from technologies and services that should be available.

USAID may therefore consider establishing pilot (or demonstration schemes), and providing concessional arrangements (e.g. low-cost loans, or guarantees to banks for on-lending) for several pilot centers. A USAID budget of \$350,000 for three years is proposed for this activity.

The activity is considered to be a high priority element in the Haiti Private Sector Development Strategy. It will provide access to services that will facilitate business growth and employment. It is an initiative for which USAID has a unique or special advantage, as USAID has implemented similar programs in many countries.

Regional Demonstration Centers (5)

USAID can provide support to develop regional demonstration centers for agriculture, agroindustry and other technology. The centers would serve as decentralized focal points for dissemination of technology and information, for market information, for training, for trade fairs, and for extension activity. USAID support would include facilities, salaries of staff, and programs. Cost recovery and cost sharing would be maximized. A USAID budget of \$200,000 annually for five years, for each of 5 centers is proposed.

The activity is considered to be a high priority element in the Haiti Private Sector Development Strategy. It is a vehicle to provide access to new technologies and information, and provides a focal point for the region. It fits well with an approach centered on specific decentralized economic clusters. It is an initiative that is a good fit for USAID. It makes use of USAID's focus on technology dissemination and decentralized training, and serves both rural populations and businesses that have been the focus of USAID programs.

2 Public-Private Partnership Program

The second major element of the proposed Haiti Private Sector Strategy consists of a few specific activities designed to foster a more active, continuous and productive policy dialogue between the private and the public sectors in Haiti, to develop consensus on the major economic and business priorities for the country and to establish functioning alliances at many levels, each designed to address specific high-priority issues. In contrast with much of Haitian history where small cliques within the private sector used preferential access to the government as a means of obtaining special treatment, the partnerships intended here must be broad-based, open and participative. In developing activities to implement the program, USAID and other donors must be on guard to avoid ever giving the appearance of favoring any one private sector group over another, in general, sponsorship of partnership activities should wherever possible be structured on a "project" basis, where a large number of interested private and public sector institutions can come together temporarily for a specific purpose, rather than on an "institutional" basis, where, as so often in the past, the hope has been to develop a single institution to fairly represent the numerous and diverse interests of the private sector as a whole. As has been learned, the latter mandate is extremely difficult to fulfill, and institutions selected by donors to try to play this role have often ended up being accused of partisanship and becoming an object of discord within the private sector, rather than unity.

As with the Private Investment and Employment Generation Program presented above, individual activities proposed for the Public-Private Partnership Program are grouped according to whether or not they have a particular sectoral focus, or are intended to function on an economy-wide basis.

a Assembly Sector

Port & Customs Administration for Secondary Cities

As has been discussed above, a good opportunity exists to begin developing industrial parks and other facilities for export assembly outside of Port-au-Prince, particularly in Cap-Haïtien and in Gonaïves, which already have docks suitable for small container vessels, and later in cities such as Les Cayes or St. Louis du Sud which may be able to improve or build appropriate infrastructure over the next few years.

In order for assembly in these locations to be competitive, port and customs administration services must be rapid, low-cost and efficient. Indeed, one of the major motivators that may induce assemblers to move out of the Port-au-Prince area is precisely the prospect of escaping the congestion and unacceptable administrative practices that characterize its port.

The process of developing efficient port and customs administrations at decentralized locations, which may include contracting of private management and/or privatization of port facilities, will require that procedures be developed in partnership with shipping lines and shippers, that electronic equipment and software be provided and that personnel be adequately trained. An activity to accomplish these objectives at three locations in the country is estimated to cost approximately \$750 thousand, distributed over a three-year period. Such support is considered to be a core part of any strategy aimed at achieving decentralized employment growth, and is a good fit for USAID programming on the basis of experience gained by the Agency in public administration and public sector training in other countries of the hemisphere.

Free Trade Zone Legislation

A proposed new Free Trade Zone Law exists in draft and was circulating for comment during the Private Sector team's visit to Haiti in early May, 1997. Clearly, such legislation is important to provide the basis for development of industrial parks and processing facilities at various locations in Haiti. Indeed, the draft law explicitly favors development of FTZs outside the Port-au-Prince area, which is clearly a positive thing. At least one variant of the draft legislation received by the team may, ironically, go too far in this direction as it contains language that would specifically deny FTZ status to any facilities located within the Port-au-Prince urban "agglomeration".

The only two existing industrial parks in Haiti, both currently occupied to only about 1/3 of capacity, are, of course, located in Port-au-Prince, and it would clearly be counterproductive not to allow these existing facilities to gain FTZ status and, hopefully, achieve full occupancy in a short period of time. While the intent of favoring decentralized development of FTZs is laudable, a prohibition of any further development of FTZs in Port-au-Prince may work against the practical need to create

employment for the many thousands of poor people who are already there. In our view, therefore, new legislation on this subject should establish parameters for developing new FTZs in Port-au-Prince according to sound urban spatial and transportation planning criteria, rather than simply prohibit any further development. Also, existing facilities need to be grand-fathered in, regardless of the planning considerations that may be brought to bear for new facilities, simply in the interest of utilizing scarce capital resources and recovering employment as quickly as can possibly be done.

A small budget of about \$50 thousand is proposed to facilitate the services of specialized planning advisors who can assist in analyzing these issues while the proposed new legislation remains in draft form. The activity should be carried out quickly, to make use of this window of opportunity. It is considered to be highly important in terms of its potential impact on employment generation, and is a good fit with the rest of the USAID/Haiti program.

Dialogue on Labor Issues in the Assembly Sector

As is well known, alleged "sweatshop" conditions in Haitian (and Honduran) assembly plants have recently come under direct attack from segments of the U.S. labor movement, and this is having a potentially very damaging impact on the ability of Haitian assemblers to retain existing clients, much less to attract new ones. Understanding the severity of the threat and the importance of maintaining acceptable international labor practices in their plants, the Assembly Industry of Haiti (IDAH), working through the Haitian Manufacturers' Association (ADIH) has recently promulgated a strong code of ethics and business conduct that specifically address the allegations that have been leveled against the industry, and require their membership to maintain strict compliance with labor laws governing hiring practices, minimum wage and benefits rights, the rights of workers to organize unions, and the maintenance of adequate health and safety standards.

Mainstream U.S. labor organizations such as the AFL-CIO, and their mainstream counterparts in Haiti, such as the Centrale Autonome des Travailleurs Haitiens (CATH), both of whom were interviewed by members of the Private Sector Strategy team, are obviously concerned to make sure that the alleged abuses of Haitian labor do not take place, but are also equally concerned about the possibly disastrous impact unfounded but highly-publicized attacks on the industry may have on employment, both currently and in the future.

It is important that any unresolved labor issues affecting the assembly sector in Haiti be addressed directly by the participants, with the involvement and possible assistance from mainstream American labor organizations such as the AFL-CIO's American Institute for Free Labor Development, AIFLD. Subsequently, it is equally important that both American and Haitian labor organizations participate in the task of communicating the importance of the assembly industry for job creation in Haiti, and in restoring its positive and competitive image internationally. Conversations with CATH representatives indicate that they are eager to participate in a dialogue on labor issues in particular, and on broader economic development issues and policy more generally. Their perception was that

both private enterprises and labor organizations have largely been excluded from participation in such dialogue by the government, and that this, rather than anti-business sentiment, was the principal source of their frustrations

A budget of \$50 thousand annually for two years is proposed to directly support dialogue on labor issues in the assembly sector in the short term. It is also proposed that labor representatives be encouraged to participate permanently in other forms of dialogue on broader economic development policy issues that, it is proposed, be supported through separate, economy-wide activities as will be described below. Addressing outstanding labor issues and communicating a more balanced image of the Haitian assembly industry internationally are of very high importance for employment maintenance and future generation in Haiti, and it is considered that the activity has a good fit with USAID mission programming

b Tourism

Adoption of an Investment Code For Tourism

This code will form part of a foreign investment promotion strategy. It must extend eligibility for incentives to investments in cruise ship installations (enclave ports) and cruise terminals, including reconditioning of existing facilities as well as new construction. A positive investment environment will promote ongoing capital investment in installations for expansion purposes and innovation, further increasing economic benefits. It must also extend incentives to hotel and resort developments

Assistance in the completion of an Investment Code for Tourism may require short-term advisory services over the next year estimated to cost no more than \$50 thousand. Timely support in the preparation of a suitable investment law for the sector will contribute significantly to the attainment of the employment potential of the sector, and is considered to be a good fit for USAID/Haiti

c Agribusiness

Pricing and Trade Policy Reforms

USAID should encourage the GOH to change its focus from production self-sufficiency towards an emphasis on competitive and modern production systems resulting in the improved availability of food for Haitians. This would involve assisting the GOH to move from price supports to income supports. Other countries facing similar problems, such as Mexico with its large ejido (small farmer) sector, have begun to make this move. While there are many administrative difficulties in implementing such a scheme in Haiti, it is nevertheless an important option that will have

implemented eventually. One major problem is the inability to actually get income support payments to the small farmers without encouraging corruption. USAID might begin by bringing in specialists who can demonstrate the practical losses incurred under the present system to the GOH (and perhaps to the donor community as well) and who could develop reasonable and feasible alternatives. A USAID budget of \$200,000 annually for two years is proposed, to finance the cost of studies, technical assistance and training.

The activity is considered to be a high priority element in the Haiti Private Sector Development Strategy. It will result reduce the costs of staples, while freeing farmers to explore and produce higher-value products. It is an initiative that is a good fit for USAID. USAID/Haiti and worldwide have extensive experience in working with governments and farmers to remove price distortions and develop sound price and trade policies.

Macroeconomic Policy Development & Implementation

It is obviously of critical importance for private sector development and employment creation that a sound macroeconomic policy environment be maintained, including the maintenance of domestic fiscal and external balance-of-payments balances, and the maintenance of stability in prices, wages and interest rates. Macroeconomic policy needs to be formulated in a dynamic context, however, and continually reassessed in the light of unfolding developments in the real economy, in particular output levels of the economy's various sectors, exports and employment. One issue that bears particularly close monitoring in terms of its impacts on business and the real economy, for example, is the foreign exchange rate.

On a purchasing-power parity basis keyed to the exchange rate prevailing in late 1994, it appears that the Gourde is gradually becoming overvalued in relation to the U.S. dollar, and hence in relation to other currencies that fluctuate with the U.S. dollar. Among other things, an overvalued Gourde would tend to raise the cost of Haitian labor in comparison with other countries competing for international assembly business, and, perhaps just as importantly, tends to lower the price of traded goods in relation to non-traded goods. The effects of an exchange rate distortion that lowers the price of traded-goods is especially apparent for the agricultural sector, where its inevitable impact is to make imported commodities like rice cheaper in relation to domestic output, and to make export commodities like coffee less valuable in domestic currency, and hence less profitable and attractive to farmers. An overvalued exchange rate, made sustainable in Haiti by the large inflows of foreign exchange provided by the international donor community, in the long run encourages imports and discourages local production both for domestic consumption and for export.

The other side of the coin is that a currency devaluation also clearly makes the domestic price of imported goods higher, can reduce the poor population's ability to afford basic necessities like rice, and can contribute to generating an inflationary spiral. Economists based in Haiti who follow the economy closely have observed that, so long as the supply response of the business sector is

repressed by other conditions, such as insecurity and lack of basic infrastructure, for example, the positive effects on the domestic output of traded goods that is usually to be expected from a devaluation of the local currency to a competitive level may not materialize, in such cases in which other factors constrain supply, the only effect of a devaluation may be on prices and real incomes

Currently, in Haiti, supply constraints are severe, and the advocates of exchange rate stability are probably correct. This is a situation that can be expected to change radically, however. Indeed one of the policy objectives of government and the donor community must be precisely to remove the constraints that currently stifle the ability of business and the private sector economy to respond to demand-side stimuli. There will come a time, therefore, when a more flexible exchange rate policy allowing for more rapid adjustment to a long-run competitive level will be required.

The proposed Private Sector Strategy for Haiti requires the support of macroeconomic policy-makers in the GOH, which in turn requires support and coordination from the donors' macro-policy advisors, including particularly USAID which has a large, in-house economics staff permanently in-country and hence in a particularly good condition to be monitoring developments in the business sector and the real economy that need to feed back into a flexible and dynamic macroeconomic policy framework. While no additional resources are needed for this purpose, interaction, coordination and mutual support between the USAID mission's private sector program and its macroeconomic policy staff are of vital importance to the success of both mission objectives.

Security & Law Enforcement

Again, there exists a strong complementarity between the proposed Private Sector Strategy and the mission's ongoing strategic objectives and programs focused on democracy, justice and human rights. As noted above, lack of security is among the most important negative factors restraining the private sector's ability to respond to opportunities through investment, job creation and growth, and the mission's Democracy and Governance activities, to the extent that they are successful in improving the law enforcement and judicial aspects of insecurity, will be making a direct contribution to making the attainment of private sector objectives possible.

The reinforcement between private sector development/economic growth and democracy and governance is mutual, of course, and runs both ways. To the extent that consensus on economic policy issues is generated, jobs are created and incomes expand, the bases for representative, participatory and democratic self-government will be directly strengthened. To the extent that Haitians begin to see a brighter future for their children, can buy a home, put aside some savings and think about their old age without fear, they become stakeholders in the system that provides a future, and participants in its protection.

It is not necessary to further belabor the point to make clear that ongoing security and law enforcement programs supported by the USAID mission are of vital importance to achieving employment and sustainable growth objectives. The two programs are strongly supportive of each other, and close coordination is desirable to ensure that their future evolution continues to be highly complementary. For example, future implementation of the mission's Administration of Justice program may wish to emphasize the administration of Commercial Law to a greater extent than now, and issues pertaining to the jurisdiction, rights and responsibilities of local governments in their relations with the national government and with third parties will also undoubtedly require analytical and technical assistance support.

No additional funding is considered to be necessary for the linkage of private sector security and law enforcement issues to the mission's ongoing Democracy and Governance Program. Like flexible and adaptive macroeconomic policy formulation, security and law enforcement are core activities for the attainment of employment creation objectives in Haiti, and are areas where the USAID mission has a special or unique capability in relation to other international donors.

Urban and Rural Land Tenure Studies and Technical Assistance

USAID is currently exploring possible initiatives by CLED (supported by Hernando de Soto's Institute for Liberty and Democracy, ILD, in Peru) to create a system of titles and other mechanisms that would increase the security of landowners, encourage investment and help them gain access to financial markets. Even simple land titling would facilitate the development of a market in agricultural land allowing the consolidation of existing micro-holdings. The nature of any work to be carried out under this activity will have to be determined in terms of the outputs from CLED-De Soto, and follow-on work that may be advisable.

Assuming some follow-on support, in terms of studies and implementation technical assistance, will be needed, a USAID budget of \$250,000 annually for two years is estimated.

The activity is considered to be a high priority element in the Haiti Private Sector Development Strategy. It is an opportunity for USAID, which can have enormous impact on investment and sustainable enterprise development.

Improved Cost Recovery and Accountability in Decentralized Service Delivery

USAID should encourage improved public service (utilities and other services) delivery that is planned and managed on a decentralized basis. This initiative has several sub-elements.

Considerable decentralization of public services is discussed and foreseen in Haiti. Mechanisms will include privatization, concessioning, alternative private provision of services, public-private partnerships and reorganization of government operations. GOH has a declared policy to decentralize government activity and services.

USAID should support such actions. While specific elements of decentralization will require specific institutional and feasibility analyses, USAID programs should support the decentralization, regional competition and private provision of services as desirable principles. USAID can facilitate the decentralization process, and help in providing local ability to provide public services (largely through contract). USAID can provide reorganization, training and technical assistance to localities to help local authorities carry out their new management, regulatory and oversight responsibilities. USAID can also provide assistance for conducting feasibility analysis and tenders.

USAID can also provide assistance to local government, business and other local stakeholders to develop effective planning, monitoring and facilitating relationships and mechanisms to support the decentralization process. USAID can also assist this process by providing technical assistance and training to GOH.

The performance of providers of public infrastructure/services should be available for public scrutiny and comment. Decentralized service should be responsive to the needs of the communities, business and the population in general. Local stakeholders should thus have voice in the planning of service provision, in advocating improved service, and in resource allocation.

It is suggested that local service providers -- public or private -- open their actions to reasonable public scrutiny and advocacy. Public services boards composed of a variety of local stakeholders, should provide oversight, planning input and ombudsman functions vis-a-vis service providers.

Performance measures need to be established as part of the regulatory or competitive environment, and providers held to the stated standards.

Services cannot continue to be regarded as a free good, and user charges need to be properly levied and collected to contribute to their sustainable financing. Innovative methods should be developed to apply the charges. The ability of service provider to levy and collect charges should be reinforced, and payment by users should be enforced. Private provision of services should contribute to improved cost recovery -- providers will have to have legal authority to cut or restrict service to delinquents. A USAID budget of \$400,000 annually for three years is proposed.

The activity is considered to be a medium priority element in the Haiti Private Sector Development Strategy. It will result in improved and more responsive service provision, and greater cooperation and dialogue amongst all stakeholders. The initiative is an opportunity for USAID that will

encourage investment and enterprise, and that will reinforce competitiveness and decentralized approaches to economic growth

Improve Local Tax Collection

Decentralized governance, provision of services, and construction of new infrastructure requires that adequate financial resources are available to the municipalities. USAID can help the municipalities, particularly priority locations, to implement broad-based, equitable and properly implemented tax collection. The current tax base is very limited, and the identifiable base is subject to undue pressure vis-a-vis other residents and businesses.

In Cap-Haïtien, the business community has reportedly contributed HD20,000 to the municipality to assist in developing the tax rolls.

USAID can also assist in improving the promptness and effectiveness of revenue transfers to the municipalities from the central government.

A USAID budget of \$500,000 annually for three years is proposed, to support the cost of tax collection and accounting personnel, computers and other physical items, technical assistance and training. The activity is considered to be a medium priority element in the Haiti Private Sector Development Strategy. It is a good fit for USAID. USAID has carried out several municipal finance programs worldwide, and the program supports USAID's emphasis on decentralization and democratization, in addition helping to provide the basic services needed for business growth.

Public Interest Regulation of Privately-Managed Utilities

While it is certainly true that involvement of the private sector in the management and ownership of utilities like power plants, telecommunications systems, ports and airports is in the long-term best interest of the Haitian public because of the efficiency gains that can almost always be had from transferring out of the public sector, it is also true that clear, effective and well-enforced rules be in place to ensure that private owner/operators hold up to their contractual obligations and that the public interest is served. Long-term contracts will usually stipulate services pricing and/or a pre-agreed formula basis for periodically adjusting pricing. Private utility concessionaires are also typically contractually-bound to certain performance and quality of service standards that must be met if the benefits of private management are to be realized. Often, the concessionaire will commit to expand capacity at a certain rate, to bring service into certain specified areas or to certain classes of consumers by a certain date, and to maintain acceptable standards of reliability and service quality.

Much of the resistance to transferring the operation of utilities to private hands often results from lack of familiarity with the contractual mechanisms and remedies available to governments to ensure that public interest objectives are met through the private service contract. Similarly, governments may fear that they will be unable to enforce performance requirements, perhaps especially when the concessionaire is a large multinational entity.

Privatization of existing SOEs and the opening up of all public service sectors to competition from private providers can be facilitated and advanced by providing advisory and technical assistance to the GOH in developing contractual approaches to regulation of privately-managed entities, and establishing the mechanisms -- including the enlistment of international guarantors if required -- to facilitate enforcement of performance commitments by such entities. This is a large and complex area of international law and regulatory practice, but one in which great strides have been taken in recent years and to which Haitian public officials in the executive, legislative and judicial branches need to be exposed in order to foster greater understanding of the alternatives that are available for safeguarding the public interest that do not require direct control of operating entities.

A budget of \$250 thousand annually for two years is proposed to permit the mobilization of specialized legal and regulatory advisors to work with the GOH, and with private sector parties interested in undertaking investments in public services companies, in developing legally-recognized prototype contracts that can be used to support their accelerated development. This activity is in the core of an employment generation strategy that seeks to be sustainable in the long-run. It is also especially well-suited for implementation by USAID, given the large involvement of U.S. multinationals in the provision of public services on a private basis around the world and the large amount of U.S. legal and regulatory experience that has been developed as a consequence.

Public-Private Cooperation in Local Land Use Management

USAID can assist local government, business and other stakeholders in joint planning for effective land use management. Coordinated and collaborative planning is needed for a number of uses that are important for business and investment, for example public services, tourism development, location of industrial zones. USAID support could include technical assistance for training and facilitation, funding for specific research and possibly feasibility studies. Particular focus can be given to pilot efforts in selected priority clusters.

A USAID budget of \$300,000 annually for two years is proposed. The activity is considered to be a medium priority element in the Haiti Private Sector Development Strategy. It is an opportunity for USAID. The program reinforces USAID's emphasis on decentralization and democratization, in addition helping to provide the basic services needed for business growth.

Tax & Regulatory Reforms & Enforcement to Strengthen the Formal Sector

Ill-conceived tax and regulatory structures and procedures, coupled with uneven enforcement of the tax laws and regulations that are in place, provide powerful incentives for Haitian firms to operate outside the law, in the so-called "informal" sector. Many such firms engage in contraband on a large-scale and constitute a genuine competitive threat to the survival of formal sector firms seeking to compete in the same markets, but with the added costs of having to comply with tax and regulatory requirements. Often, the government itself defeats its own purposes by establishing tax rates that are so high, or regulatory requirements that are so costly and onerous, that companies are encouraged to go underground, falling off the tax rolls entirely in the process. Injudicious taxation and regulation, coupled with lax enforcement, also encourages corruption among government officials, and therefore may have long-term consequences that go way beyond the current revenue collections that may be being lost. Lack of uniformity in enforcement, even when no corruption is involved, gives the appearance of partiality and fosters disrespect and evasion.

Haitian public revenue systems, whether the sales tax of wharfage fees assessed at the port of Port-au-Prince, suffer from the classic dilemma of how to raise sufficient revenues from an overly narrow base without having to impose overly high rates on the few who pay. The fact may be that it is impossible to build revenues to the extent needed without concentrating the revenue effort first on broadening the base. Broadening the base, in turn, may mean improving compliance through more rigorous enforcement, on the one hand, and encouraging the growth of business volume, on the other. Revenue measures, such as high rates, that work against both ease of enforcement and the growth of business volume may in fact turn out to be revenue-counterproductive in the long-run.

We are not in a position to positively assert that this is the case in Haiti today, but strongly suspect that it is. We therefore recommend that resources be expended to determine the extent to which the revenue effort should be redirected in ways such as have been suggested, with the aim of rapidly expanding the base of licit economic activity on which lower tax rates could be more uniformly applied. Funding at the level of \$250 thousand annually for two years is proposed to support this effort, including the technical assistance that may be required to implement changes in assessment and enforcement practices that are found to be desirable. Implementation of this activity will require close coordination with other donors -- since public sector revenue performance and external financing strategies are central to the macroeconomic conditionality that is built into fundamental documents such as the IMF Extended Structural Adjustment Facility. Support to the GOH in carrying out the necessary studies and developing policy alternatives that have more of a supply-side perspective is considered to be of medium-priority in terms of employment generation, and a good opportunity for USAID to bolster its private sector program if similar work is not already being done by one of the other donor organizations.

Policy Mentoring

Advice from donors is viewed as reflecting donor interests and is widely criticized, if not vilified, by those seeking to make short term political gain. Therefore, we recommend facilitating contact, exchange and technical assistance with strong reform proponents from non-donor countries who enjoy high respect in Haiti. The Government led by Nelson Mandela in South Africa would be a good example. The ANC made a radical transformation in economic strategy and private sector policy and now recognizes the need to promote high levels of private sector investment. Another such example would be Uganda where a previously socialist leader has now implemented some of the boldest private enterprise reforms in Africa. There are also by some relevant examples from French speaking Africa and the English speaking Caribbean. However, the Dominican Republic is not a very good model for private sector policy despite its track record with free trade zones and tourism. Visits by a critical mass of public sector leaders to these countries, or vice-versa, could help affect governmental strategy.

A USAID budget of \$300,000 annually for two years is proposed. This would primarily cover the costs of visits and interchanges amongst leaders, and 1 to 2 conferences.

The activity is considered to be part of the core of the Haiti Private Sector Development Strategy. It is an activity for which USAID has special qualifications, having assisted policy dialogue throughout the world. Development of policy and vision are central to the changes needed to encourage broad-based and dynamic business activity in Haiti.

National Futures Scenario Planning

Another strategy, also inspired by the South African example, would be to engage in a Scenario Planning Exercise. In South Africa this exercise involved over 40,000 in small groups from all classes, ethnic groups and regions. It was a powerful tool that helped generate the consensus leading to the historic compromise whereby the National Party gave up its monopoly on political power and the ANC gave up its socialist and statist economic platform. The scenarios for South Africa's future were presented to labor unions, church groups, chambers of commerce, various political parties, regional councils, and other groups and resulted in motivating the dialogue resulting in greater consensus in what was a highly polarized society. Such an exercise, or an equivalent process, is needed in Haiti. The projections of unemployment, even given current economic growth rates, are sobering.

Depending on sponsorship locally, a USAID budget of about \$1.5 million annually over a two-year period would be needed for the expertise, technical studies, and fostering of up to 40,000 people participating in thousands of small groups.

The Scenario Planning activity is considered to be a high priority element in the Haiti Private Sector Development Strategy. It is an activity for which USAID has special qualification for implementation. USAID has led policy dialogue in numerous countries, and works with a wide breadth of stakeholders in Haiti. The program also reinforces USAID's emphasis on democratization.

Communications, Civic Education and Participation

A communications strategy should be part of the effort to educate the broader populace and to build support for the role of business, sound economic policies and reforms. If the GOH is serious about the economic reforms to which it has agreed, it has been unable to present its case to the broader populace and more often seems to be on the defensive. There is a lot of misinformation in the marketplace of ideas in Haiti. Whether this stems from ignorance or is motivated by politics is not the main issue. The important point is to begin getting the appropriate messages to the broader populace to engender grassroots support for policies which can result in sustainable economic growth and job creation. The communications strategy should dovetail with other private sector development initiatives. Components of this strategy could include the institutionalization of a polling capability to measure public knowledge and sentiment. It might also include private sector surveys done on a regular basis to identify the constraints to growth. The development of informational materials through radio, newspapers and community groups (to reach the illiterate) would be necessary.

A USAID budget of \$600,000 annually for three years is proposed. The activity is considered to be part of the core of the Haiti Private Sector Development Strategy. It is an activity for which USAID has special qualifications, having worked extensively in related areas in Haiti and worldwide. The activity reinforces democratization activities and civic participation by encouraging dialogue and transparency, and by delivering a new message to the populace.

Agents of Change and Promoters of Dialogue

Support for NGOs, think tanks, research groups, business associations and even local universities can be part of the agenda to develop within Haiti the capacity for analyzing constraints to private sector development and formulating responses. Groups such as CLED are already being supported. Nevertheless, this support could be broadened and deepened and the exposure of these ideas in the press could be further developed.

The local universities should also be included in this effort, but should not dominate it. There are some sound reasons for this. In many countries, USAID has for many years abandoned support to public universities if not private universities. National public universities became, over the years, sources of poor economic education and of ideas and theories hostile to private sector development.

The precipitous decline of socialism around the world has reduced the legitimacy of these theories so ideological opposition to sound economic strategy is less an issue than before

By providing very small research or consulting contracts to professors in the economics, political science and management faculties of the major universities, USAID can at very modest cost, influence the research agenda by getting these professors to address the right questions--e g the obstacles to business growth, lessons from the East Asian experience, relevance of the South African model for Haiti, strategies to address unemployment over the next 10 years, etc

The importance of including such people in this effort is that they will be the main influence on the next generation of private and public sector leaders in Haiti. Professors tend to teach what they research and communicate to students their own findings. This is one important vehicle through which opinions are formed and leadership developed, it should not be neglected because it is a non-traditional area of activity for USAID. However, because many of these professors may still only have a limited perspective and exposure to sound policies, this should not be the dominant element in this strategy. The important thing is to get better analysis done, ensure that such analysis assists the public sector leadership, and that it begins to affect the perceptions of the public at large

A USAID budget of \$100,000 annually for five years is proposed, to provide support to various organizations and to provide very small research grants to university professors in the political science, economics and business faculties to focus on economic growth and private sector development issues and curriculum

The activity is considered to be a medium priority element in the Haiti Private Sector Development Strategy. It is an initiative that is a good fit for USAID, which is familiar with the policy issues and which has the mechanisms to provide small grants and support

Parliamentary Policy Research and Analysis Support

Another strategy is to provide support to the legislative assembly in ways that assist it to exercise its role and to support sound, sustainable, enterprise-oriented growth strategies. The lack of notable success of projects designed to create the equivalent of the U S Congressional Research Service should not impose an automatic veto on this option. Such an initiative could provide USAID with an important point of contact and a window on the political situation. It could also help to expose these representatives, many of whom are very young and have not had first hand experience of economic strategies in other countries, to the lessons learned in recent years and their relevance to Haiti's current situation

However, such support should not be a carte blanche economic support to a research arm of the legislative assembly. Rather it should be in the form of studies, exchanges, or technical assistance

on specific issues relevant to private sector development and sustainable growth in productive employment

The USAID budget would be about \$300,000 annually for five years. This would cover costs of technical assistance, studies and exchanges. The activity is considered to be a medium priority element in the Haiti Private Sector Development Strategy. It represents an opportunity to influence parliamentary debate and decision-making, opening such proceedings to issues that can be supportive of business development and a market-based environment.

3 Human Resources and Institutional Strengthening Program

a Assembly

Organize On-the-Job Training

As was noted earlier, the assembly sector in Haiti has suffered major losses in the availability of qualified mechanics, technicians and middle-level management personnel, many of whom have emigrated to the United States or found employment in other countries having a strong assembly sector, and without whom it will be difficult for Haiti to recover its former competitiveness. Even in an intrinsically labor-intensive activity like assembly, some high-quality production processes require a degree of automation, which usually means electronic controls and the need for qualified service technicians, in addition to a reliable and high-quality power supply that does not destroy sensitive components.

Ultimately, the assembly industry itself will need to provide for its own specialized manpower needs. At present, it is in a highly debilitated state, however, and external support would be justified in terms of helping the industry to assess its manpower requirements, design affordable training programs that can be provided to workers largely on-the-job, and organize the implementation of such training, perhaps on a collaborative basis through the IDAH, the assembly industry wing of the Haitian Manufacturers' Association. A cooperative agreement with IDAH to organize on-the-job training for the assembly industry may be a useful complement to other USAID efforts to help the industry re-establish itself. A budget of \$100 thousand annually for three years would probably be about right for accomplishing this purpose.

b Tourism

Creation of a Tourism Database

To fill the void of information on tourism related industries, a tourism statistics expert is required to set up a system within Secretairerie d'Etat au Tourisme to systematically compile and publish measures of relevant activities such as international & domestic air passenger traffic, cruise traffic, hotel occupancy and average room rate, car rental usage, foreign visitor volumes, visitor volumes at the Citadelle, arts & crafts sales, museum visitation, etc. In addition, the expert is to establish a regular visitors survey by Secretairerie d'Etat au Tourisme or the Tourism Chamber, to systematically collect sorely needed data on market behavior in Haiti (expenditures, activities, geographic movements, satisfaction levels, etc. of visitors). Creation and distribution of a newsletter tracking these industries is also to be undertaken. The desired result is the generation and dissemination of reliable market data for use by industry leaders (in Haiti and abroad) to make business decisions. This proposal is contained in the tourism master plan, and a total budget for \$150,000 is indicated.

Training for Tourism

For tourism to expand, well trained personnel for hotel and restaurant operation are essential. There already exists a national institute for hotelry and tourism, the existing Ecole Nationale Hoteliere, but because of its poor performance the Universite Quisqueya, a private institution of higher learning, is taking over much of its program. The intent is for it to operate more efficiently than the Ecole. Some French assistance is planned for this effort.

An evaluation of the means and curriculum of Quisqueya is required to determine need for any additional assistance that USAID (or another donor) could provide. Several issues are worth examining, including the following points:

- It will need a US or Canadian partner school to assist with course content, student exchange programs and procurement of additional aid.
- It must provide vocational level training in basic skills such as English language, guest relations, cashiering, bookkeeping, hygiene, and computer word processing and other basic office skills.
- It must develop a training capability in Cap Haitien and provincial areas through use of a mobile training unit that can provide basic courses in existing hotels and restaurants.

- It must establish a working relationship with the industries that it serves, the hotel and restaurant industries, through their trade associations and provide refresher courses on site (in hotels)
- It must offer a special short course for guest-house/auberge operation in Port-au-Prince and at Cap Haitien , and at other points as travel into interior areas grows

In the very short-run, the USAID mission can arrange a limited (3 week) mission of an expert in hotel and restaurant training to determine the adequacy of the Quisqueya program and the need for any US involvement. This expert can also examine the need for a tour guide component for this program through which ISPAN can certify English and French speaking guides with a grounding in history for work at the Citadelle and other historic locations. Depending on the recommendations of this expert, it is estimated that an annual allocation of \$100 thousand over a three-year period would be sufficient to help the industry identify and organize its own tourism personnel training requirements.

Tourism Public Education & Readiness Program

To complement specific training efforts directed at stakeholders and service providers expected to actively participate in the tourism industry, as described above, it is considered that a more general, public education effort should be undertaken to inform the average citizen of the importance and potential benefits of tourism for their own economic well-being, and to sensitize the population to ways in which the average citizen can contribute to ensuring the safety and enjoyment of foreigners' visits to Haiti. This activity would form part of a broader public education and communications program on civic issues that was already described above. \$100 thousand annually maintained over a three-year period would provide ample resources to develop programming material specific to tourism and stage special events in sites frequented by tourists to involve the local population in supporting the development of this potentially high-valued industry. The activity can be of high importance in realizing the job generation potential of the tourism industry, and, through its links to the broader public education and communications activities outlined above, would have a good fit with other USAID programming.

c Agribusiness

Applied Agricultural Research and Extension

USAID can extend its successful experience in generating mango and coffee production and export by expanding on these programs and by multiplying the number of crops being promulgated.

This initiative foresees a program of applied agricultural research focused on developing higher value agricultural production and on-farm processing for domestic consumption, for processing and for export. Active extension will be provided to disseminate the agricultural practices and technologies, and knowledge of market requirements, prices, etc. Private research and private provision of extension services (by agricultural specialists, middlemen, buyers and processors) will be encouraged.

The initiative will fund labor and physical costs of agricultural research and extension, including training and technical assistance. Cost sharing arrangements should be encouraged. The USAID budget would be about \$1.0 million annually for five years.

The activity is considered to be a core part of the Haiti Private Sector Development Strategy. It links agricultural production with markets for processing, domestic consumption and exports, and quickly results in increased incomes and primary and secondary jobs generation. Given USAID/Haiti's past emphasis in agricultural extension and production, and USAID's worldwide experience in agricultural extension and research and market town development, this activity is one for which USAID has unique or special qualifications. It readily fits with a decentralized economic growth strategy that focuses on decentralized economic clusters.

d Handicrafts

Arts and Crafts Improvement Program

USAID can assist the handicrafts industry by facilitating access to new artistic and production techniques and materials, by facilitating access to market information (usage, quality requirements, packaging methods, etc.), and by providing short-term, training and technical assistance. The object is to closely link artists, artisans and producers with markets, customers and middlemen.

The USAID budget would be about \$350,000 annually for two years. The activity is considered to be a medium priority element in the Haiti Private Sector Development Strategy. It represents an opportunity for USAID that will result in increased incomes and many new jobs, but is not an area in which USAID has significant prior experience. USAID has the mechanisms to provide the specialized expertise that will be required for this initiative.

Handicrafts Training and Design Centers

To encourage design and production leadership and continued growth, it is proposed that assistance be provided to 3 to 4 training and design centers in Haiti. The centers could be located near tourism centers as well as in other production centers.

These centers would bring together capable artisans, with selection and scholarships perhaps being offered on a competitive basis. The centers would provide training and exposure to techniques and markets, and would also highlight top-caliber work being done in Haiti. The centers would also provide training in business skills, and would bring together Haiti's artistic community with business and other sectors, to facilitate incorporation of Haitian art and design into products and packaging. The centers would also serve as a nucleus around which a broader handicrafts community could locate, and would be tourist attractions in themselves.

Interesting models are available from Ireland, Kenya, Zimbabwe and several other countries. The USAID budget would be about \$200,000 annually for five years.

The activity is considered to be a medium priority element in the Haiti Private Sector Development Strategy. It represents an opportunity for USAID that will result in increased incomes and many new jobs, but is not an area in which USAID has significant prior experience. USAID has the mechanisms to provide the specialized expertise that will be required for this initiative.

Handicrafts Export Marketing Association Support

Building on the lessons learned and the successes of the specialty coffee export marketing program organized with USAID support to help over 20,000 small coffee farmers working through 22 coffee marketing associations assimilate technology and gain access to higher-priced niche markets, it is proposed that USAID assist in the development of specialized export marketing associations for artisans wishing to gain more direct access to export markets in the Caribbean and beyond. The export marketing associations would organize members' participation in key gift, housewares and tourism industry shows that are held several times a year in different parts of the world, assist members in the procurement of materials, especially imported materials, perhaps serve as a vehicle for organizing working capital credit for members, organize the contracting of transportation, storage and distributions services for members to allow them to serve key markets at reduced cost, and otherwise assist in raising the Haitian handicrafts industry's international profile and generating the economies-of-scale for that industry that can help it to become a strong regional presence.

The typical association would be regionally-based, and would have between 25 to 50 members. It is likely that 10 to 20 individual associations would ultimately be set up to serve members in different parts of the country and perhaps to specialize in different product lines. Some form of coordination between the associations would clearly be desirable, and initially at least, this can be provided through the Export and Investment Promotion program, which, as noted earlier would be organized along sectoral lines and place significant emphasis on the promotion of traditional and "semi-traditional" handicrafts exports from the beginning.

Pending further refinement of the concept and activity design, it is estimated that funding on the order of \$250 thousand annually for four years would be adequate to support the organization and initial operations of the first handicrafts export marketing associations to operate in Haiti. The activity can make a very high contribution to job creation, and has a very good fit with USAID programming on the basis of its similarities to the many other small-business support and export marketing programs supported by the Agency in Haiti and elsewhere.

e Construction

Building Trades Skills Training

USAID could assist in establishing programs to provide the construction industry with the technical and managerial skills that will be needed. A "training-of-trainers" component should be included. This program would alleviate skills shortages experienced and projected for this one dynamic sector of the Haitian economy.

While the lack of available skilled personnel for the construction industry can be seen in relation to the relatively high demand, it also reflects the lack of investment in such training in Haiti. The private sector -- the private construction firms -- would normally be investing in training and clamoring for the education system to produce trained personnel. The private sector, however, has reportedly been slow to invest in these technical skills, while the public education system is not organized nor financially capable to do so.

The lack of training by private companies can be partially explained by the problems and uncertainties that construction firms working on public infrastructure projects face. Uncertain flow of contracts, and delays with and uncertain payments, make investment in skills development a relatively risky expense. Also, capable trainers are reported to be expensive and in short supply.

Any such training program should be market-based, and should involve substantial, if not total, cost recovery from the industry.

The program should emphasize on-the-job approaches to training, and should probably be located on contractors' work sites and premises. Contractors should also be encouraged to engage interns and apprentices.

If contractors are reluctant to pay for the training "up-front", the costs of the program could be "advanced" to participating contractors, and recouped through payments to contractors from future contracts. The costs would be guaranteed by USAID in the interim.

In addition to helping to organize the program, USAID could assist in mobilizing appropriate training specialists, preferably Haitians. The program would ideally be managed by an industry association, or by a Haitian training organization.

A USAID budget of \$100,000 annually for two years is proposed, to provide trainers, training facilities and supplies, and to support the management of the program.

The activity is considered to be a medium priority element in the Haiti Private Sector Development Strategy. It is an initiative that represents an opportunity for USAID – to strengthen a dynamic sector of the Haitian economy that has the ability to generate large numbers of primary and secondary jobs.

f Economy-Wide Activities

Business Associations Support

Business associations have potential for offering important services and representation to the business community. Financing of such activities is always a problem, and in situations of perpetual "crisis", it is difficult for businesses to devote time and other resources to forward-looking programs.

Several Haitian business associations have begun to play active, representative roles within Haitian business, providing important services to their membership. The capabilities of the industry associations are, in many other cases, mediocre. Other industry associations are doing well and have strong potential. Similarly, some regional associations have shown excellent promise, others have done little, and yet other regions have no formal business association.

USAID and other donors have been actively working with and through various associations. An initiative focused on the activities of business associations is important. This initiative should have two points of focus: (i) Facilitating the individual services and activities being undertaken by the associations (lobbying, specific training programs, promotion, etc.), and (ii) providing training to the associations (and members) themselves on the activity and operation of associations. Business associations are a vehicle for project implementation. USAID should focus implementation through associations which have clear member support and involvement, and which show dynamism, direction and capability.

USAID should encourage the broadening and deepening of association membership and representation.

Access to markets and technology can be facilitated through business associations, which through the Internet and other means can be pioneers in facilitating access of their members to information on markets, networks of potential partners, and communication channels to suppliers and buyers. Support to business associations would include developing practical services to members on a fee basis which would contribute to their long term financial viability.

An initiative to assist business associations would also assist these associations in contributing to policy dialogue. Another facet would be helping such organizations achieve sound governance as well as a long-term sustainable financial base through services, annual conferences and fees.

A fund should be available to business associations to support efforts directed towards market-based private sector development. These can include public education, research, advocacy, member training, public-private dialogue and joint public-private planning (and implementation) and many other initiatives. Associations should be required to compete for this support, demonstrating a coherent set of objectives and implementation plan, and a responsible and efficient use of funds. A specific fund and/or set of criteria could be directed to joint public-private initiatives in decentralized economic clusters.

The difficulties with any such program is to avoid underwriting unnecessary overheads, to avoid subsidizing associations in lieu of member participation, and to avoid unneeded favoring of specific associations versus others. On the other hand, USAID and other donors will want to encourage fruitful collaboration and initiatives.

To the extent possible, then, assistance to the associations should be based on specific programs and demonstrated effectiveness. Associations should compete for grants or other assistance.

Technical assistance, facilitation and exposure to U.S. business associations and their operating methods would also be useful. Special focus (funding, technical resources) should be provided to encourage decentralized associations and their activities.

A USAID budget of \$400,000 annually for five years is proposed, to provide communications and information access, facilities and supplies, workshops and conferences, to fund studies, to cover the costs of exchanges, and to provide technical assistance and training.

The activity is considered to be a core part of the Haiti Private Sector Development Strategy. It is an initiative for which USAID has unique and special qualifications, given USAID/Haiti's previous and ongoing work with business associations, and USAID's worldwide experience in this area.

Local Government Training

Several initiatives are already underway or planned, directed towards improved governance at the local level. The municipalities also lack trained or experienced personnel. Areas such as planning (especially within the context of public-private partnering), tax collection, accounting and service delivery are priority areas which deeply impact the business environment.

Programs directed towards providing these needed skills and experience are vital. They should include technical assistance and on-the-job training, particularly using successful developing country models. Short-term overseas training for key municipal employees should be a component. Formal workshops and courses may also be useful.

The private sector should be given the opportunity to participate in some of these programs, and to provide workshops and other training opportunities to the municipal employees.

To support programs directed to developing pilot decentralized economic clusters, selected cities should be the focus of more comprehensive training programs. A USAID budget of \$400,000 annually for five years is proposed.

The activity is considered to be a high priority element of the Haiti Private Sector Development Strategy. It is an initiative that is a good fit with USAID/Haiti. It will reinforce democratization and governance, and would fit well with USAID/Haiti's work in training and governance. USAID worldwide has extensive experience in similar training programs.

Peace Corps Programs

The Peace Corps may be able to offer useful services for private sector development in decentralized economic clusters. Peace Corps volunteers could provide technical or business skills, and training capabilities, to small businesses and to local government. In rural areas, Peace Corps volunteers can be involved in facilitating business linkages between rural suppliers and urban buyers/processors.

USAID could work with the Peace Corps to develop program elements that would support the Private Sector Development Strategy. No additional USAID budget would be required for this initiative.

The activity is considered to be a high priority element of the Haiti Private Sector Development Strategy. It is a good fit with USAID's program. The Peace Corps is unique in its ability to provide very decentralized assistance, and this fits well with USAID's own focus on decentralization, democratization and skills development.

Public Education

The Haitian education system is severely degraded. Children lack access to public education and consequently, 70% of education is privately purchased. Universities are of poor quality and lack resources. Schools at all levels are criticized for not emphasizing skills and knowledge that will be useful in the employment market.

The school system will be the focus of considerable multilateral and bilateral support over the next several years.

Emphasis should be placed in developing and implementing curricula which provide students with marketable, applicable skills and attitudes (e.g. develop a belief and trust in the social contract and in civic responsibility, and develop an understanding the roles of business and government). Businesses and business associations can play a part in providing advice to educators in developing the curricula. Businesses can also provide opportunities for students to see how businesses function, through field trips and internships.

Similar initiatives are important for vocational and university education -- students must be given the opportunity to develop skills and disciplines that will be useful to business. Business should work with educators to develop curricula and special programs. As discussed, the faculty should be brought into closer interaction with the business community, through funding of targeted research and other programs. The faculty, which too often does not understand private enterprise or, worse, may have attitudes contradictory to the needs of the business community, should be provided with opportunities to develop more complementary knowledge and understanding.

The idea of a competitive program for university students to participate in enterprise development centers also has merit.

A USAID budget of \$400,000 annually for five years is proposed, primarily to provide teacher training and technical assistance, to assist in curriculum development, and to facilitate linkages with the business community.

The activity is considered to be a high priority element of the Haiti Private Sector Development Strategy. It is a good fit with USAID's program. It will greatly broaden and strengthen understanding of and support for market-based enterprise, and will generate a graduating population that is employable and possessing skills that are marketable to private business.

C Next Steps in Strategy Development and Implementation

In this document we have

- articulated and analytically justified a set of five priority strategic objectives for private sector development in Haiti,
- identified and described the principal economy-wide and specific sectoral constraints that are currently impeding the development of private enterprises and efficient markets,
- analyzed the current and prospective competitiveness of Haitian firms operating in the principal sectors of the Haitian economy, and identified major opportunities for investment, growth and job creation within these sectors,
- provided a framework for achieving a greater degree of geographic decentralization in the future growth of the Haitian economy, to bring jobs to where the people are, minimize pressure on existing urban and transportation infrastructure systems, and to support the creation of a more open, equitable and participatory economy,
- summarized information on USAID and other donor programs, and USAID comparative advantages, that provides a context for decision-making on future USAID programming, and
- identified, organized, described and, in a preliminary fashion budgeted 66 individual interventions or activities that are considered to have a high potential effectiveness in overcoming the constraints and capitalizing on the opportunities that were earlier identified at the economy-wide and sectoral levels

The proposed private sector strategy for Haiti consists in implementing all these activities, each of which has been identified as being an effective instrument for overcoming the key constraints that are holding back Haitian businesses and the Haitian economy, and a good way to assist those businesses and that economy to take advantage of the many opportunities that are open to them

The job is clearly too large for USAID to take on alone, as much in the magnitude of financial resources, as in the specific skills and in the managerial capacity that will be required. Implementing the proposed private sector strategy, if it is accepted, will require the collaboration and cooperation of all the major donor organizations working in Haiti, each bringing to the task its particular resources and skills

The question then becomes, "What elements of the proposed strategy should USAID attempt to implement itself, and what elements should preferably be implemented by other donor organizations?" In developing an answer to this final, large question, a number of other, prior questions will need to be answered first. They will need to be answered by USAID, not by the Private Sector Strategy team.

What an outside team assisting the mission on strategy development can and should do, and what we attempt to do in the following sections, is first to pose the remaining questions that need to be answered, then indicate what some of the choices might be in answering them, describe what alternative programs might look like if one alternative is chosen over another, and indicate the criteria that the USAID mission may wish to apply in evaluating one choice against another.

What Role Should USAID Play Among the Donors on Private Sector Issues?

The first question the mission must answer for itself is what role it wishes to play among the donors and in its relationship with the Government of Haiti. Does the mission accept our analysis that indicates that there is currently an unmet need for greater consideration of private sector needs in the development and coordination of donor programming, and, if so, does it agree that it is best-situated among the donors to take on a private sector leadership, coordination and support role? How strongly is USAID prepared to advocate for the needs of the private sector in its interactions with the GOH?

Alternatively, the mission may judge that existing information systems and interagency coordination mechanisms to ensure consideration of private sector needs in program development are functioning adequately or can be improved sufficiently without USAID having to take on a larger responsibility in this respect. If so, a USAID strategy based more on specialization on specific elements of the broader private sector strategy and on collaboration with the other donors as a only one of several members of a team may be the better way to go.

Acceptance of the broader coordination role could but would not necessarily mean an increase in funding for the economic growth program relative to recent-year funding levels, which have been running at about \$18.5 million annually, including agricultural productivity components of the USAID/Haiti mission program. Unless overall levels of funding for the Haiti mission were raised commensurately, an increase in funding to generate more rapid economic growth and job creation might well mean some reduction in other mission programs perhaps involving family planning and humanitarian assistance activities, for example.

Acceptance of a broader coordination role also implies taking on a larger management responsibility for the economic growth "office" within USAID. While, as stated earlier, providing leadership, coordination and support services to all the donors in the private sector development area does not

mean that USAID needs to implement the entire strategy itself, it does mean that USAID management would need to be prepared to make a larger continuing investment in monitoring the condition of enterprises and market institutions in all sectors, in information-gathering and reporting, as well as in conducting frequent analyses that would enable it to devise solutions to the problems that arise, providing a continuous feedback loop into the implementation of its own and other donor-supported activities

Choosing to participate in the implementation of the private sector strategy through specializing in a particular area, on the other hand, would generate significant economies for the mission at the management level. Some specialization will be required -- as regards the conformation of its own portfolio of projects -- even if USAID decides to accept the coordination role described above. If it rejects that role, however, much of the economy-wide monitoring, information gathering and analysis described above could be dispensed with, in the hope that someone else would do the job or that everybody working separately can do an adequate job

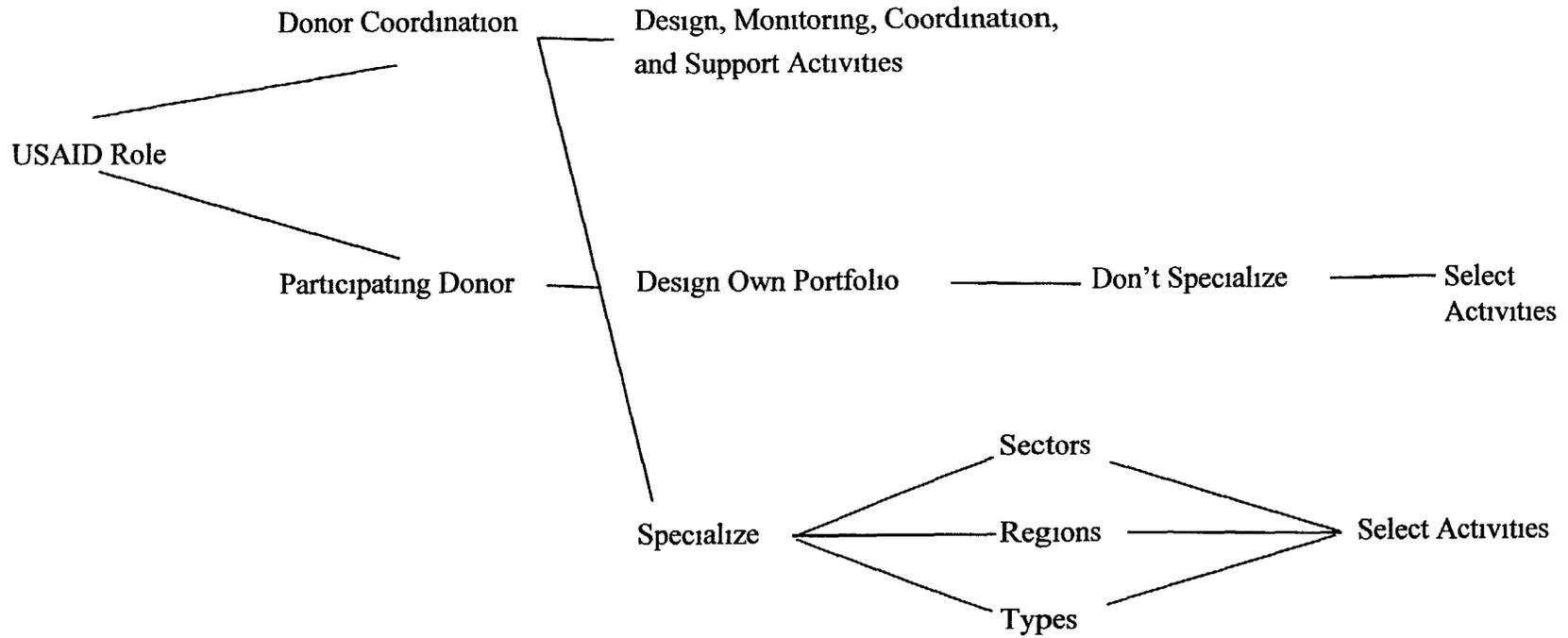
Our judgment is that the need for more deliberate and attentive monitoring of private sector conditions and needs is real, as is the need for improved analysis of the impacts of donor programming on the business community, and for improved coordination of programming and implementation among the donors, based on continuous monitoring and analysis. We therefore would urge USAID/Haiti to take on this responsibility. The choice is a high-level policy choice though, and necessarily must ultimately be made, on the basis of many considerations that are beyond our ken, by the USAID mission, the U.S. embassy, AID-Washington, the Department of State, and other agencies of the Clinton Administration together, of course also in consultation with other donors

What Activities Should USAID Implement Directly?

The answer to this question, which needs to be answered for USAID's own portfolio whether or not it also decides to take on the broader donor coordination function, has two parts. First, what, if any, specialization needs to be imposed on the selection of options, primarily for reasons of specialized expertise and management efficiency? And, secondly, having determined what areas to specialize in, what specific activities should be chosen for the direct USAID portfolio?

The USAID programming decision process is illustrated in Figure 6 C 1

Figure 6.E.1. USAID Programming Decision Process



- Activity Selection Criteria:**
- time frame
 - mission expertise
 - management constraints
 - budget constraints
 - cost/benefit

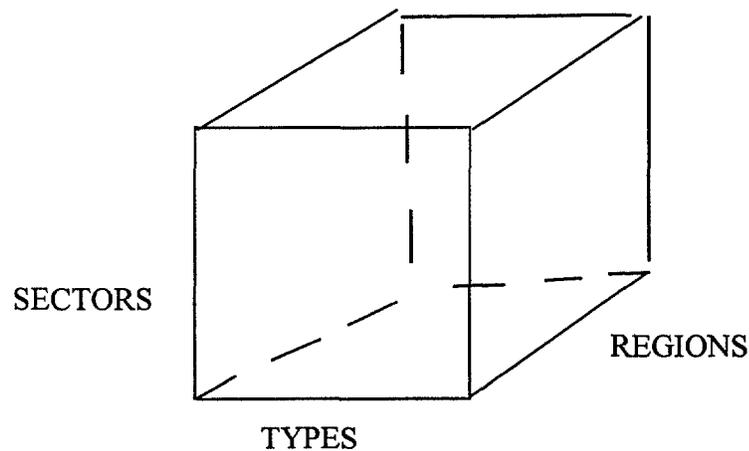
USAID/Haiti could theoretically decide to specialize by economic sectors, say agribusiness, or may consider that it has an active role to play in all sectors of the economy

USAID/Haiti could choose to develop a geographic concentration, perhaps focused on a small number of secondary cities where it would attempt to work on a pilot basis in all sectors of regional economic activity Or, it could decide to specialize only in certain sectors within its pilot regions, or, of course, to continue working nationwide, perhaps with greater emphasis than before on economic clusters outside of Port-au-Prince

Finally, USAID could decide to restrict itself to certain types of development programs, small-business development and training programs, for example, where it considers itself to have a special expertise and institutional capability

As illustrated in Figure 6 C 2, one can visualize the problem as being how to decide what space to occupy within a cube, where one axis is defined by economic sectors, the second by geographic regions, and the third by types of development activity The range of choice runs from extreme specialization in one sector, one region and one activity, all the way to occupying space within the whole cube, and attempting to manage a program that is operating in all sectors, in all geographic regions and in all types of development activity simultaneously

Figure 6.E.2. USAID Programming Specialization Options



The right place for USAID/Haiti is clearly somewhere in between. As outsiders that will not have the day-to-day responsibility for carrying the load, we will, of course argue for occupying a larger space within the cube than the mission may ultimately choose to do. The decision at this level will ultimately come down to a careful internal assessment of specialized mission expertise, and of the capacity of management -- as currently configured or expanded to a larger size if possible -- to properly administer a highly-diversified portfolio. The mission clearly has more and better information on these subjects than does the private sector team. We are glad, nevertheless to offer our suggestions and reasoning below.

First, as to economic sectors, our rank-ordering would be as follows, from most to least appropriate for USAID specialization.

- Economy-wide activities, because these will underlie success in all the other sectors and because they include activities less likely to be undertaken by other donors, who each do tend to maintain a rather narrow sectoral focus in their programming,
- Assembly manufacturing, because this sector offers opportunities to achieve the most rapid results in building employment for the least cost of any other sector²⁰, U S legislative restrictions may keep USAID from doing any programming in this sector, however, unless a special waiver can be obtained,
- Agribusiness, because this involves the largest number of Haitians, can generate a large number of jobs, and ultimately must be restored to a position as one of the principal pillars of the Haitian economy on the basis of an agronomic potential that still exists despite widespread degradation of natural resources,
- Handicrafts, because it can provide a large amount of geographically-dispersed employment through a large number of small enterprises, and because its future is not entirely dependent on the domestic market,

20 Appendix B contains estimates of the employment generation potential of each of the five sectors analyzed for this study, and juxtaposes these with estimates of the USAID grant-cost of the private sector strategy activities proposed to be focused on each sector. In general, the results of that analysis indicate that a dramatically lower incremental cost per job exists in assembly as compared to other sectors, largely because of the large existing physical and human resource capability that already exists within it. Estimated incremental program costs per job for agribusiness, handicrafts and tourism more or less group together at 4 to 9 times the cost per job in assembly, while construction comes in at a significantly higher number because of the high cost capital investments involved.

- Tourism, because of the additional, largely-untapped potential to generate well-remunerated jobs in Haitian tourism on the basis of its strong competitive advantages in certain niches of the larger Caribbean market, and
- Construction, an important job creator, but also one most clearly suited to other donor implementation, perhaps with USAID support in developing more decentralized private sector implementation approaches

With regard to geographic location, our general recommendation is that USAID not cut back its activities in Port-au-Prince, despite the many temptations there may be to do so, but rather expand its economic growth program to include urban and rural economic clusters located in the vicinity of three or four main secondary cities that should be the sites of focused pilot programs aimed at achieving demonstrable and replicable results within a short period of time

Port-au-Prince cannot be neglected, not only because the needs are greatest there but also because, despite its problems, the greatest potential for achieving large employment impacts are also to be found there. With the improvement of some basic infrastructure services and the restoration of a minimum of order and tranquility -- both of which could be accomplished in a relatively short time in principle -- the concentration of large existing labor pools, managerial resources and service industries in Port-au-Prince give it a distinct advantage over other cities in Haiti at this time. Secondary cities that have the most to offer in terms of existing resources, and that therefore should be incorporated into the decentralized but results-oriented pilot programs we referred to above, include Cap-Haïtien, Gonaïves, Jacmel and Les Cayes.

Insofar as types of development activity are concerned, the overriding consideration should be the level of existing USAID/Haiti expertise in each area vs. existing on-the-ground expertise within other donor organizations. While micro- and small-business programs are important in Haiti, and need to be emphasized further in the interest of both rapid job creation and the democratization of the Haitian economy, in the short-run no sector with potential to contribute to rapid job creation can be neglected. For obvious reasons, the only type of development activity that USAID/Haiti should not actively consider, in our opinion, are large-scale lending programs where the Agency simply does not have the credit resources to bring to bear.

Viewed from another perspective, we might also be able to contribute the observation that USAID has a particular capability in implementing activities directly with and through the private sector, as opposed to through government agencies. Because of the larger financial resources at their disposal, it is also true that other donors may in fact exert more leverage over government agencies than USAID, though in Haiti the special nature of the U.S. interest may offset the usual financial leverage advantage of other donors.

In conclusion, except in special instances -- such as an inability to obtain the necessary waivers to permit USAID to participate actively in export promotion, for example -- we recommend that USAID not limit its involvement in private sector strategy implementation on the basis of type of activity. In general, all the activities proposed are areas where USAID either has or can easily mobilize the necessary expertise, and it is important to advance on all fronts simultaneously.

What can be achieved?

The team was able to collect and analyze data and conduct extensive interviews pertaining to the current and potential competitiveness of Haitian firms in four broad sectors of activity: assembly and light manufacturing, agribusiness, tourism, and handicrafts. Despite currently adverse country conditions, the most general conclusion of the team is that there do exist niches where Haiti is or can become competitive in each of these sectors, and that specific marketing and investment opportunities exist in each that can provide focus for industry efforts and any external assistance that can be provided over the next several years.

In the assembly sector, some assemblers are achieving success despite factors like high-cost and low-quality transportation and handling services, high-cost/low-quality electricity and communications services, and shortages of trained mechanics, technicians and middle-management personnel that are producing significant competitive disadvantages for them at the present time. With improvements in these areas, it is clear that these and other firms could be very competitive internationally once again, even against such successful and highly-favored competitors like Mexico and China. With further developments to improve security and quality-of-life conditions in Haiti, and especially to provide the basis for greater confidence in the medium- and long-term stability of the country, potential competitiveness would be greater still.

Haiti does have labor cost advantages over most of its regional competitors in assembly, currently mostly offset by higher transportation and services costs. However, its long-run competitiveness depends not so much on maintaining a distinct labor cost advantage as on building on its reputation for high-quality, flexibility, and reliability. Haiti has a long tradition in the assembly business in the Caribbean, and a wide network of contacts in the U.S. industry which can be put to good marketing advantage once fundamental conditions for reliable production in Haiti are improved.

Historically, Haiti has achieved its greatest successes in apparel, followed by electrical and electronic assembly, sporting goods, toys and medical equipment. In recent years, a new and highly successful specialty has been developing — an outgrowth of traditional Haitian handicrafts experience and skills — in the area of “manufactured” decorative home furnishings, giftware and housewares. The traditional skills of Haitian artisans working with a wide range of materials have been organized in a factory setting to produce items in Haiti for sale to a mass consumer market overseas on the basis of imported designs. This new segment of assembly, together with the traditional lead-subsector, apparel, would appear to be those with the greatest short-term potential for rapid recovery. Further,

both subsectors have the potential to evolve into full-service manufacturing operations where Haitian design talents may provide an opportunity to continue differentiating the Haitian product and market niche, adding value and permanent new competitive advantages in the process

In the seven years between 1989 and 1996, Dominican apparel assembly exports to the U S have grown from about \$640 million to \$1,720 million per year, an annual increment of \$154 million dollars Honduras has gone from about \$87 million to \$1,240 million, for an annual increment of \$165 million Rapid growth in assembly is clearly possible within this kind of a time frame Given a committed effort and favorable conditions, it is conservatively estimated that Haitian assembly exports could increase by \$80-\$100 million annually over the next eight years, allowing it to reach a global export level of about \$825 million, from a 1996 base of \$105 million, and concurrently to expand direct employment from the current 18-20,000 to at least 150,000 workers

In agribusiness, strong medium-term opportunities exist with both traditional and non-traditional, processed and non-processed agricultural export products, as well as in improving the efficiency and competitiveness of a wide range of staples for domestic consumption Creative marketing through product differentiation such as is successfully being done with USAID support in the "Haitian Bleu" specialty coffee program, can be replicated for a range of other potentially high-value export products such as organic coffee, both specialty and organic cocoa, organic fresh mangoes, and processed organic mango products Plantains and taro root, both fresh and processed in either case, offer additional attractive opportunities in both domestic and export markets

A seriously degraded rural road system, deficient storage, transportation and processing systems, low levels of technology, the virtual absence of agricultural credit and relatively rudimentary export marketing capabilities are the principal constraints to be overcome in the export agribusiness subsector Similar constraints restrict the competitiveness of production for the domestic market, with an even more restricted supply of credit, and the substitution of domestic distribution for export marketing capabilities

The rural labor force of Haiti is about 1.5 million people, and annual agricultural output is about 38 percent of GDP, or just under \$1 billion in 1996 With continuing urbanization, it is expected that the rural labor force will shrink by about 85,000 workers, or about 6 %, during the next eight years to 2005 Agricultural/rural growth in the range of 4 percent per annum is potentially achievable during this period, and would significantly raise productivity and incomes in rural areas, also potentially adding about 250,000 direct "full-time equivalent" jobs, to reduce serious underemployment from an estimated 50 %, currently, to slightly less than 30 % in 2005

Tourism has the potential to boom in Haiti, with relatively little required of the domestic economy but security and a more favorable image As is described in the body of the text, significant employment creation and foreign exchange earnings can be developed through a fairly rapid progression focusing successively on

- increasing cruise ship arrivals, first to enclaves, then to city destinations in Cap Haitien, Jacmel, Jeremie and Port-au-Prince
- developing *auberge* and excursion tourism based on the Haitian diaspora, cultural tourists and multi-destination package tourists
- developing city and resort destinations and facilities for stay over tourists coming directly and particularly to Haiti

With favorable conditions, estimates show that between 1 and 1.5 million visitor arrivals spending between \$190 and \$285 million annually and supporting between 25-45 thousand direct employees could be generated as soon as by the year 2004

Handicrafts potential growth is, of course, closely linked in part to the growth potential of tourist arrivals to Haiti. With an average expenditure on handicrafts items of only \$20 per head, which is probably a low number, annual sales to incoming tourists could easily reach \$20 to \$30 million per year by the year 2004, in accordance with the estimates provided above. Assuming annual sales of \$2,000 per employed artisan, this increment alone represents 10,000 to 15,000 jobs.

Traditional handicrafts also have a significant additional export potential, however. Already, most of the handicrafts sold in Santo Domingo and in the principal Dominican beach resorts are actually of Haitian origin, and some Haitian handicrafts are also reputed to reach Puerto Rico and the Francophone islands of Guadeloupe and Martinique. A small amount is also being exported to markets in the U.S. and Europe, as reported to the team through interviews with individual artisans already doing this business. Unfortunately, readily available Haitian export data do not record handicrafts exports separately from other manufactures, and one supposes that a large amount of exports to the Dominican Republic goes unrecorded altogether. Based just on the size of that one market, however, it can be fairly estimated that total exports of traditional handicrafts are currently in the range of \$5-10 million per year.

Major new Caribbean export markets appear to offer excellent potential, including the islands of the Bahamas, those of the Eastern Caribbean archipelago, cruise ports and ships' stores throughout the region, and coastal resorts in Mexico, Colombia and Venezuela. Annual arrivals to the Bahamas are approximately 3.2 million per year, including 1.5 million cruise passenger arrivals, while the figures for the Caribbean as a whole are about 23 million annually — excluding Haiti and the Dominican Republic — of which approximately 10 million are cruise passengers. Capturing only 10 percent of this market in the next 5-10 years, a feat that should be well within Haitian capabilities given the distinct design, cost and quality advantages of the Haitian handicrafts industry, could represent additional export sales on the order of \$50 million annually, and the generation of 25,000 direct jobs.

What is the Cost-Benefit?

Having identified its sectoral and geographic niches, and having adjusted itself to whatever external restrictions may ultimately constrain activity selection, USAID will then have to begin a process of selecting individual activities for direct implementation, within an overall budget constraint. The overall strategy identified in Section D above is estimated to cost about \$32 million annually, which is clearly above what USAID will likely be able to finance itself, even if program resource allocations to activities related to economic growth are increased significantly over historical levels, as we have suggested.

In making its final selection of activities for inclusion in its own portfolio, five main criteria need to be balanced against each other, including two that have already been mentioned above:

- management resources-intensity of the proposed activity,
- mission and Agency expertise in the substantive aspects of the activity,
- time frame for the achievement of employment impacts,
- tightness of the budget constraint, and,
- estimated cost per job created

Many of these criteria are difficult to measure precisely in a quantitative way, that does not mean they are not important. Conversely, criteria that can be expressed in quantitative terms are not necessarily meaningful if the basis for quantification is questionable.

Even when measurement is possible, how does one quantitatively evaluate the tradeoff between one criterion and another? How much are you willing to pay in lost time in order to reduce the cost of an activity? Weighting criteria in order to come up with an overall quantitative measure of cost-benefit is not a matter for scientific determination, but rather calls for judgment where reasonable and experienced people may well disagree.

Cost per job created has considerable surface appeal and has a certain following within AID, which, as an Agency, has developed an intense preoccupation with quantifying performance and impacts in recent years. Except in the broadest sense, in most cases cost-per-job is an indicator that is very difficult to quantify, however. As is well-known by practitioners, it is very difficult to attribute the amount of employment generation that is due to one activity over another, when successful employment generation requires that a host of complementary activities be undertaken together. Put another way, what is the real cost of generating the job, when so many activities -- of the private sector, the government and the donors, and many unrecorded or unmeasured -- have had a hand in bringing it into being? Except in the broadest sense, as when one broad estimate is found to be a large multiple of another, cost per job estimates give little useful guidance in selecting among activities, and in our view should not be given too much weight in the decision-making process.

What is important and usually can be determined more easily is if the activity can begin to have some measurable impacts soon, or whether these can only be expected after the passage of a significant amount of time. It is also most important to determine if the activity is something that can be done well by the particular group of people taking on the responsibility for spending the resources. If not, what would be needed to enable them to do this job well?

In attempting to address these questions, however judgmentally, the activities presented in Section D above have been "rated" in terms of rapidity of impact, broad priority in terms of employment impact, and "goodness-of-fit" with perceived USAID capabilities. Selecting from the table only those activities which are perceived by the Private Sector team as having a "unique or especially good" fit for USAID programming results in a portfolio that would cost USAID approximately \$15 million annually to implement, which could be close to a good number in light of the partial overlap of recommended activities with ongoing elements of the existing USAID private sector program, possible reprogramming and budget expansion possibilities. If some of the items on the "unique/special" list were to drop out because of legislative restrictions, for example, others could be added back on the basis of a combination of employment impact and speed of impact.

The next step in transforming the recommendations of the Haiti Private Sector Strategy into a list of activities for inclusion in the USAID direct implementation portfolio must therefore be for USAID to carefully study our proposals -- not accepting our evaluation of priority according to the various criteria that have been put forward, but reaching its own evaluation on the basis of superior information about its own capabilities and limitations -- and iteratively, by successive approximations and through much open discussion, structure a program that it can accept in accordance with its own capabilities and the knowledge of what needs to be done to make a difference for the future of Haiti.

**Haiti:
Private Sector Assessment**

Appendices to Final Report

U.S. Agency for International Development

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APPENDIX B

Appendix B Summary of Estimated Employment Expansion Potential by 2005

Sector	New Direct Jobs	New Indirect Jobs	Total New Jobs	Basis for Estimate
Assembly/Manufacturing	130,000	130,000	260,000	Historical performance of the sector in Haiti, current estimated long-term export sales potential, and recent performance of Caribbean competitors Indirect employment is based on conservative estimate of income and employment multiplier for Haiti, compared to values as high as 2.5-3.0 in other LDCs
Agribusiness	250,000	125,000	375,000	With adequate investment, credit, technology transfer and good economic management, rural output can expand by about 4 percent annually through 2005 for a total increment until then of about \$370 million Defining 'Full-Time Equivalence' to mean productivity of \$1,000 per rural worker, this increment supports 250,000 'full-time equivalent' jobs and 360,000-400,000 low-productivity jobs, which, added to the currently estimated 750,000 full-time equivalent jobs available in rural areas, can reduce underemployment from the currently estimated 50% to about 30% of the 1.4 million workers expected to remain in rural areas in 2005 Indirect employment is less than for other sectors due to the low level of rural earnings and low spending propensities of rural workers
Tourism	35,000	35,000	70,000	Based on detailed calculations of job creation per \$ of forecast tourist expenditures Indirect employment based on same conservative multiplier estimate used for other urban sectors
Handicrafts	37,500	37,500	75,000	Based on sales potential and estimated average annual sales per artisanal worker Indirect employment based on same conservative multiplier estimate used for other urban sectors

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APPENDIX C

Appendix C Equity Coinvestment or Venture Capital Fund

The Market and Basic Objectives

As was described extensively in Chapter VII B, there is mounting evidence that the lack of equity capital is or will become an important constraint limiting the amount of private development of priority projects in sectors such as power generation, telecommunications, ports and port facilities, agribusiness processing, hotels and other tourism projects. The principal constraining factor limiting the potential availability of private equity capital for these medium- and large-scale infrastructure projects is the instability of the Haitian political situation, and the perception that this instability will last at least until the next presidential election in the year 2000, and through the first part of the next presidential administration. The fear is not so much of the possibility of expropriation or of direct damage as a result of civil unrest; these eventualities can be insured against. Protracted instability will also affect the general level of economic activity and trade, however, and this threatens the financial viability of capital intensive investments that require a high level of capacity utilization to achieve success.

As a result of their concerns over continued instability during the period to 2001, fewer Haitian and international investors are willing to consider projects in Haiti than would otherwise be the case, and even those investors who continue to be interested in developing projects are unwilling to risk the amount of equity in them that they normally would¹. The lack of adequate equity is also having an effect on the eligibility of projects that are being considered for development for long-term loan funding that might otherwise be available from institutions such as IFC, IIC, LAAD, DGZ, CDC, etc. The ultimate result is that the private sector is not participating in investment and job creation to the extent that it needs to be able to do in Haiti, and this is potentially conditioning the outcome of the political process in a manner that will not be supportive of sustainable economic development in the long-term.

A vicious circle is operating with regard to private investment in Haiti at the current time, and this is working in a way that will make it more and more difficult for the private sector to play a constructive role in the development of the Haitian economy in the future.

If ways can be found for the international development community to share in the risks occasioned by real and perceived political instability in Haiti, it is likely that more direct private equity investment can be motivated than would otherwise be the case. This would, in turn, mobilize more long-term loan financing for the development of basic infrastructure and some private businesses, and this would itself help the private sector to establish a position as a constructive economic player in Haitian society, and gradually assist it to bring about conditions that will make it possible for the country to achieve sustained high rates of growth and

¹ It is important to emphasize that, despite the problems being faced by Haiti at the present time, there do exist numerous private groups attempting to organize investments in projects of this kind. Many have approached IFC and IIC with proposals which these institutions are considering, in general, however, the proposals reaching these institutions do not meet their normal minimum equity guidelines, and this will limit the number of projects that can be supported unless means are found to strengthen the equity of the developer groups.

significantly reduced poverty. Since the risk of political instability and the economic effects this may have on businesses can not be mitigated, at this critical juncture the impact of risk sharing measures taken by international donors committed to Haitian development could be decisive — turning a self-reinforcing negative spiral into the basis for increased confidence in the Haitian economy and sustained future expansion.

The Equity or Venture Coinvestment Fund Approach

One means to share risk with private investors looking at priority projects such as were indicated above, is to directly or indirectly share in the equity of these projects during the organization and startup phases. Such coinvestment leverages the developers' own equity substantially, and generates considerable further leverage through the assurance it provides long-term lenders that projects being developed with their loans are adequately capitalized to withstand at least the normal fluctuations that are to be expected in any new venture. A venture or equity fund taking 40 % of the equity in new projects will leverage total equity 2.5 times its own commitment, and total investment — assuming a 1-to-1 debt to equity ratio — equal to 5 times its own commitment. If a 25 % participation were sufficient to bring total capitalization to a level acceptable to lenders, total leverage would increase to 8 times, etc.

There are at least two ways in which USAID or another donor can support an equity or venture capital or coinvestment fund. One is to provide the capital of the fund itself, either directly or indirectly, another is to utilize a guaranty mechanism to mobilize private capital for the fund.

In the first case, the most practical option which has been employed successfully by USAID in other settings is to endow a special-purpose trust, which in turn invests USAID grant resources in the capital of a fund.

The second case would involve the commitment of USAID grant resources to guarantee — again, directly or indirectly — the participation of private investors in the fund — perhaps only partially, and perhaps only for a limited period of time, depending on what is found to be necessary. The attached exhibit, "Haiti Private Sector Coinvestment Fund Structure Using Guaranteed Put Option", describes a structure where USAID grant funds would serve to guarantee a standby-credit line opened in favor of the fund, which would allow it to finance the redemption of shares by private investors under certain pre-stipulated conditions. Such a put option for shareholders, backed by the availability of guaranteed liquidity to ensure that the fund is able to meet its redemption commitments — if called upon to do so by the investors — may be sufficient to bring forth substantial additional amounts of private investment capital. Such redemption commitments can be limited in both magnitude and period of validity, thus reducing the exposure of the guarantor relative to the amount of resources mobilized.

In the specific case of USAID, existing credit programs such as the Housing Guaranty (HG) and Micro and Small Enterprise Development (MSED) programs, provide precedents where the U.S. Congress has authorized the Agency to take on guaranty commitments that are a multiple of the amount of grant resources obligated, on the basis of a formal estimation of the actual expected losses involved in each transaction. Thus, a HG activity in Haiti could probably leverage 4 times

as much long-term mortgage credit as the amount USAID would be required to appropriate to fund a guaranty reserve under the terms of the Credit Reform Act of 1990. Preliminary estimates indicate that the MSED authority, utilized in Haiti at the current time, would allow mobilization of up to 20 times appropriated amounts in small-enterprise credit and 12 times in micro-enterprise credit.

The application of a similar leveraged guaranty coverage to support an equity or venture coinvestment fund in Haiti would require a special authorization from the U.S. Congress. A venture capital fund for Russia, requiring a similar special congressional authorization, has recently been approved by OMB and will be submitted to the Congress later this year. The strength of the commitment of the U.S. Administration to the success of democracy in Haiti may well lead it to support a similar effort in Haiti. If it were to do so, a special model would have to be developed to evaluate the expected losses of the guaranty facility, in order to determine the required appropriation of grant funds. Preliminary indications from Agency staff that makes such calculations for the HG and MSED programs indicates that the "true cost" of guaranteeing a venture fund in Haiti roughly along the lines indicated in the attached exhibit, may lie between 20 and 30 percent of the guaranty amount, meaning that additional leverage of 3 1/3 to 5 times the amounts given above may well be available for such a structure in Haiti. I.e. total leverage of USAID appropriated amounts to total support investment in fund-invested projects could be as high as 25 to 40 times, if the necessary authorization can be obtained from the U.S. Congress.

Independently of such additional authorization and leverage, it is our judgment that in Haiti a guaranty structure would be preferable to an endowment where USAID loses its resources forever, regardless of the performance of the fund's investments. With a guaranty, USAID can limit the amount of investors capital it will support, say to 80 percent, and it can also limit the duration of effectiveness of the guaranty, say to four years. Under these circumstances, except for any unrecoverable losses experienced by the fund, resources appropriated even on a one-to-one basis relative to the underwritten exposure, would be recovered by USAID once the fund was liquidated at the latest. If the projects selected are of high-quality — and the participation of other direct equity backed by long-term loans from IFC or the like would help to ensure this — it is likely that, even if a portion of guaranteed amounts were called during the period of exposure, the fund manager would be able to recoup its losses by reselling shares or through cash flow and appreciation of redeemed shares held in inventory before having to make final distributions to its shareholders at the end of the fund's 10- to 12-year life.

Organizational Issues

Other than making sure that enough is being done so that the investors will come, by far the most important issue for organizing a fund such as is being described here is the selection of a professional fund management company and the structuring of appropriate incentives and controls to motivate their effective performance. The fund management company selected must be made up of specialized professionals with prior experience in the successful management of equity or venture capital investment funds. Their compensation must be directly tied to the performance of the fund, and usually this is accomplished by providing the fund managers with a "carried interest" in the returns earned for the fund's investor/shareholders. A typical arrangement would provide

the managers with 20 percent of all returns in excess of a minimum “threshold” rate of return to investor/shareholders, and this threshold rate might typically be on the order of 8 percent. That is, until distributions to investor/shareholders from cash flow participation (dividends) and capital gains return 100 percent of capital plus an internal rate of return of 8 percent, all distributions from the fund go to its shareholders, after this point, any further distributions are divided 80 percent to shareholders, 20 percent to fund management. Annual management fees are typically structured to cover only operating expenses of the fund, which include a base salary for fund managers, but the “carried interest” feature enables fund managers to make a substantial additional profit if the return on funds under management can be raised above the threshold rate. Equity funds typically aim for a total 25-30 percent return, a level which is not unreasonable given the lower cost resources they are able to assist in leveraging, and considering the risks they are prepared to assume alongside other coinvestors.

While clear guidelines must be established to prevent investment in casinos, for example, and while the fund Board of Directors must be prepared to exercise control over management if needed to safeguard investor interests, in general fund management must be allowed to act with a maximum of flexibility and speed. This consideration argues for a guaranty structure such as described in the attachment, which is designed to overcome the constraints to mobilizing private sector money for the fund, rather than to directly substitute private sector money with USAID grant resources. In this structure, USAID grant resources are only called to the extent that the fund makes a long-term loss and is unable ultimately to finance the full amount of redemptions that may have taken place. Therefore, a less direct, day-to-day role for USAID in the governance of the fund — with all of the bureaucratic reporting and restrictions a direct USAID role implies — can be justified so long as USAID guarantees have not been called and or have not been repaid.

Another important issue to be dealt with in developing such a fund is that of protecting minority shareholder rights, and the security of the fund’s investments, in an environment such as Haiti that does not have a well-developed legal system.

Developing a complete response to addressing this issue will require more extensive analysis than can be done here. It can be partially-addressed, however, in each of the following ways: 1) “piggy-back” on covenants and provisions required of majority shareholders by long-term lenders such as the IFC, 2) ensure that, wherever lead investors include U.S. or other developed-country entities, such entities accept joint and several liability with regard to covenants undertaken to protect minority shareholders, and that U.S. or other developed-country jurisdiction be accepted for the settlement of claims and disputes, 3) for controversies that can be anticipated, require that majority investors provide international bank guarantees, performance bonds or other mechanisms to compensate minority shareholders (in this case, the fund) in the event that majority shareholders fail to comply with stipulated covenants. In extreme cases, special voting rights, convertibility features and/or warrants can be attached to the fund’s shares that are triggered when basic performance expectations are not met. These would provide fund management with the legal means to intervene in the management of invested companies in those unusual cases where lead investors failed to comply with shareholder agreements. As always, however, the best protection against such eventualities is the exercise of caution, diligence and sound judgment in the evaluation of developer/investor groups prior to making a commitment to their projects.

Finally, developing a sound exit strategy to allow the fund to realize a satisfactory return for its investors is always an important issue. Considerable experience has been gained in this over the last two decades, and a variety of mechanisms are usually available, ranging from put options allowing the fund to sell its shares to the lead investors at a prearranged formula price, to private placements to other investors or funds, to public offerings. Successful medium- and large-sized projects such as are contemplated for participation by the Haiti fund, may well be able to list their shares in Haiti or on a regional Caribbean exchange by the time of the fund's proposed liquidation in about the year 2010.

Prior AID Experience with Venture Funds

A very useful retrospective analysis of AID experience with venture funds through 1995 was published a year-and-a-half ago by the Center for Development Information and Evaluation². As is implied by its title, "the basic conclusion is that past USAID venture-capital projects have almost uniformly been failures"

Four basic characteristics were found to be primarily responsive for the poor performance of past USAID venture capital projects

- Choosing the wrong implementer "In most cases, the fund manager/implementing institution selected had little or no previous venture capital experience" The proposed Haiti fund would need to be able to recruit the services of a professional fund management company as a precondition for USAID support
- Excessive constraints on the implementer Past USAID venture capital projects "tried to target too narrowly", and on especially high-cost/high-risk sectors such as very small businesses and small-scale agriculture, for example. This is quite different from the intended principal market for the Haiti fund, which would primarily support medium- and large-scale infrastructure projects with strong management and relatively stable markets
- Rigid design Often, "actual conditions during implementation differed sharply from those anticipated in the design" and USAID participation restricted flexibility in adapting to such changing conditions. In Haiti, we propose that USAID provide support through a more arm's-length liquidity-guarantee mechanism designed to partially overcome constraints to mobilizing private sector investment capital. Since funding will be from the private sector, investors will directly control the Board and management, directly for the purpose of maximizing the performance of investments
- Inadequate demand "In most countries, entrepreneurs were extremely reluctant to sell a share of their equity" In Haiti, the participation of outside investors through a fund such as proposed could well be the decisive factor in closing overall funding for many projects

² Fox, James W. "The Venture Capital Mirage: An Assessment of USAID Experience with Equity Investment", Center for Development Information and Evaluation, U.S. Agency for International Development, February 25, 1996

It is not anticipated that there will be any major resistance to sharing equity under these circumstances

It is recognized that organizing a fund that can achieve a high rate of return for its investors under current conditions in Haiti will not be easy. It is a small and poor country to begin with, and conditions are not favorable at the present time.

Should conditions begin to improve, however, infrastructure, tourism and basic industry investments in Haiti may have a big upside over the medium- and long-terms. Current investor interest in such projects is evidence that there is a market for the proposed fund despite the complexities of the current situation.

Finally, from the USAID perspective, the objective is not necessarily that private sector investors in the fund make a large profit, or even that it itself avoid "losses." USAID will expend grant resources in Haiti anyway. The question is, "Can a fund such as is being proposed help to mobilize additional private sector resources for investment in Haiti (more effectively than alternative USAID interventions), and can it thereby help to catalyze a significant private sector leadership role in creating jobs and rebuilding the Haitian economy?" If the answer to this question is "yes", then supporting the proposed fund may well be a worthwhile investment for USAID, whether or not its guarantees are called and/or repaid, or whether or not the investors in the fund eventually make a profit. The interest of USAID in the Haitian private sector is strategic, not financial.

Haiti Private Sector Coinvestment Fund

Structure Using Guaranteed Put Option

<u>Objectives of the Fund</u>	To provide a competitive return to its Haitian and international investors by acquiring minority equity positions in well-structured high-quality private sector projects in Haiti in sectors including electricity telecoms transportation tourism, agribusiness and export trade The Fund's minority participation in these projects is intended to strengthen their equity base and thereby contribute to their eligibility for complementary loan financing from agencies like IFC and IIC
<u>Structure</u>	Closed-end equity investment fund with a 10 to 12-year life, not including an optional extension period of 3 years if required for orderly liquidation
<u>Capitalization</u>	Minimum of U S \$50 million Shares to be issued at a fixed par value Investors expected to include U S and Haitian institutions, companies and individuals with a particular interest in Haiti
<u>Return Objective</u>	At least 18 percent internal rate of return to investors from a combination of current cash flow and long-term residual value
<u>Liquidity Facilities</u>	For a period of four years commencing December 1997 investors in the Fund will have the option of redeeming their shares at eighty percent (80 %) of par value I e , during this initial four-year period the Fund will stand ready to repurchase shares tendered to it by its investors at 80 % of their original sale price, or par value Liquidity for the redemption of shares will be provided by the establishment of a stand-by credit facility with a first-tier U S financial institution Repayment of credit extended by the stand-by lender to provide liquidity to the Fund, if required, will be guaranteed by one or more international development agencies engaged in supporting the economic recovery of Haiti and whose credit rating will enable the stand-by facility to be priced very close to the obligations of the U S Treasury To the extent that calls on the facility are made during the four-year guaranty period, it is expected that repayments will be made by the Fund from the proceeds of the resale of redeemed shares once conditions in Haiti stabilize again These arrangements would make it possible for "nervous" investors to pull out in the event of short-term political instability during the guaranty period until 2001, without necessarily affecting the stability of the Fund's investment portfolio and associated projects in Haiti This "comfort" limiting the potential losses of investors will facilitate the initial mobilization of private funds
<u>Management</u>	Fund management will be provided by an established equity fund management company The Fund Manager will be supported by investment advisors familiar with the Haitian economy and business environment, carefully selected to ensure against the possibility of a conflict-of-interests
<u>Management Fees</u>	To be negotiated, but likely to be close to a 2.0 percent annual management fee, payable in advance on the total amount of funds under management, plus a carried interest of about 20 percent in the total returns of the Fund in excess of a minimum "threshold" rate of return to be distributed to the Investors before any other distributions are made
<u>Governance</u>	The Fund shall be governed by a Board of Directors controlled by the investors and also representing the Fund's manager and its external guarantors
<u>Liquidation</u>	The Fund shall liquidate its holdings through a combination of put arrangements negotiated in advance with its private developer/coinvestors in each project, private placements with other Haitian and international investors, and public offerings through Haitian and/or other regional or international exchanges that may list the shares of invested companies in the future

Organization, Listing and Issuance Costs It is preliminarily estimated that the Haiti Private Sector Coinvestment Fund can be organized, listed and successfully capitalized within a period of four to ten months at a cost of about \$250,000 in organization expenses, plus four to seven percent in sales commissions to the underwriters. Listing, organization and issuance costs can be substantially reduced if shares are sold via a private placement rather than a public offering.

Investment Criteria The Board shall approve general investment criteria for the Fund, including provisions to guard against excessive concentration in the investment portfolio. The Fund will be allowed to invest in publicly-listed securities outside of Haiti for liquidity-management purposes only.

APPENDIX D

Appendix D List of Persons Interviewed

Firm/Organization	Persons (s)
Haitian-Americans for Economic Development (HAFED)	Pierre R Leger, President
Agency for International Development	Ken Lanza, G/EG Grant Morrill, Project Manager, PEDS III Robert V Burke, Chief Economist John F Moran, Director, Credit & Investment Staff Caty Glocker, G/EG/CIS
Inter-American Development Bank	Richard K Archi, Chief, Country Division 4, Regional Operations Department John S Horton, Agricultural Marketing Specialist Paul Moreno-Lopez, Economist, Country Division 4, Regional Operations Department Mark W Flaming, Financial Sector Specialist Fabrice Henry, Municipal development Specialist, Basic Infrastructure and Finance Division 2 Christian J P Weets, Senior Private Sector Advisor Philippe Dewez, Resident Representative
World Bank	Philippe Nouvel, Chief, Caribbean Division Pierre Sooh Mr Marais Carolle Carr, Resident Representative
International Finance Corporation	Stanley R Greig, Principal Investment Officer Peter Tropper, Senior Investment Officer
MIGA	Stine Andresen, Regional Mgr , Latin America
LACTECH/Chemonics	James T Riordan, Team Leader
LACTECH/USDA	Roberta Van Haeften, Food Policy Advisor, USDA/FAS/ICD
International Executive Service Corps	Mireille Malebranche, Country Representative
Mairie of Gonaive	Mme Mary R. Nicholas, maire Edner Jr Pierre, Maire Claudiel Merly, Secretaire General
Chamber of Commerce, Gonaive	15+ members
Mairie of St Marc	Leon Saieh Maire Titulaire Daniel Poteau Maire-Adjoint
FHD	Jean-Louis Robule, Reponsable, FHD, St Marc
Mairie du Cap Haitien	Francois Joseph Baptiste Maire
Le Ciment du Nord, SA, Cap Haitien	Theodule St-Fleur, Secretary/Treasurer
COIFINORD, Cap Haitien	Ramon Coby, PDG

List of Persons Interviewed continued

Automotive Parts Center Cap Haitien	Onel LeRoy, Owner
Distillerie Larue, SA, Cap Haitien	Lesly Nazon, Owner
Plan International, U K Cap Haitien	Kimberly Taylor, Programme Funding Manager
Chambre de Commerce, d'Industrie et des Professions du Nord, Cap Haitien	Macajou A Medard, President (and 7 other members)
Cofinord S A /Otto Schutt & Co , Cap Haitien	Hans Broder Schutt, Treasurer
Banque de l'Union Haitienne, S A , Cap Haitien	Fresnel J Justafort, Charge de Clientele
Port Tortuga/Mont Joli Hotel, Cap Haitien	Walter A Bossemus, President
Businessman/Business Consultant, Cap Haitien	Georgemain Prophete
International Monetary Fund	Ali Ibrahim Resident Representative
Capital Life Insurance Company, Ltd	Fritz de Catalogne, General Agent
SOCABANK - Societe Caraibeenne de Banque, S A	Gerard Joseph, Directeur General
Banque de la Republique d'Haiti	Leslie Delatour, Governor
Commission Presidentielle pour la Croissance et la Modernisation Economique	Pierre J Brisson, Directeur Executif Edith D Adrien, Assistant Directeur Executif
ADIH - Association des Industries d'Haiti	Marlene Sam, Executive Director (+ 6 members)
Mairie de Port-au-Prince	Joseph E Charlemagne, Maire
ex-Prime Minister	Marc Bazin
Societe Haitienne de Vannerie, S A	Jean Lionel Pressoir, President
Secretairerie d'Etat au Tourisme	Maryse Penette, Secretaire d'Etat Suzanne Sertz, Conseiller Special
Team Manufacturing, S A	Maxime Conde, President
Tourism & Trade Consultant	Hon Charles A Maynard
Domus Architecture	J Christian Goguet
Ace Basket Company	Victor Boulos, Manager
Gilanex Manufacture, S A	Georges Barau Sassine
Alpha Electronics Corporation	Andre M Apaid, Jr , President
Sofihdes	Jacques Nerette, Directeur Adjoint de Credit

List of Persons Interviewed, continued

H H Cutler Co	James Miller, Vice President
Banque de l'Union Haitienne S A	Oswald J Brandt II, President
West Indies Energy Co	Fritz Mevs II, Vice President
Centrale Autonome des Travailleurs Haitiens	Saint-Cyr Louis Fignole, Secretaire General + 3 officials
International Council for Monuments & Sites - Harti	Patrick Delatour, President
Hotel & Tourism Association of Haiti	Elisabeth Silvera, President Richard Buteau, Manager, Hotel Kinam Dominique Carvonis, Director, Moulin sur Mer Hotel Roger Dunwell Owner, Villa Creole Hotel Pierre Bobbie Chauvet, Agence Citadelle
World Trade Center & Sofitel hotel project	Frantz Liautaud, Developer
Holiday Inn Plaza Hotel	Fred Pierrelouis, Owner
Hotel Montana	Joel Thebaud, Manager
Club Mediterranee	Guy Thomas, Director
Le Manoir project	Hendrik Verwaay, President
Norman's Inn at Labadie Shores, Cap Haitien	Mr Norman
Roch Sauvage Club Prive, Cap Haitien	Richard Chauver, Owner
Haiti-Miami Chamber of Commerce	Ghislain Gourage
Prime Interests, Tampa	Richard Gehring, Partner Charles Hendrick
American Airlines	Horace Hord Jr , Director of Marketing, Atlantic/Caribbean, Miami
Florida Caribbean Cruise Association	Michelle Paige, Executive Director Rovel Morris, Training & Research
Royal Caribbean Cruise Lines	Peter Whelpton, Executive Vice President
First Equity Corporation Miami	Wilbert Bascom, President Pablo Hoffmann Vice President
OAS Tourism Unit Washington D C	Claude Larreur
Ministry of Commerce & Industry	Fresnel Germain, Minister
Black Business Investment Board, State of Florida	Joyce Coombs, Development Representative Coordinator

List of Persons Interviewed continued

Carswell Companies, Florida	Keith A Carswell, Chairman & CEO
HAMCHAM - Haitian-American Chamber of Commerce	Josette Nazon, Executive Director
CCIH - Chambre de Commerce et d'Industrie d'Haiti	Fritz Kenol, President Ulrick Dessaint, Secretaire General (+ 6 members)
NADALSA - Les Entreprises Commerciales Joseph Nadal S A	Olivier Nadal, General manager, Division maritime
Ministere de l'Economie et des Finances, Bureau du Ministre	Mie Carmelle Jean-Marie, Conseiller Financier Pressoir Exceus Assistant-Directeur, Direction des Etudes Economiques Erol Saint-Louis, Consultant, Direction des Etudes Economiques
CLED - Centre pour la Libre Entreprise et la Democratie	Claude-Bernard Celestin, Directeur Executif (+5 members)
Associates for Global Change	Gary Walker, Partner Andrew C Gilboy, Senior Partner
Artist/Handicrafts manufacturer	Moro Baruk
Haiti Senate	Renaud Bernardin, Senator and President of the Finance Commission
Caribbean Resources International	Laura Mcpherson, President
Citibank/Association Professionnelle des Banques	Gladys Coupet
Sogebank	Charles Clermont, Director General
Maire de Jacmel	Guy Masse, Maire Titulaire Jackson Bellevue Antoine Delbeau, Maire-Adjoint
Hotel La Jacmelien	Eric Danis, Owner
Gemila Art Gallery, Jacmel	Gerard Lafontant, Artist/painter
La Cayenne Hotel & Night Club, Les Cayes	Gerard Chalvire, PDG
Chambre de Commerce des Cayes	Antoine Blaise, President Thierry Vante Robert Leger (+5 others)
Maire des Cayes	Maire Titulaire
Agri-Supply Co , S A	Ann Bayliss Hauge Vice President Pierre Leger, President

List of Persons Interviewed, continued

d'Adesky Enterprises/Enmarcolda S A Division Termerair	Wilhelm E Lemke Jr Jeffrey d'Adesky Philippe Biamby
Haiti Air Freight	Mme Danielle Augustin Serge Alexis, Chef de Department Sales/Marketing Frantz Lespinasse, Vice President, Cargo
Jeune Chambre de Commerce	Elisbeth Augustin, Responsable des Archives et de la Documentation, Info-Services Jacqueline Dodard, Directeur Administratif, Imprimerie Pressmax S A Donald Gutierrez, Directeur, Office Corner
Delegation de la Commission Europeenne	Paul Munters, Attache
Tourism and Trade Consultant	Hon C A Maynard
SECID/Haiti Productive Land Use Systems Project	John D "Zach" Lea, Agricultural Economist, SECID/PLUS Coordinator
USAID/Haiti	Phyllis Dichter-Forbes Mission Director James E Vermillion, Deputy Mission Director Abdul Wahab, Chief, Economic Growth Office Christopher M Brown, Senior Economist, Office of Economic Growth Scott Kleinberg, Private Sector Development Officer Ralph Denizé, Economic Growth Office Gary Imhoff, Program Office Tham Truong, Chief Economist Gabriel Verret, Economist Martial Bailey, PL-480 Program Marc Edy Martin, Coffee Program Carole Horning, SO1 Belinda Bernard, SO1 Ernest Paultre, Engineer Christine Brown, SO3

APPENDIX E

Appendix E. Illustrative Action Options Packages

The Mission may develop its private sector strategy to focus on particular priorities or resource limitations. The following table presents the suggested primary elements of five Action Options Packages

Short-term Focus – actions focused on short-term results,

Low Budget – actions requiring limited Mission budget,

Decentralized Focus – actions focused on decentralized economic development and competitiveness,

Focus on Basic Framework for Private Sector Development – actions focused on frameworks and underpinnings for enterprise development, and

Focus on Broad Access – Lowering Barriers to Entry – actions focused on facilitating new investment and business creation by reducing entry barriers such as risk and transaction costs

Possible Activity	Action Options Packages				
	Short-term Focus	Low Budget	Decentralized Focus	Focus on Basic Framework for PSD	Focus on Broad Access – Lowering Barriers to Entry
A STRATEGY OPTIONS TO GENERATE PRIVATE SECTOR INVESTMENT AND EMPLOYMENT					
a Assembly Sector					
Obtain "Super 507" Waiver	X	X			
Obtain Special Trade Preferences for Haiti	X	X			
McDermott Initiative for Haiti	X	X			
Plan New Industrial Parks and Infrastructure Outside Port-au-Prince (2)			X		
b Tourism					
Private Management of Docks	X	X	X	X	X
Airport Concessions and Upgrading		X	X		
Cruise Industry Revival Support		X	X		
Tourism Readiness Programs Jacmel, Jeremie and Cap Haitien	X	X	X		
Port-au-Prince Cruise Attraction					
Citadelle/Sans Souci Upgrading			X		
c Agribusiness					

	Short-term Focus	Low Budget	Decentralized Focus	Focus on Basic Framework for PSD	Focus on Broad Access - Lowering Barriers to Entry
Market Town Collection and Processing Centers (20)					
Assist in Post-Harvest Phases of Haitian Staple Crops					
Rural Credit Expansion	X		X		X
Market Information Program	X	X	X	X	X
Export Infrastructure Planning			X		
d Handicrafts					
Handicrafts Export Market Familiarization					
Linkage to Tourism Development	X	X	X		
e Construction					
Rural Road Rehabilitation			X	X	X
Rural Road Maintenance			X	X	X
Irrigation Systems Maintenance					
Low-Income Housing Guarantee				X	
GOH/Donor Procurement - Materials Specifications Review	X	X			X
f Financial Sector					
Money Market Development				X	
Housing Finance System Design				X	
Financial Market Information				X	
Contractual Savings Systems				X	
Formal Sector Funding of Informal Lenders Pilot Program				X	X
g Economy-wide Activities					
Equity Capital Mobilization					X
Partial Credit Guarantees for Working Capital and Investment	X				X
Privatization of SOEs		X	X	X	X
Liberalization of Ownership and Management of New Public Utilities and Infrastructure	X	X	X	X	X
Export and Investment Promotion					
"One-Stop-Shop" for Investment Approvals and Licensing		X		X	X
Local Private Enterprise Initiatives Funding					
Initiative for Geographic Coordination and Focusing of Private Sector Development	X	X	X		

	Short-term Focus	Low Budget	Decentralized Focus	Focus on Basic Framework for PSD	Focus on Broad Access - Lowering Barriers to Entry
For-Profit Business Service/Communications Centers (20)			X	X	X
Leland-type Initiative for Haiti			X	X	
Regional Demonstration Centers (5)			X	X	
B STRATEGY OPTIONS FOR A MORE EFFECTIVE PRIVATE-PUBLIC SECTOR POLICY DIALOGUE					
a Assembly Sector					
Port and Customs Administration for Secondary Cities		X	X	X	X
Free Trade Zone Legislation		X	X	X	X
Facilitate Dialogue Labor Issues/Counter Negative Press	X	X		X	X
b Tourism					
Tourism Investment Code	X	X	X	X	X
c Agribusiness					
Pricing and Trade Policy Reforms		X		X	X
d Handicrafts					
e Construction					
e Financial Sector					
f Economy-wide					
Macroeconomic Policy Development and Implementation	X	X		X	
Security and Law Enforcement	X		X	X	X
Urban and Rural Land Tenure Studies and Technical Assistance			X	X	X
Improved Cost Recovery and Accountability in Decentralized Service Delivery			X	X	
Improve Local Tax Collection			X	X	
Public Interest Regulation of Privately Managed Utilities			X	X	
Public-Private Cooperation in Local Land Use Management			X	X	X
Tax and Regulatory Reforms and Enforcement to Strengthen the Formal Sector				X	
Policy Mentoring				X	
National Futures Scenario Planning				X	
Communications, Civic Education and Participation	X	X		X	X

	Short-term Focus	Low Budget	Decentralized Focus	Focus on Basic Framework for PSD	Focus on Broad Access - Lowering Barriers to Entry
Agents of Change and Promoters of Dialogue		X		X	
Parliamentary Policy Research and Analysis Support	X	X		X	
C STRATEGY OPTIONS FOR HUMAN RESOURCES AND INSTITUTIONAL STRENGTHENING					
a Assembly					
Organize On-the-Job Training		X		X	
b Tourism					
Tourism Database					
Tourism Training	X			X	
Tourism Public Education and Readiness Program	X	X	X	X	X
c Agribusiness					
Applied Agricultural Research and Extension					
d Handicrafts					
Arts and Crafts Improvement Program			X		
Handicrafts Training and Design Centers		X			
Handicrafts Export Marketing Association Support	X				
e Construction					
Building Trades Skills Training	X	X		X	
f Financial Sector					
g Economy-wide					
Business Associations Support	X	X	X	X	
Local Government Training	X		X	X	X
Peace Corps Programs		X	X	X	
Public Education				X	X

APPENDIX F

Exhibit A World & Caribbean Tourism Trends 1980 94								
<i>Touunst Arnvals</i>								
	<u>World</u>		<u>Caribbean</u>					
	arnvals	yrly growth	arnvals	yrly growth	yrly change			
	[000s]		[000s]		[000s]			
1970	165 787		na					
1980	286 249	5 6%	6 757					
1991	465 844	4 5%	11 214	4 7%	405			
1994	545 878	5 4%	13 588	6 6%	791	C leading W	166	
							561	
							5 0%	
<i>Touunsm Receipts current value US\$</i>								
	[millions]		[millions]		[millions]			
1970	17 900		na				25	
1980	105 198	19 4%	3 484			C at par w W	561	
1991	271 880	9 0%	8 983	9 0%	500		7 2%	
1994	345 540	8 3%	11 570	8 8%	862			
<i>Receipts per Touunst Arnval current value US\$</i>								
1970	108		na					
1980	368	13 0%	516					
1991	584	4 3%	801	4 1%	26	C>W		
1994	633	2 7%	851	2 1%	17			
Note Cruise passenger statistics are not included in tourist arrivals								
source WTO Yearbook								

Exhibit B Selected Caribbean Tourism Growth Trends 1980-95 - Stayover Tourists										
[000s of tourist arrivals]									yrly growth 1991-5	
	1980	1985	1991	1992	1993	1994	1995	rate	absolute	
all Caribbean	7,209	7 882	11,928	12,204	13,276	14,184	14,714		697	
<i>annual change</i>				2%	9%	7%	4%	5%		
Haiti	138	141	119	90	77	70	145		6 5	
annual				-24%	-14%	-9%	107%	5%		
Cuba	NA	NA	424	461	544	617	738		79	
<i>annual change</i>				9%	18%	13%	20%	15%		
Jamaica	395	572	1,007	1,057	1,105	1,098	1,147		35	
<i>annual change</i>				5%	5%	-1%	4%	3%		
Dominican Rep	301	425	1,417	1,524	1,636	1,767	1,932		129	
<i>annual change</i>				8%	7%	8%	9%	8%		
Turks & Caicos	12	29	55	52	67	71	76		5	
<i>annual change</i>				-5%	29%	6%	7%	8%		
4 neighboring nations - Total			2,903	3 094	3,352	3,553	3,893		248	
<i>annual change</i>				7%	8%	6%	10%	8%		
Note Cruise passengers are excluded										
NA data not available										
source Caribbean Tourism Organization statistical reports										
H's rebounding, J's rebounded, DR leader in growth then Cuba										

Exhibit C Caribbean Tourism - Tourism Receipts for Selected Destinations 1990-94											
	1990			1994			1990-94 annual rates of change				
	receipts	tourists	receipts/trst	receipts	tourists	receipts/trst	tourists	receipts/trst	total tourist receipts		
	[millions \$]	[thousands]		[millions \$]	[thousands]				[millions \$]	percent	
World	264 714	459 212	576	345 540	545 878	633	4 4%	2 4%	20 207	6 9%	
Americas	69 481	93 570	743	95 733	107 049	894	3 4%	4 8%	6 563	8 3%	
Caribbean	8 755	11 263	777	11 570	13 588	851	4 8%	2 3%	704	7 2%	
Haiti	82	144	569	46	70	657	-16 5%	3 6%	(9)	-13 5%	
Bahamas	1 333	1 562	853	1 333	1 516	879	-0 7%	0 8%	0	0 0%	
Cuba	243	327	743	850	617	1 378	17 2%	16 7%	152	36 8%	
Dominican Rep	890	1 305	682	1 148	1 717	669	7 1%	-0 5%	65	6 6%	
Guadeloupe	197	331	595	490	556	881	13 8%	10 3%	73	25 6%	
Jamaica	740	841	880	919	977	941	3 8%	1 7%	45	5 6%	
Puerto Rico	1 366	2 560	534	1 728	3 042	568	4 4%	1 6%	91	6 1%	
Turks & Caicos	37	49	755	57	72	792	10 1%	1 2%	5	11 4%	
US Virgin Islands	705	463	1 523	919	540	1 702	3 9%	2 8%	54	6 9%	
Note	Cruise excursionists are not included			2 974						483	
source	WTO Yearbook of Tourism Statistics										
H DR PR laggards per lo receipts/trst H collapse C biggest gainer + PR/Guad/DR											
Caribbean substantially hier r/trst rev growth exceeding world avrge of 6 9%											

Exhibit D Caribbean Tourism - Selected Magnitudes - 1995					
		rooms	average	average	average
		capacity	expend-US\$	stay-day	expend/day
		rooms	US\$	days	US\$
Harti		850	385	na	na
Cancun, Mexico		18,891	na	5.4	na
Cuba		24,233	1,490	8.7	171
Dominican Rep		32,475	812	10.5	77
Guadeloupe		7,917	716	6.1	117
Jamaica		20,896	932	10.9	86
Puerto Rico		10,251	583	2.7	216
<i>source Caribbean Tourism Investment Guide statistical appendix p 36</i>					
hi cuban spend,					

Exhibit E Pace of Lodging Capacity Expansion in Caribbean									
	1980	1991	early changes 80-91		1995	early changes 91-			
			percent	rooms		percent	rooms		
all Caribbean	83,774	140,785	5%	5,183	173,406	5%	8,155		
Haiti	2,943	1,500	-6%	(131)	850	-13%	(163)		
Bahamas	11,429	13,185	1%	160	13,421	0%	59		
Cuba	7,526	16,638	7%	828	24,233	10%	1,899	142	
Dominican Rep	3,800	22,555	18%	1,705	32,475	10%	2,480	186	
Guadeloupe	3,037	7,016	8%	362	7,917	3%	225		
Jamaica	10,092	17,337	5%	659	20,896	5%	890		
Puerto Rico	9,224	7,897	-1%	(121)	10,251	7%	589		
<i>source Caribbean Tourism Investment Guide, statistical appendix p 38</i>									
building blitz Cuba, DR Jamaica grows									

Exhibit F Haiti Tourist Arrivals 1980-96

		yrly change	percent
1980	136 000		
1985	149 700	2,740	2%
1989	149,300	(100)	-0%
1990	143,800	(5,500)	-4%
1991	119,300	(24,500)	-17%
1992	89 500	(29,800)	-25%
1993	76,700	(12,800)	-14%
1994	70,300	(6,400)	-8%
1995	145,400	75,100	107%
1996	150,100	4,700	3%
<i>source SET</i>			

Exhibit G Profile of Haiti Tourist Arrivals - 1995 & 96								
<i>by origin</i>	1995		1996					
North America	108,500	75%	111,600	74%				
Cen/S America	3,800	3%	4,200	3%				
Caribbean	16,900	12%	17,600	12%				
Europe	14,200	10%	14,600	10%				
other	1,900	1%	2,000	1%				
	145,300		150,000		1997 assumptions @3% up			
<i>by type of lodging</i>					visitors	ave stay	t-days	
private homes	107,100	74%	108,600	72%	111,858	9	1,006,722	
hotels	38,300	26%	41,500	28%	42,745	7	299,215	
	145,400		150,100		154,603		1,305,937	
<i>by motive</i>								
vacation	46,200	32%	48,900	33%				
business	26,000	18%	27,200	18%				
other	73,200	50%	74,000	49%				
	145,400		150,100					
source SET								

Exhibit H WTO Forecast Tourist Arrivals - World							
	millions						
1990	456				leaders Arg Cuba, Mexico		
1995	534	3.2%			Americas growth 6-7% for 1990s		
2000	661	4.4%			Caribbean leading growth		
2010	937	3.6%					
source WTO							

Exhibit I Caribbean Cruise Passenger Arrivals 1991-5 (000s)						
	1991	1995	pax/week	growth 91-5		
	(000s)	(000s)		yrly rate	yrly pax	
all Caribbean	8 700	9 710	186 731	3%	252 500	
Bahamas	2 020	1 543	29 673	7%	(119 250)	
Cayman	475	683	13 135	10%	52 000	
Cozumel	492	899	17 288	16%	101 750	
Dominican Rep	50	30	577	12%	(5 000)	
Jamaica	490	605	11 635	5%	28 750	
Puerto Rico	995	1 001	19 250	0%	1 500	
Note These statistics represent passenger arrivals at Caribbean ports						
source Caribbean Tourism Investment Guide statistical appendix p 39						

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Exhibit J Labadie Cruise Activity 1996 - Royal Caribbean Cruise Line

<i>12 months to 9/96</i>			
passengers		249,740	
tax collections		749,220	US\$
tax per passenger		3 00	US\$
number of calls		104	2 per week
pax per call		2 401	
tax collection per call US\$		7 204	US\$
<i>October & November 1996</i>			
passengers		40,129	
taxes & fees		240,774	US\$
tax/fees per passenger		6 00	US\$
number of calls		17	2 per week
pax per call		2,361	
tax/fees per call US\$		14,163	US\$
pax passengers			
source SET			

Exhibit J-low Job Creation - Low Case							bon/mal	homes tourists job creation	
international stayover tourists -- excursionists/day visitors --							grand	29%	9 day average stay vs 7 hotel-tourists
hotels	homes	total	cruise	road	total	total	-60%	\$40/day spend vs \$100 hotel-tourists	
							-31%	net effec	
							0 062	cut the rate by one third	
1998	600	207	807	120	7	127	934		
1999	1,200	420	1,620	360	15	375	1,995	road excursionists job creation	
2000	2,400	639	3,039	720	23	743	3,782	one day average stay for excursionist	
2001	4 200	865	5 065	1,080	31	1,111	6,176	home tourist 9 day average stay	
2002	6 600	1,097	7 697	1,320	40	1,360	9 057	road excursions 1/9 factor of home tourist	
2003	9,600	1,337	10,937	1,440	49	1,489	12,425	0 007	
2004	13 200	1,584	14,784	1,560	57	1,617	16 401		
Notes									
1 Factor of 6 jobs per available room or 092 jobs per tourist, is used for hotel-									
2 Factor of 062 jobs per home-stayover tourist is used									
3 Cruise job creation is shown in Exhibit L									
4 Factor of 007 jobs per road excursionist is used									

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Exhibit J-mid Job Creation - Middle Case							
	international stayover tourists -- excursionists/day visitors --						grand
	hotels	homes	total	cruise	road	total	total
1998	600	344	944	150	12	162	1 107
1999	2,100	706	2 806	450	26	476	3,282
2000	4 500	1,086	5 586	900	39	939	6,525
2001	7,800	1,485	9,285	1 350	54	1,404	10 688
2002	12,000	1,903	13 903	1 650	69	1,719	15,622
2003	17 100	2 343	19 443	1 800	85	1,885	21,328
2004	23 100	2,804	25,904	1,950	102	2,052	27 956
Notes							
1	Factor of 6 jobs per available room or 092 jobs per tourist, is used for hotel-stayover tourists						
2	Factor of 062 jobs per home-stayover tourist is used						
3	Cruise job creation is shown in Exhibit L						
4	Factor of 007 jobs per road excursionist is used						
source	Study Assumptions						

Exhibit J-high Job Creation - High Case							
international stayover tourists-- excursionists/day visitors --							grand
	hotels	homes	total	cruise	road	total	total
1997							
1998	600	482	1,082	180	17	197	1 280
1999	2,700	998	3,698	540	36	576	4 274
2000	6,300	1 550	7 850	1,080	56	1 136	8,986
2001	11,400	2,141	13,541	1,620	78	1,698	15,239
2002	18 000	2,773	20,773	1 980	101	2,081	22,854
2003	26 100	3,449	29,549	2,160	125	2 285	31,834
2004	35,700	4 173	39,873	2,340	151	2 491	42,364
Notes							
1 Factor of 6 jobs per available room or 092 jobs per tourist, is used for hotel-stayover tourists							
2 Factor of 062 jobs per home-stayover tourist is used							
3 Cruise job creation is shown in Exhibit L							
4 Factor of 007 jobs per road excursionist is used							

Exhibit K Selected Port Charges per Cruise Passenger - 1996			
Bahamas	15 00	US \$	
Cayman	9 50		
Guadeloupe-Pt-a-	1 00		
Jamaica-Montego	13 50		
Jamaica-Ocho Rio	15 00		
Mexico-Cozumel	2 26		
Puerto Rico	9 65		
USVI-St Thomas	7 50		
source <i>Florida Caribbean Cruise Association</i>			

Exhibit M Competitive Caribbean Markets for Haiti - 1995									
	available	annual	tourists	tll receipts	tll receipts	average	average	average \$	annual
	rooms	tourists	per room		per room	expend US\$	length-stay	expend/day	turst-days
	[thousands]			[US\$m]	US\$		days		[millions]
Cuba	24,233	738	30	1,100	45,393	1,490	8.7	171	6.4
Dom Rep	32,475	1,932	59	1,568	48,283	812	10.5	77	20.3
Guadeloupe	7,917	640	81	458	57,850	716	6.1	117	3.9
Jamaica	<u>20,896</u>	<u>1,147</u>	55	<u>1,068</u>	51,110	<u>932</u>	<u>10.9</u>	86	12.5
	85,521	4,457	52	4,194	49,041	941	9.7	97	43.1
for Haiti say 65 trst/room, 50,000 rev/room, ave stay 7 days									
Note Bolded figures are derived									
source Caribbean Tourism Investment Guide, statistical appendix p 35									

Exhibit N Stayover Tourism Expansion [Commercial Lodging Visitors] Slow Growth										focus on hotel expansion pace		
- lodging expansion -										increasing momentum pr year		
	additions	investmnt	cumulative	stayover	tourist-	gross	cumulative job creation FTE			Cuba opening		
	rooms/yr	[US\$M]	rooms	tourists	days	[US\$M]	hotels	indirect	total	limited upheaval		
1998	100	7.5	100	6,500	45,500	4.4	150	450	600	vigorous investment promo needed		
1999	100	7.5	200	13,000	91,000	8.8	300	900	1,200	in all cases a latecomer		
2000	200	15.0	400	26,000	182,000	17.7	600	1,800	2,400	all categories combined for hotels		
2001	300	22.5	700	45,500	318,500	30.9	1,050	3,150	4,200	0.092 jobs/tourist		
2002	400	30.0	1,100	71,500	500,500	48.5	1,650	4,950	6,600	6 jobs/room built		
2003	500	37.5	1,600	104,000	728,000	70.6	2,400	7,200	9,600			
2004	600	45.0	2,200	143,000	1,001,000	97.1	3,300	9,900	13,200	barely rebounding very slow @314/\$23.6M		
		165.0								do nothing case-miserable		
Notes Assumptions are the same as those of Exhibit K except construction grows at 100 rooms per year										mainly business/vfr/short stay		
	314	23.6								pap/ch focus		
source	Study Assumptions									failure to enter bigtime/no geo spread/a passive rebound		
										till 2004 majority homestay tourism		

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Exhibit O Stayover Tourism Expansion [Commercial Lodging Visitors] - Medium Growth										
	- lodging expansion -									
	additions	investmnt	cumulative	stayover	tourist-	gross				pace 550/\$41M
	rooms/yr	[US\$M]	rooms	tourists	days	[US\$M]	hotels	indirect	total	some geo spread
										herd mentality
1998	100	7.5	100	6,500	45,500	4.4	150	450	600	
1999	250	18.8	350	22,750	159,250	15.4	525	1,575	2,100	
2000	400	30.0	750	48,750	341,250	33.1	1,125	3,375	4,500	
2001	550	41.3	1,300	84,500	591,500	57.4	1,950	5,850	7,800	
2002	700	52.5	2,000	130,000	910,000	88.3	3,000	9,000	12,000	
2003	850	63.8	2,850	185,250	1,296,750	125.8	4,275	12,825	17,100	
2004	1000	75.0	3,850	250,250	1,751,750	169.9	5,775	17,325	23,100	
total		288.8								
yearly av	550	41.3								
Notes										
1 The assumed annual rate of construction rises 150 rooms per year										
2 Total per room investment including infrastructure and land cost is US\$75,000										
3 Average annual tourists per room is 65 multiple occupancy factor of 2, and average stay is 7 nights										
4 Average tourist expenditure per day in economy is US\$97										
5 Full time equivalent job creation per hotel room is assumed at 1.5 in hotel 4.5 in the economy										
6 No adjustment for inflation or real shifts in dollar values is made										
7 Rooms includes all types of commercial lodging [timeshare, resorts, inns etc] of international standard										
source Study Assumptions										

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Exhibit P Stayover Tourism Expansion [Commercial Lodging Visitors] - High Growth										pace 850/\$64M
- lodging expansion -										2-3 other poles
	additions	investmnt	cumulative	stayover	tourist	gross	cumulative job creation FTE			entering bigtime
	rooms/yr	[US\$M]	rooms	tourists	days	[US\$M]	hotels	indirect	total	big herd
1998	100	7.5	100	6,500	45,500	4.4	150	450	600	
1999	350	26.3	450	29,250	204,750	19.9	675	2,025	2,700	
2000	600	45.0	1,050	68,250	477,750	46.3	1,575	4,725	6,300	
2001	850	63.8	1,900	123,500	864,500	83.9	2,850	8,550	11,400	
2002	1,100	82.5	3,000	195,000	1,365,000	132.4	4,500	13,500	18,000	
2003	1,350	101.3	4,350	282,750	1,979,250	192.0	6,525	19,575	26,100	
2004	1,600	120.0	5,950	386,750	2,707,250	262.6	8,925	26,775	35,700	
		446.3								
Notes Assumptions are the same as those of Exhibit J except construction grows at 250 rooms per year										
	850	63.8								
source Study Assumptions										

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Exhibit Q Recap of Tourism Volume to 2004 - Mid Growth					
	1997	-- 2001 --		-- 2004 --	
	base	increment	total	increment	total
hotel	42,745	84,500	127,245	250,250	292,995
home	<u>111,858</u>	<u>24,084</u>	<u>135,942</u>	<u>45,496</u>	<u>157,354</u>
<i>stayover</i>	154,603	108,584	263,187	295,746	450,349
cruise	250,000	550,000	800,000	900,000	1 150 000
road	<u>36,500</u>	<u>7,866</u>	<u>44,366</u>	<u>14,859</u>	<u>51,359</u>
<i>excursions</i>	<u>286,500</u>	557,866	<u>844,366</u>	914,859	<u>1,201,359</u>
total	441,103		1,107,553		1,651,708

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Exhibit V-low Incremental Tourism to 2004 - Low Case									
-- gross forecasts --		international stayover tourists				-- excursionists/day visitors --			grand
homes	road		hotels	homes	total	cruise	road	total	total
base	base								
111,755	36,500								
115,108	37,595	1998	6,500	3,353	9,853	40,000	1,095	41,095	50,948
118,561	38,723	1999	13,000	6,806	19,806	120,000	2,223	122,223	142,029
122,118	39,885	2000	26,000	10,363	36,363	280,000	3,385	283,385	319,747
125,781	41,081	2001	45,500	14,026	59,526	440,000	4,581	444,581	504,107
129,555	42,314	2002	71,500	17,800	89,300	560,000	5,814	565,814	655,113
133,441	43,583	2003	104,000	21,686	125,686	640,000	7,083	647,083	772,769
137,445	44,890	2004	143,000	25,690	<u>168,690</u>	720,000	8,390	728,390	897,080
Note									
1 Homestay tourists & road excursionists grow at 3% per year									
2 For lack of data, road excursionists are assumed in 1997 at 100 per day									
3 Underlined value meets/exceeds 1997 estimated volume of 155,000									
<i>source Study Assumptions</i>									

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Exhibit V-mid Incremental Tourism to 2004 - Middle Case									
-- gross forecasts --		international stayover tourists				-- excursionists/day visitors --			grand
homes	road		hotels	homes	total	cruise	road	total	total
base	base								
111 755	36 500								
117,343	38,325	1998	6,500	5,588	12 088	50 000	1 825	51,825	63 913
123 210	40 241	1999	22,750	11 455	34 205	150,000	3 741	153 741	187,946
129,370	42 253	2000	48 750	17 615	66,365	350 000	5,753	355 753	422,119
135,839	44,366	2001	84,500	24 084	108 584	550 000	7 866	557 866	666 450
142,631	46 584	2002	130,000	30,876	<u>160,876</u>	700,000	10,084	710 084	870,960
149 762	48,913	2003	185 250	38 007	223,257	800 000	12,413	812,413	1 035 671
157 251	51 359	2004	250,250	45,496	295 746	900,000	14 859	914,859	1 210 605
Note									
1 Homestay tourists & road excursionists grow at 5% per year									
2 For lack of data road excursionists are assumed in 1997 at 100 per day -									
3 Underlined value meets/exceeds 1997 estimated volume of 155 000									
<i>source Study Assumptions</i>									

Exhibit V-high Incremental Tourism to 2004 - High Case									
-- gross forecasts --		international stayover tourists				-- excursionists/day visitors --			grand
homes	road		hotels	homes	total	cruise	road	total	total
base	base								
111,755	36,500								
119,578	39,055	1998	6,500	7,823	14,323	60,000	2,555	62,555	76,878
127,948	41,789	1999	29,250	16,193	45,443	180,000	5,289	185,289	230,732
136,905	44,714	2000	68,250	25,150	93,400	420,000	8,214	428,214	521,614
146,488	47,844	2001	123,500	34,733	<u>158,233</u>	660,000	11,344	671,344	829,577
156,742	51,193	2002	195,000	44,987	239,987	840,000	14,693	854,693	1,094,680
167,714	54,777	2003	282,750	55,959	338,709	960,000	18,277	978,277	1,316,986
179,454	58,611	2004	386,750	67,699	454,449	1,080,000	22,111	1,102,111	1,556,560
Note									
1 Homestay tourists & road excursionists grow at 7% per year									
2 For lack of data, road excursionists are assumed in 1997 at 100 per day									
3 Underlined value meets/exceeds 1997 estimated volume of 155,000									
<i>source Study Assumptions</i>									

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Exhibit X Cruise Pax forecast recap				-- job creation --			
		lo	mid	hi	lo	mid	hi
1	1998	40,000	50,000	60,000	120	150	180
2	1999	120,000	150,000	180,000	360	450	540
3	2000	280,000	350,000	420,000	720	900	1,080
4	2001	440,000	550,000	660,000	1,080	1,350	1,620
5	2002	560,000	700,000	840,000	1,320	1,650	1,980
6	2003	640,000	800,000	960,000	1,440	1,800	2,160
7	2004	720,000	900,000	1,080,000	1,560	1,950	2,340

APPENDIX G

Appendix G Bilateral and Multilateral Programs

Disbursements and Projections By Sector As of January 1997

Sector	Indicative Commitments	Disbursements		Projections			Major Projects or Focus
		HFY95	HFY96	HFY97	HFY98	HFY99+	
Governance							IDB Technical Cooperation for Decentralization (HA-0060) Prepared in early 1996 Not ratified as of March 1997 USD3m Loan is to help redefine the institutional and fiscal framework of local governance and strengthen the capacity of the municipalities
Totals	314 68	99 83	75 92	36 14	53 60	49 19	
Canada	23 10	6 55	9 85	3 35	3 35		
France	1 96	0 06	1 15	0 55	0 20		
Germany							
Japan	3 80	3 80					IMF - Enhanced Structural Adjustment Facility
Netherlands	0 34	0 07	0 09	0 12	0 06		
Switzerland							
U S A	148 80	60 65	47 10	20 72	20 33		WB 2071-HA USD11 4m Industrial Recovery and Development Project Technical and Financial Assistance to SME industrial enterprises Effective 8/90 Closes 6/98 75% undisbursed
European Union	15 81	7 77	5 42	2 28	0 34		
IDA	20 00		0 80	0 50	5 61	13 09	
IDB	63 00			5 90	21 00	36 10	
IMF							WB Public Sector Modernization Project (FY98)
UNDP	18 34	4 58	9 35	2 21	2 20		
UN Organs	2 92	0 30	1 60	0 51	0 51		
Other Bilaterals	16 61	16 06	0 56				WB Second Technical Assistance Project Approved 9/96 Not yet effective USD12m HT-PA-41971 Components Property Tax Reform (USD1 4m), Expenditure Management (USD 3 3m), Human Resources management System (USD 1m), Private Sector Development (USD 3m) including Formulate and execute a public information campaign in support of the private sector participation program and Implement facilitating legal and regulatory reforms to facilitate competition and the strengthening of regulatory agencies, Public Sector Modernization (USD 1 1m), Project Implementation Component (USD1 6m)
							IDB Investment Sector Loan (HA-0046) Build upon

Sector	Indicative Commitments	Disbursements		Projections			Major Projects or Focus
		HFY95	HFY96	HFY97	HFY98	HFY99+	
							<p>reforms, including taxes and customs administrations, legal framework for secured transactions Lower risk and transaction costs Focus on macroeconomic stabilization, financial sector reform, reform of basic infrastructure enterprises, especially in the energy sector, and support to private sector economic initiatives in the real sectors USD52.7m Private sector participation in the management/ownership of the electricity sector Reform of EDH will be financed by ATN/MT-5334</p> <p>European Union - Indicative Program Intervention 3 - Governance Decentralization, communal law, Public sector reform, Privatization, Local development funds, Judicial system reform, Local development programs that integrate the communes (especially the Mairies) decentralized ministerial structures, NGOs, civil population, etc</p> <p>IDB Modernization of the State (I and II) (Parliament) HA-0034 (USD20m) and HA-0027)</p>
Agriculture							<p>IDB Includes strengthening of land titling system Various Technical Cooperations Artibonite Valley Projects (690/SF-HA and 845/SF-HA), Riviere Blanche Basin Project (777/SF-HA), Modernization of the Agricultural Sector (HA-0016 - USD30m)), Swine Development (783/SF-HA)</p> <p>WB 2071-HA USD11.4m Industrial Recovery and Development Project Technical and Financial Assistance to SME industrial enterprises Effective 8/90 Closes 6/98 75% undisbursed</p>
Totals	215.05	27.30	28.84	26.31	56.74	75.86	
Canada	3.70	3.00	0.70				
France	15.62	1.99	3.20	3.72	5.11	1.60	
Germany	15.80	1.40	3.00	3.42	5.70	2.28	
Japan	1.60	0.37	0.54	0.42	0.27		
Netherlands	2.07	0.50	0.57	0.50	0.50		
Switzerland	19.52	8.02	7.90	3.60			
U S A	67.30	8.99	5.59	4.10	17.62	31.00	
European Union	13.00	0.00			2.80	10.20	
IDA	62.20	2.20	4.32	5.62	20.69	29.37	

Sector	Indicative Commitments	Disbursements		Projections			Major Projects or Focus
		HFY95	HFY96	HFY97	HFY98	HFY99+	
IDB IMF UNDP UN Orgns Other Bilaterals	2 05 0 99 11 22	0 73 0 10	0 80 0 26 1 96	0 38 4 56	0 63 0 01 3 42	0 25 1 16	Forest and Parks Protection TA Project WB 2920-HA USD21.5m Not yet effective Approved 9/96 WB Agricultural Development Project (FY98) European Union – Indicative Program Concentration 1 – Agriculture/Rural Development
Education Totals Canada France Germany Japan Netherlands Switzerland U S A European Union IDA IDB IMF UNDP UN Orgns Other Bilaterals	132 51 5 30 7 81 2 00 13 37 2 55 20 00 67 10 2 09 5 70 6 59	17 27 1 00 2 68 0 50 4 68 2 00 3 50 0 38 0 44 2 09	14 58 2 00 0 50 5 75 0 55 0 70 0 82 2 91 1 35	13 97 1 92 1 23 0 50 1 47 5 28 0 71 1 24 2 25	39 31 2 15 1 91 2 00 29 10 0 18 1 12 0 90	47 38 0 86 18 00 28 52	Vocational and Professional Training FY97 USD15m (HA-0017) Demand led/cost recovery technical and professional education system, incorporate the private sector and attempt to define clearly the respective roles of public and private providers, and formally integrate the technical/vocational education sub-sector in the long-term revamping of Haiti's education IDB Technical Cooperation for Decentralization (HA-0060) USD3m Prepared in early 1996 Not ratified as of March 1997 IDB Basic Education Program (HA-0038) USD30m IDB Basic Education Program II (959/SF-HA) European Union – Indicative Program Private Sector activity will include professional training
Transport Totals Canada France Germany Japan	336 79 1 03 12 23	7 82 0 02	24 44 0 49	77 25 0 52 3 55	117 66 5 66	109 63 3 03	WB Employment Generation Project (HPA-41583) 6/95 Essentially finished Element relating to Private Sector Rehabilitation of Rural Roads (USD15m) WB Road Maintenance and Rehabilitation Project –

Sector	Indicative Commitments	Disbursements		Projections			Major Projects or Focus
		HFY95	HFY96	HFY97	HFY98	HFY99+	
Netherlands							USD50m Effective 7/95 88% undisbursed
Switzerland							
U S A							IDB Road Rehabilitation and Maintenance Program (945/SF-HA)- USD45m
European Union	140 08	6 00	7 00	41 08	46 00	40 00	
IDA	53 95		5 65	11 10	11 00	26 20	
IDB	129 50	1 80	11 30	21 00	55 00	40 40	European Union - Indicative Program Concentration 2 - Infrastructure Improvement of road infrastructure in the western part of the southern peninsula, Conditionality includes participation of private sector and communities in road works, Financial management of roads
IMF							IDB Secondary and Tertiary Roads Rehabilitation and Maintenance Program - USD50m (HA-0075)
UNDP							IDB Pont Sonde-Mirabelais (74kms) in Artibonite Approved in 1990, delayed until 1995 USD42 7m
UN Organizations							WB Employment Generation Project (HPA-41583) Essentially finished Element relating to Private Sector Rehabilitation of Rural Roads (USD15m) Effective 7/95
Other Bilaterals							Rehabilitate ports through PURE II (HA-0050)
							WB Two TA and Institutional Development Projects TAP2, Public Sector Modernization
							WB Basic Education Project (FY97)
Energy							IDB Investment Sector Loan (HA-0046) Includes reform of basic infrastructure enterprises, especially in the energy sector real sectors USD52 7m Private sector participation in the management/ownership of the electricity sector
Totals	124 90	13 02	32 66	24 98	27 88	26 36	
Canada	8 15	3 70	4 10	0 15	0 20		

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Sector	Indicative Commitments	Disbursements		Projections			Major Projects or Focus
		HFY95	HFY96	HFY97	HFY98	HFY99+	
France	12 90	2 62	4 14	5 14	1 00		Reform of EDH will be financed by ATN/MT-5334 IDB Private Participation and Legal Regulatory Reform of the Electric Sector Development Program Operation Number ATN/MT-5334-HA Approved 9/96 Grant and MIF USD1 2m WB 2053-HA USD24m Power V Provide 15mw additional power, improved transmission and distribution capacity Effective 1/90 60% undisbursed
Germany	9 50			3 41	4 75	1 34	
Japan							
Netherlands							
Switzerland							
U S A							
European Union	21 40	6 70	9 72	5 00			
IDA	24 00		12 72	6 40	3 80		
IDB	31 95			0 38	10 63	1 08	
IMF						20 94	
UNDP							
UN Organizations							
Other Bilaterals	17 00		2 00	4 50	7 50	3 00	
Water and Urban Infrastructure							Potable Water Sector Reform (IDB ATN/SF/BF-5271-HA) USD0 9m Approved 7/96 Beneficiaries Municipal governments of Cap Haitien, Les Cayes and Port-de-Paix, and SNEP
Totals	232 79	32 45	29 20	34 29	23 33	112 87	
Canada	11 05	1 00	4 60	3 05	2 40		WB 2052-HA USD20m Port-au-Prince Water Supply Effective 6/89 80% undisbursed
France	30 16	13 68	5 73	6 53	4 23		
Germany	15 74				4 72	11 02	Potable Water in Secondary Cities Program (HA-0014) and related Technical Cooperation USD35m
Japan							
Netherlands							
Switzerland	1 94			0 65	0 64		WB Water and Sanitation Project (FY99)
U S A							
European Union	3 22	2 70	0 52				IDB Drainage of Port-au-Prince (795/SF-HA) USD37 8m
IDA	30 00	0 10	5 55	3 60	4 80	15 95	
IDB	129 06	11 81	9 05	16 90	5 40	85 90	IDB Drainage and Sanitation (HA-0039) USD50m
IMF							
UNDP	4 34	0 58	1 61	1 61	0 55		
UN Orgns	4 10	2 10	0 80	0 60	0 60		
Other Bilaterals	3 18	0 48	1 35	1 36			

Sector	Indicative Commitments	Disbursements		Projections			Major Projects or Focus
		HFY95	HFY96	HFY97	HFY98	HFY99+	
Private Sector Development							<p>WB Second Technical Assistance Project USD12m HT-PA-41971 9/96 – not yet effective Components include Private Sector Development (USD 3m)</p> <p>Maintain the unit for the implementation of the private sector participation program (SEDU)</p> <p>Formulate and execute a public information campaign in support of the private sector participation program</p> <p>Implement facilitating legal and regulatory reforms to facilitate competition and the strengthening of regulatory agencies</p> <p>WB 2071-HA USD11.4m Industrial Recovery and Development Project Technical and Financial Assistance to SME industrial enterprises Effective 8/90 Closes 6/98 75% undisbursed</p> <p>IDB Investment Sector Loan (HA-0046) Build upon reforms, including taxes and custom's administrations, legal framework for secured transactions Lower risk and transaction costs Focus on macroeconomic stabilization, financial sector reform, reform of basic infrastructure enterprises, especially in the energy sector, and support to private sector economic initiatives in the real sectors USD52.7m Private sector participation in the management/ownership of the electricity sector</p> <p>IDB Banking Sector TA (990/SF-HA)</p> <p>IMF – Enhanced Structural Adjustment Facility</p> <p>IDB Multilateral Investment Fund Potential areas Initiatives to attract private investment and assist in privatization, Support to NGOs, Development of microenterprise and small business sector</p>
Totals	61.62	2.57	8.93	16.31	19.50	1.30	
Canada	9.90	0.90	2.50	1.95	3.25	3.20	
France	16.00			4.80	8.00		
Germany							
Japan							
Netherlands							
Switzerland	14.79	0.69	1.40	5.75	3.50	3.50	
U S A	7.00			3.00	4.00		
European Union	11.40	0.10	3.79	0.50	0.70	6.31	
IDA							
IDB							
IMF	1.53	0.39	0.74	0.36	0.05		
UNDP							
UN Orgns	1.00	0.50	0.50				
Other Bilaterals							

Sector	Indicative Commitments	Disbursements		Projections			Major Projects or Focus
		HFY95	HFY96	HFY97	HFY98	HFY99+	
							<p>Inter-American Investment Corporation Screening Investment proposals, Energy sector is of great interest, Financial sector</p> <p>European Union – Indicative Program Concentration 2 – Infrastructure Improvement of road infrastructure in the western part of the southern peninsula, Conditionality includes participation of private sector and communities in road works, Financial management of roads</p> <p>European Union – Indicative Program Outside of Concentration – Private Sector There is now a private sector specialist at EC SME and microenterprise, Increase access to credit, Professional training</p>
Decentralization							<p>IDB Potable Water in Secondary Cities Program (HA-0014) and related technical Cooperation USD35m</p> <p>IDB Technical Cooperation for Decentralization (HA-0060) USD3m Prepared in early 1996 Not ratified as of March 1997</p> <p>IDB Municipal Development Program (HA-0040) USD40m</p> <p>WB Two TA and Institutional Development Projects TAP2, Public Sector Modernization</p> <p>IDB Investment Sector Loan (HA-0046) USD52.7m</p> <p>Rehabilitate ports through PURE II (HA-0050)</p>
Totals Canada France Germany Japan Netherlands Switzerland U S A European Union IDA IDB IMF UNDP UN Organizations Other Bilaterals							

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Sector	Indicative Commitments	Disbursements		Projections			Major Projects or Focus
		HFY95	HFY96	HFY97	HFY98	HFY99+	
							<p>Rural Roads Program (HA-0075) USD40m</p> <p>European Union – Indicative Program Concentration 2 – Infrastructure Improvement of road infrastructure in the western part of the southern peninsula, Conditionality includes participation of private sector and communities in road works, Financial management of roads</p> <p>European Union – Indicative Program Intervention 3 – Governance Reform decentralization – communal law, Public sector reform, Privatization, Local development funds, Judicial system reform, Local development programs that integrate the communes (especially the Mairies) decentralized ministerial structures, NGOs, civil population, etc</p>
Tourism Totals Canada France Germany Japan Netherlands Switzerland U S A European Union IDA IDB IMF UNDP UN Organizations							<p>IDB Decentralization (HA-0060) USD3m Prepared in early 1996 Not ratified as of March 1997</p> <p>WB Forest and Parks Protection TA Project 2920-HA USD21 5m Not yet effective Approved 9/96</p> <p>European Union – Indicative Program Outside of Concentration – Tourism Basic infrastructure, Specific actions can be defined</p>

APPENDIX H

Appendix H Infrastructure Conditions

1 Infrastructure Deficiencies

Throughout our interviews with businesspeople and other in Haiti, a common theme was the contraction of business activity, over the last 10-15 years, because of lack of or severely degraded infrastructure. This theme was raised by virtually all sources with respect to both Port-au-Prince and the regions.

Particularly in the regions, businesspeople referred to earlier times, when infrastructure was located on a decentralized basis specifically to take advantage of decentralized economic resources and opportunity. In many instances, relatively efficient infrastructure served a thriving commerce that extended to many rural areas of the country.

Existing infrastructure

The main infrastructure in Haiti that impacts private sector development includes¹ main roads, rural roads, ports, airports, telecommunications, internet, and power.

Transport -- Roads

Haiti's road infrastructure comprises 4,545 kms of roads², classified as

National	590 kms
Departmental	1375 kms
Rural	2470 kms

This network includes

Paved Road	580 kms
Gravel Road	1495 kms
Earth Road	2470 kms

The World Bank regards this as a small network for a country of Haiti's characteristics.

Transportation infrastructure has suffered from a decade of neglect². In 1995, less than 7% of the main road network was in good condition. According to the World Bank, IDB and people interviewed, most of the rural network is in extremely poor state. The condition of the roads has deteriorated greatly since 1991, the date of the last major survey¹. That survey reported 34% of

¹ Quoted by IDB Project Document, Secondary and Tertiary Roads Rehabilitation and Maintenance Program, Approved March 5, 1997 (HA-0075)

road network to be in fair condition, 72% of the paved network in fair condition, 51% of gravel and 87% of dirt roads in poor to bad condition. The system provides poor access to rural areas.

Port-au-Prince streets suffer acute traffic congestion, resulting in high vehicle operating costs and transit times.

According to the World Bank, capacity for international traffic was concentrated in Port-au-Prince on the basis of a Transport Master Plan prepared in the late 1970s. Local and transit traffic were to be developed through expansion and upgrading of road network and coastal shipping facilities. Substantial expansion of Port-au-Prince port and airport took place. The road network was upgraded and expanded. However, the Transport Master Plan was never upgraded nor its assumptions monitored. It did not foresee the extent of migration to cities, especially to Port-au-Prince.

Transport -- Rail

40-km of privately-owned railway (for transport of sugarcane)

Transport -- Airports

2 international airports (Port-au-Prince and Cap Haitien). Both airports are in need of significant improvements.

Cap Haitien can accept large planes such as 727s. Until recently, Cap Haitien had regular DC6 connections to the U.S.

5 domestic airfields (restricted to small craft)

Air travel is possible from Port-au-Prince to the main provinces.

Transport -- Ports

Haiti has 40 mooring points. These include

2 main seaports: Port-au-Prince and Cap Haitien
12 minor ports

7 of Haiti's 9 largest cities are ports. The infrastructure varies in condition, and a priority should be to make immediate use of infrastructure that can be rendered useful. The wharf at Jacmel is near collapse, and the ports at Les Cayes and Jacmel are heavily silted. The port at St. Marc is functional, but swamps in heavy seas. Container storage for the port is at a distance, and requires transit through the city's main thoroughfare. Gonaive's port is functional, but lacks customs facilities. A private investment in a port near Gonaive is not yet operational.

Cap Haitien's port is the closest Haitian port to the U S It is a large facility, with large storage areas The Cap Haitien community has been trying to attract a Caribbean shipper, Tropical Shipping, to make regular, scheduled stops at Cap Haitien

All of these port have been the topic of discussion for new investment Jacmel Port could be rehabilitated and dredged, or rebuilt at Cote des Freres, nearby Les Cayes cold be improved and extended However, a private group has advanced plans to build a major port facility at St Louis-du-Sud, about 30 kms from Les Cayes ² The new port at Gonaive offers good potential, but blockages to its operation need to be settled

APN is the State Authority overseeing the country's ports Port-au-Prince is the principal port It has a roll-on/roll-off facility, a 30-ton gantry crane, and a 50-ton mobile crane Port-au-Prince is responsible for 90% of the revenues and taxes generated by Haiti's ports Its April 1995 cargo was an annualized 500,000 tons (50% of pre-embargo level), and this was expected to rise to more than 800,000 tons during 1995 (70% containerized) 6 private terminal operators operate within the port of Port-au-Prince

The Port Authority, APN, has tariff jurisdiction over all public and private ports, terminals and wharves Port charges are the same for all ports Changes in tariffs require a Presidential order APN has operational jurisdiction over all public ports regulates vessel traffic, provides longshore labor for terminal cargo operations, rents public warehousing, open storage areas and cargo handling equipment to the ports' users, provides water and electricity, and provides for the safety and security of port operations (Operational control over private wharves is restricted to vessel traffic control) APN is responsible for the development and maintenance of port infrastructure

According to the IMF, IFC and several international agencies and domestic businesses, the Port Authority suffers from inefficient port handling operations and inappropriate management structure that combine to make Port-au-Prince the most expensive port in the Caribbean Region Per the IFC

The commercial port at Port-au-Prince has historically been the most expensive in the Caribbean region when compared to competitor ports in the Dominican Republic, Jamaica and others Industry sources in Haiti have suggested that this is primarily due to institutional corruption, an under productive workforce, onerous work rules, inadequate facilities and lack of appropriate equipment As a result, Haiti's imports may be overpriced in the domestic market and exports uncompetitive in world markets, thus affecting the overall economic development of the country

² At first appearance, this private investment would seem to offer potential reportedly an excellent site, room for storage and adjacent industrial parks, the possibility of servicing much of the southern peninsula by road or cabotage, and proximity to shipping lanes There is concern about impacts on nearby beaches

Wharfage tariff rates per ton of containerized cargo are between 2 and 8 times more expensive than in the US and other Caribbean ports

	Container Wharfage Tariff (USD/ton)	Cost per Vessel Call (USD)
Bahamas	1 02	6540
Miami	1 25	4792
Baltimore	1 56	5788
Costa Rica	2 00	6337
Venezuela	3 20	9660
Aruba	3 31	28110
Colombia	4 50	16155
Panama	5 71	18943
Haiti	10 00	60774

Per the IFC, standard container vessels may have to pay between US \$30,000 and US \$60,000 more per vessel call at Port-au-Prince than any other competing port in the region

A similar comparison of Port-au-Prince's wharfage tariffs for break bulk and bulk cargo with those at competitor ports in the region indicates an even greater cost disadvantage to Haiti. Break bulk cargo at APN facilities is charged at a tariff of US \$10 00 per ton compared to an average of US \$2 50 per ton at competing regional ports, while bulk cargo tariffs at APN facilities are US \$6 00 per ton compared to a competitive market tariff of less than US \$1 50

The IFC cites several other grave problems with respect to the port of Port-au-Prince

- Vessel handling is inefficient maritime agents are required to hire longshore gangs of double the size necessary (and required at other international ports), Maritime agents are invoiced for overtime of administrative staff, when this staff is neither available nor required to work overtime
- Productivity of administrative staff is low

Port-au-Prince	458 tons/employee in 1994
	751 tons/employee in 1989 (peak)
US West Coast Ports	15000-60000 tons/employee/yr

- Port management is poor Security within the port premises is non-existent, port facilities are overcrowded with unneeded people, affecting efficient movement of cargo and creating safety hazard, APN is about 800% overstaffed, there is immediate need to rationalize the labor force (as has been done in Mexico, Venezuela and Colombia)
- The management structure is inappropriate Overly complex and inefficient
- Physical facilities are in need of improvement and require considerable investment Open storage space is inadequate, Cargo traffic within the port and outside the port is heavily

congested, causing severe time delays, Cargo handling equipment is frequently unusable because of lack of spares, the port has no room for expansion, unless currently leased land is re-acquired (The land adjacent to the port is occupied by squatters)

Public Power Supply System

The table below compares energy costs in Haiti to several other locations

Cost of Electricity

Type of Consumer	Haiti	Dominican Republic	Jamaica	Mexico	El Salvador	China
Residential	\$0 101		\$0 135			
Commercial	\$0 133		\$0 132			\$0 031
- Large Commercial			\$0 113			
Industrial	\$0 102	\$0 14	\$0 132	\$0 022	\$0 082	\$0 062 - 0 125
- Large Industrial			\$0 113			

The electricity supply is managed by a parastatal, Electricite d'Haiti (EDH), under supervision of the MPWTC EDH has a national monopoly on the generation, transmission, distribution and commercialization of electric power

EDH supplies about 132,000 customers Electricity service is unevenly distributed and is available to 45% of the population in Port-au-Prince, but only 3% in the rest of the country Even in Port-au-Prince, power supply is unreliable (18-24 hours per day in most neighborhoods during the rainy season), and considerably more unreliable during December-March Failures due to equipment failure are frequent, and blackouts are common in the provinces Many areas outside of Port-au-Prince are effectively without power

The main grid covers the Metropolitan Area of Port-au-Prince It was expected to have a guaranteed capacity of 95MW (up from 33MW in Oct 1994) and maximum wet season capacity of 133MW Peak demand was estimated to be 84MW at end of 1994, but reached 100MW during rainy season of 1995 The IDB believes that improvement in supply has apparently caused pent-up demand to be revealed

Based on preliminary figures from an IDB-financed consultant's study, the needed additional capacity for Port-au-Prince are

- 3 additional 10 MW diesel units by 1997,
- 1 additional 10 MW diesel unit in 1998, 2000 and each year thereafter,

- A 10MW gas turbine peaking unit will be needed in 2001, and
- System interconnectivity after 2005

Outside of Port-au-Prince, EDH provides inadequate service to the general population, especially in rural areas. Generation in the last 6 months of 1995 was 28 Gwh, well below demand. Capacity was also well below peak loads. The situation has improved lately in the Cap-Haitien area, since an Independent Power Producer recently started generation.³

During the second semester 1995 in Port-au-Prince, energy generation was 273 Gwh, while billed energy was 133 Gwh - so total energy losses were 51.3%. The electric sector has shown a downward trend.

Losses in 1980 (27%) were high by international standards

In 1989	40%
In 1993	43.5%
In 1994	50%+ (63.7% in 9/95)

Billing and collection are also very deficient. Less than 50% of billings were recovered. This implies that <25% of energy produced is paid for. EDH has had net operating losses since 1989. It also suffers from numerous other technical and managerial problems.

Since July 1995, EDH has received considerable technical assistance from EDF-HQI (financed by CFD and CIDA). Scope and operational autonomy of the TA is limited. Some improvement in electrical losses and collections since the TA became involved.

An IFC study recommended that the sector adopt a "vertically disaggregated structure" -- to vertically separate generation, transmission and distribution, and horizontally disaggregate generation and distribution. Under this scenario, there would most likely be one transmission company, one hydro generation company, and two vertically disaggregated utilities, with private sector ownership, in the generation and distribution businesses.

IDB comments that the Haitian market may be too small to forego substantial economies of scale that are still possible, and that more and larger companies are likely to be needed to provide effective competition in the Haitian market. Therefore, the IDB supports a concession or lease contract. The IDB added, in later interview, that considerable private sector power generation was possible but that power distribution and billing were the main issues. This, it was said, would provide rationale for regionally-based electricity companies.

³ Given that EDH barely recovers its operating costs with its revenues, delivery by this IPP may soon run into difficulty as there is a very high risk of default on payment on the part of EDH (per IDB Report)

Consideration is also being given to shared ownership companies (public-private), with private operating and management control This type of investment is being discussed in Jacmel

The principle that electricity generation should benefit from private sector involvement has been accepted by the government, and the modalities are under study

For the purposes of private sector development, several principles are desirable

- Dramatically improved service accessibility and delivery
- Dramatically improved cost effectiveness
- Private participation in provision of power
- Community involvement in planning services

Telecommunications

Haiti suffers from very inadequate domestic coverage Haiti has 8 telephones per 1,000 people (DoC Commercial Guide says 6 per 1,000) which is about the same coverage as poor African countries The connection completion rate is also inadequate Costs for international connections are very high

Many businesses in the capital area use 2-way radios for communication The country has no cellular operators Licenses have been applied for (One firm has reportedly invested US \$2 million, but has not been permitted to proceed)

Only 2,000 lines serve areas outside of Port-au-Prince 600 are reportedly not working Throughout the country, telephone service is interrupted when lines become wet during heavy rains

The cost of telephone service is high, and users look for alternative means of communication ⁴

⁴ One Cap Haitien businessman cited a cost of US \$2 50 for a 1-minute call to the United States The same call from the U S costs \$0 43

Cost of Telephone Communication (USD)

Country	Operator assisted		Automatic Calls Ordinary(1)		Savings(2)	
	First 3 Minutes	Additional Minutes	First 3 Minutes (1 min from US)	Additional Minutes	First 3 Minutes (1 min from US)	Additional Minutes
From USA to Haiti	N/A	N/A	1 89	1 32	1 14	0 85
To USA from Haiti	6 00	1 66	2 33	1 66	2 00	1 33
To Argentina	6 00	1 66	2 33	1 66	2 00	1 33
To Chile	6 00	1 66	2 33	1 66	2 00	1 33
To El Salvador	5 00	1 33	2 00	1 33	1 66	1 33
To France	6 00	1 66	2 33	1 66	1 66	1 33
To Jamaica	4 00	1 00	1 66	1 00	1 33	0 80
To Mexico	5 00	1 33	2 00	1 33	1 66	1 33
To Dominican Republic	4 00	1 00	1 66	1 00	1 33	0 80

(1) Ordinary Rates
Effective 0600- 2259 (1600-2200 from US)

(2) Savings rates
Effective 2300- 0559 (2200-0700 from US)

Internet service is offered by two companies -- ACN and America Online. New Internet providers are waiting for lines. e.g. MCI, Compaq, and an investment by the Mevs family. Internet lines are currently very congested (only 20 lines, 5 not working, are reportedly available), connection speed is slow, line quality is poor, and costs are high. Only 400 to 500 people are said to be connected to the Internet.

Responsibility for telecommunications rests with a parastatal, Teleco. Privatization is planned, but will likely meet with significant government opposition. Primary needs are being undertaken with assistance from the World Bank, the Inter-American Development Bank, the European Union, and others.

GoH and the donor and lending community have recognized improved infrastructure and related services as being of vital importance to the growth of Haiti's economy. The IMF describes Haiti's infrastructure priorities as being

- Integrating marginal regions through rehabilitation of existing roads, ensuring adequate maintenance of existing roads, and improving accessibility through extension of rural roads,
- Providing coastal cities with adequate port installations to encourage maritime transport of vital products and take pressure off the road system burdened by large transport vehicles, and
- Taking advantage of existing installations through maximizing their use.

About 45% of the Public Sector Investment Program is devoted to basic infrastructure. The planned physical, managerial and operational improvements, if carried through, will provide Haiti with the basic infrastructure and services on which sustainable private sector growth can be based.

Some of the most significant improvements will include

Main Roads

The Overall Road Rehabilitation Program (IDA and IDB, EU, KFW) includes³

- Rehabilitation of 250 to 395 kms of intercity roads. Most deteriorated parts of RN1,2, 3
- Rehabilitation of 31 kms of Port-au-Prince Streets
- Maintenance of 2000 kms of Intercity Roads
 - 1000 kms by contract
 - 750 km by local communities

- 250 kms by force account⁵
- Institutional strengthening
- Transport Master Plan
- Study on the promotion of local enterprises and the setting up of an equipment rural agency

It is expected that the entire main road system will have been rehabilitated by end of 1999 (with the possible exception of 75kms of RN3, still unfinanced) ⁶

Rural Roads

The IDB Secondary and Tertiary Roads Rehabilitation and Maintenance Program includes

- Rehabilitation and maintenance of 200 kms of secondary road (14.5% of secondary network)
- Rehabilitation and maintenance of 300 kms of tertiary roads (11.6% of tertiary network)
- The improvements are estimated to serve 750,000 rural residents
- Community development assistance to local stakeholders for the management of the tertiary network
- TA and training for private companies and communities involved in the rehabilitation and maintenance of works

Other Road Maintenance Issues

There has been little maintenance of the roads network in recent years, and the network has, as a result, been extensively degraded

The World Bank and IDB have focused attention on the issue of roads management and maintenance. The GoH has accepted the following courses of action:

- (WB) Create a separate Central Roads Directorate for intercity roads
- (WB) Strengthen the 9 regional departments, as well as a special Metropolitan Directorate for Port-au-Prince

⁵ Force account construction or maintenance is carried out directly by government staff and equipment

⁶ IDB

- (WB) Organize DTP into a Central Urban Directorate, with specific units within each department
- (WB) Shift maintenance activity from Force Account to private sector and local communities IDB says underway

The capability of the private sector to carry out road maintenance is considerable. The World Bank cites 3 firms as being capable of undertaking major works, and 28 small and medium-sized firms with the capacity to carry out periodic and routine maintenance. The growth in the construction industry as a whole has been fueled by housing construction demand, and the IDB has identified about 15 major firms.

Road maintenance by rural communities was started in the late 1970s under a USAID-financed program. USAID ended support for the program in the mid-1980s, and performance and quality have diminished considerably since that time. Nevertheless, in 1995, about 55 communities maintained about 600 kms. The involvement of communities in maintaining rural roads should be an initiative that can be greatly extended.

The IDB states that "external pressure cannot replace a local constituency for maintenance programs, stemming from a strong contractor's sector with high stakes in such programs and better linkage and supervision from road user revenues in road maintenance and expenditures." Thus, for continued road service delivery on well-maintained roads, the IDB advocates local responsibility, linkage to road user charges, and thriving private contracting of road maintenance.

The decentralization of responsibility to municipalities or communes is a priority. Municipalities have the responsibility for rural road construction and maintenance, but they do not have the necessary resources. The IDB Technical Cooperation Loan is designed to help redefine the institutional and fiscal framework of local governance and strengthen the capacity of the municipalities. However, it was severely delayed because of delays in approving the budget.

According to the IDB, the main impediment to the efficient provision of local services is the excessive fiscal centralization. The principle of establishing a road funding mechanism based on earmarked user charges -- a National Roads Maintenance Fund -- has been accepted by GoH.

Power

The GoH has included EDH amongst the public enterprises to be privatized. The IDB is assisting the implementation of management and operating improvements at EDH, and is assisting the privatization process, through a technical assistance program -- *IDB Electric Sector Reform (ATN/MT-5334-HA) Private Participation and Legal Regulatory Reform of the Electric Sector*.

Per the IDB Project Summary

The main objective of the Technical Credit is to assist the GoH in the reorganization of the electricity sector and the establishment of a framework for the provision of electricity in conditions of economic (productive and allocative) efficiency by means of an increased participation of the private sector and its capacity to manage and operate the sector more efficiently, and to bring needed financial resources for its growth and development

The technical assistance includes

- Provision of TA to the unit responsible for implementation of the electricity reform program for analysis and choice of options for the reorganization of the sector
- Preparatory studies for a sector reorganization plan and bidding documents for private participation in the reorganized sector
- Formulation and elaboration of a legal and institutional framework adequate to the chosen option

The Planned Investments in Infrastructure will have Significant Economic Impact

The planning improvements in power and communications are basic requirements for increased business activity. Providing reliable service – removing existing constraints – should facilitate investment throughout the economy. Providing areas outside of Port-au-Prince with these services is crucial to business investment, business activity, and employment generation.

The investments planned for the transport sector should have enormous impact, particularly is accompanied by improved port operation. The improved main road network will slash travel time, vehicle operating costs, and losses and damages due to poor roads. This alone will encourage increased and decentralized business activity, and will permit greater agricultural production (by providing access to markets and reducing the costs of reaching markets). An improved main road network also opens up possibilities for greater industrial production outside of Port-au-Prince, as domestic markets, ports and airports will be more accessible. An improved main road network will connect Hinche and other locations to the transport network, and will permit Hinche to become a more significant commercial center. It will enable the agricultural production of Hinche and its hinterlands to reach domestic and international markets.

Of perhaps most striking significance will be the impact of the investment in rural roads. A usable rural roads network will provide rural access to market towns, small urban areas, and secondary cities. This can be expected to generate very large increases in agricultural production, rural commercial activity, and rural employment. It also will facilitate a virtuous cycle of providing rural populations with greater access to social services and information, which should encourage greater and higher-value rural production.

Planned Improvements will still Leave Important Gaps that are a Priority for the Private Sector

Rural Roads

The planned improvements will not address the rehabilitation and ongoing maintenance needs of much of Haiti's rural road network. It will also not address the expansion and densification of the road network. Thus, in the absence of additional resources, much of Haiti's rural population will remain isolated, and unconnected with market centers.

Considerable attention is needed to achieve a sustained, adequate rural roads network that is sustainable. USAID programs can contribute to this road rehabilitation and maintenance objective -- Title 3 programs are particularly well-suited for this. Other efforts can include support to local communities for decentralized road maintenance and community-based road maintenance, expanded use of contract maintenance, and use and management of road user charges.

Ports

The GoH accepts the need for a major restructuring and privatization of port operations. The modalities for this are under consideration and need to be concretized and implemented. An IFC Report presents several objectives for the restructuring of ports operations at Port-au-Prince (and other ports):

- Economic growth assisted by a productive and competitive ports system that allows trade and business,
- Institutional/business structure that insulates the port from political interference in import governance and financial management,
- Establish a secure and reliable tax base,
- Attract foreign technology, expertise and investment, and
- Avoid concentration of wealth.

The IFC specifically mentions the need for popular support and consensus relating to the port privatization, and proposes a focused plan and public information campaign.

The IFC presents 2 basic options for the ports:

- Restructuring of port operations with some private sector provision of services. APN undergoes a complete reorganization. This solution would not remove several constraints or attract investment.

- Concession (IFC recommendation) Under the concession arrangement, all port operating functions would be privatized and concessioned out to private sector investors (foreign and domestic), who undertake all above-ground port investments APN would become a landlord responsible for planning and implementing capital developments, regulating security and safety, and creating an attractive and competitive business environment

Continued assistance is needed to realize the privatization of the Port-au-Prince port, and to properly consider and proceed with opportunities for other Haitian port facilities

Airports

Outside of Port-au-Prince and Cap Haitien, airport facilities are basic However, air traffic is less of a priority than ports or roads

Cap Haitien and Port-au-Prince airports are in need of major upgrades Private interests have expressed interest in managing these facilities ⁷ A privatization process is underway for Haiti's airports

General Comments on Service and Affordability

Infrastructure-based services in Haiti are generally expensive and of poor quality, when they are available The GoH has accepted that these services must be privatized and costs recovered through user charges However, the privatization process is slow and uncertain, fraught with vested interests

While emphasis is still needed on privatization, and every effort should be made to ensure that privatization is implemented equitably and rapidly, other avenues should also be pursued as a means of furnishing infrastructure and related services

In particular, competition should be permitted in the infrastructure sector Several attempts have been made by private Haitian investors to invest in and provide services ports, electricity, communications, etc Plans are being discussed for many such investments Some efforts are entirely private in nature Some are very innovative in the Haitian context, and include companies with shared (stock) ownership, companies with part of the ownership shared amongst residents of the communes, and projects in which the State has part ownership

Until now, such attempts to introduce private services that compete with parastatals -- or that offer services that parastatals are not providing -- have met with blockages at the level of Government approval Such investments offer great potential, and step around the contentious issue of privatization

⁷ American Airlines expressed interest in managing the Cap Haitien Airport Air France objected to this Information available in the "1995 Caribbean Cruise Shopping Study "

Another initiative would be the establishment of local oversight boards for service provision. In the Haitian situation, where service is shoddy, expensive and non-responsive, the parastatal provider has no direct responsibility to customers or to stakeholders.

Local management boards, representing community stakeholders (business, population, local government), should be mandated to lobby and advocate for improved service provision and interactive planning. This should also be the case for any private monopoly (concession, for example) provider of a public service. The service provider should be required to seek public input, and mechanisms mandated for this.

It is true that in cases of shortage -- of electricity or water for example -- some restriction of service is required. However, citizens complain that cutoffs and outages are not announced in advance, and are unpredictable in location and nature. Joint planning, to maximize benefit to business and the population by providing service in optimum areas at optimum times, can be useful.

Argument is made that improvements should be made in parastatal services providers: restructuring, provision of training, and improved performance incentives. While such ideas are laudable, they also would be partial measures when compared to alternatives of introducing competition and privatizing. While some limited improvements can be useful -- for example, providing mechanisms for service providers to engage stakeholders in the planning and management of services -- devoting efforts to training and restructuring would divert attention from the main goal of introducing competition, private service provision, and privatization.

APPENDIX I

Appendix I Tourism SWAT

Strengths, Weaknesses, Opportunities & Threats

Separate SWOT analyses are presented for cruise tourism and for traditional (non-cruise) tourism because their characteristics are quite different

SWOT ANALYSIS - Cruise Tourism

Strengths - Internal

The success of an existing operation at Labadie -- The resumption of operations by RCCL has been relatively problem-free [despite the recent villager disturbance briefly interrupting operations] and is being watched by possible new operators

Haiti's good location -- It is located in the center of the cruise industry's most intensively used area of activity, the Caribbean sea

A positive track record pre-1985 -- Prior to 1985 several operators made regular calls at Port-au-Prince, Cap Haitien, St Marc ports, Port-au-Prince alone handled up to 160 calls per year

The availability of suitable new locations -- Several virgin islands and remote coastal locations are suitable for development of enclave cruise destinations (like Labadee shores, Mole St Nicolas, Tortue & Vache islands)

The strong appeal of the exotic Haitian culture -- In the interest of product innovation, cruise operators could market numerous shore excursions tailored for the international traveling public's curiosity about this unique culture

Supportive position for cruise tourism in the tourism master plan -- The plan strongly recommends actions by the government to expand the industry

Private sector interest -- Serious interest in cruise projects by private developers was reported at Môle St Nicolas and at Labadie Shores

It is apparent that there is definite private sector interest in expanding this activity into additional points in Haiti

Strengths - External

The innovative drive of the cruise industry -- Most of the industry's leading operators, all of whom operate in the Caribbean, are seeking new locations to promote, and appear to look favorably on Haiti as an eventual exotic destination

Limited infrastructure needs of ports of call -- Cruise liners can use existing cargo docks, and can operate satisfactorily in shallow offshore areas by use of tenders and remote anchorage (as at Labadie)

Rise in popularity of enclave destinations -- These are usually located on remote islands or coastal locations, that can be operated by a private entity in an easily controlled environment, investments valued at millions of dollars have been made at several points in the Bahamas

Haiti's mid-Caribbean location -- Vessels operating on east Caribbean or west Caribbean routes can make calls at Haiti on their circuits

Restrictions on cruise operations -- At some Caribbean ports of call, because of technical port limitations, or in an effort to maintain a balance between cruise tourism and land based tourism, some governments are putting limits on the number of operations, and are starting to ration capacity

The cruise industry is forced to develop new ports in the region, and is clearly aware of Haiti's possible re-emergence as a cruise destination. The Florida Caribbean Cruise Association (Miami) an industry trade group, has indicated a willingness to assist in the rebuilding of the country's cruise industry

Weaknesses - Internal

Inattention of Haitian Government -- The government has not developed any strategy to relaunch the industry in Haiti. To the contrary, some claim that the Môle St Nicolas cruise port project is stalled because of total government inaction

Lack of clear legal procedures -- Authorities at both the local and central government levels are unsure which authorizations and procedures are in fact necessary for port development on state land or on private land

Unfamiliarity with land leasing legalities -- The agencies responsible for public lands appear to lack familiarity with the legal and financial environment in which commercial land leases or sales contracts are negotiated for the purpose of private development

Occasional labor related social disruption -- Rivalries among potential stakeholders (unions, stevedores, artisans, taxi drivers, vendors, foodservice staff, etc) who lack experience with open and fair competition can lead to conflicts at or near ports as happened in April 1997 at Labadie

Two of these issues relate to the lack of preparedness of government to license such operations at new locations, the original RCCL lease at Labadee was negotiated many years ago (and successfully renegotiated in 1996), and the government has no recent experience in transferring land for private use by the cruise industry. Poor infrastructure is not cited as a major weakness,

because in the perception of some operators, remoteness of location is a benefit and not a drawback, if it shields the location from local problems and if it facilitates the protection of an environment of great natural beauty (either marine or land environment)

Weaknesses - External

There are no apparent external weaknesses that the cruise industry faces which might jeopardize Haiti's efforts to expand its cruise industry

Opportunities

An existing port at Cap Haitien -- With a purpose built cruise dock suitable for upgrading for a rapid resumption of service within 3 months, cruise ships could serve the strategic function of reopening Cap Haitien at a manageable pace, to international tourism without need for expansion of hotel capacity. The successful resumption of cruise activity at Cap Haitien would greatly improve the investment environment for hotel expansion in the northern part of Haiti

The Jacmel dock -- Jacmel is a town of high tourist potential, and it could be outfitted with a cruise dock within a year, to coincide with the completion of the rehabilitation of the mountain road. Jacmel could then develop as the country's southern tourism focus in the short run

Resumption of cruises at Port-au-Prince -- While this may be the most problematic port for cruise resumption, (because of the city's social pressures and woefully inadequate road system) a plan to resume service within a 2-3 year time frame may be workable if the proper physical and legal environment can be created. Port-au-Prince could be developed as a marketable culturally oriented port of call, with great benefit for the country's arts and crafts industry

Promotion of publicly owned coastal areas and islands -- If the Haitian government develops a clear process for negotiating ground lease terms for pleasure ports or tourist developments of coastal areas or islands, this will be a major advance worth publicizing to the business community. It will lift the constraint of uncertainty regarding land holding and facilitate evaluation of remote locations for port development

Threats

Continued government inaction on land -- If the government does not clarify the land situation, it will be difficult for new ports to open up to cruise tourism. Investment may be limited to privately owned property, which excludes Haiti's islands

Failure to open multiple-user ports -- Ideally the country would offer several marketable ports that are open to different operators, as opposed to the Labadie operation which is used solely by one operator (RCCL, the developer)

Suspension of service because of social unrest -- In the event of violent social unrest at or near port locations, as a safety measure, operators may reduce or fully cancel service to Haitian points if they perceive any threat to lives or property. This possibility is less likely in the case of remote ports that are well away from major population areas (such as the enclave ports)

The emergence of Cuba as a cruise destination -- With Cuba's size as the largest island in the Caribbean, it also could offer a number of locations as ports of call. Once US operators gain permission to operate there, they will be able to expand into several new locations. It is not clear if other operators will open any regular service into Cuba on a significant scale before lifting of the embargo.

The first threat hinders development of new ports, but can be addressed by limited government action. The second can be addressed by adopting a strategy to favor multiple-user port operation over sole use operation. However, even if only a few single-user ports are developed instead of the city ports, this is partial success.

On the issue of Cuba, the rise of this newcomer as a cruise destination may take time since operation of itineraries linking Cuba with any US territory is strictly prohibited, as ships calling at Cuba are denied permission to call at any US points, which includes the major ports in US Virgin Islands, Puerto Rico and of course, Florida. Once the trade embargo on Cuba is finally lifted, it is not clear if the new entrant will divert trade from competitors, or stimulate additional growth in the cruise traffic. Any effect on Haiti's tourism cannot be known now.

SWOT ANALYSIS - Traditional Tourism

Strengths - Internal

The strong appeal of the unique Haitian culture -- The travel trade recognizes that the theme of blending African, French and Creole elements into a unique culture can once again be effective in marketing Haiti abroad.

A positive pre-1985 track record -- Prior to 1985 the country had a growing tourist trade, which had been built up starting in the 1950s. At the entrepreneurial level there is a clear will to revive Haiti as a destination, many in the country's travel trade successfully marketed the country prior to the collapse.

Haiti's proximity to market leaders -- It shares a land border with the Dominican Republic, one of the region's most significant destinations, it is also close to two other industry leaders, Jamaica and Cuba.

Growing investor interest in hotel & resort projects -- Some modest hotel expansion is under way at Port-au-Prince and Côte des Arcadins, and there are projects proposed at various locations,

projects under way are financed by retained earnings and by local debt. There are reports of investor interest from resort developers operating elsewhere in the region (Jamaica, Dominican Republic, Anguilla)

A collective will at the community level to restart tourism -- This seems apparent at Port-au-Prince and Cap-Haïtien, points which used to have thriving tourist businesses, hoteliers, restaurant owners, craftsmen and art dealers clearly see a major stake in tourism and are attempting initiatives to revive the industry

A master plan for tourism development -- The completion in 1996 of this plan (UNDP funding) is understood by many in both government and the private sector, to signify the high priority that the government assigns to tourism, in a general sense the document serves to reveal some potentials and to focus government and investor attention on the many infrastructural improvements essential for expanding tourism

With the onset of relative calm and order in Haiti, some hotels are already upgrading and expanding capacity so that the lodging stock suitable for foreigners, currently 850 rooms nationwide, could rise to the vicinity of 1,000 rooms during 1998

Strengths - External

A thriving Caribbean tourism market -- Over the first half of the current decade, tourist arrivals to the region rose an average 697,000 each year, indicating continued expansion in line with prosperity in the source markets (North America and Europe), arrivals to Haiti's four neighbor countries have been expanding at a rate of 8% annually (248,000 tourist arrivals) during the 1990s

Changes in North American demography and tastes -- In view of population aging trends, of the rising awareness of the health risks of sunbathing, the rising popularity of active and enriching vacations, Haiti should market itself to defined groups seeking cultural stimulation and not requiring the idyllic beaches that the region is famous for

Travel trade readiness to support new destinations -- Huatulco (Mexico), Guanacaste (Costa Rica), Roatan (Honduras), Turks & Caicos, and Margarita (Venezuela) are examples of emerging destinations now competing alongside the established ones in the region, through the standard travel marketing channels. The incremental cost to the industry to market a new destination is minimal

A willingness to "give Haiti a try" -- Because of the widespread awareness of the country's extreme poverty and turbulent past, and because of the uniqueness of its culture, some industry leaders are quite disposed to consider operations in Haiti once secure conditions permit

The *marquee* value of the Citadelle -- In the Caribbean region, and particularly in the Francophone world, this striking edifice is well known as a symbol of Haiti's past, it is a

major 'magnet' attracting a small but growing flow of tourists who are visiting the Dominican Republic. There is a great curiosity among French speakers and among the people of the Caribbean nations to tour it and the nearby Sans Souci Palace.

Haiti has the advantage of proximity to expanding destinations in the Caribbean, and of not being perceived as a threat to any of them.

Weaknesses - Internal

Inaction of the Haitian Government for infrastructure upgrading -- The failure to improve the most basic road and airport infrastructure thus far deters any major development in remote areas as well as in the established areas.

Lack of an investment code -- This appears to be more of a hindrance for foreigners than for locals already familiar with business conditions in the country. Factors relating to permitting, import duty exemptions, income tax exemptions and the like are not well defined at present.

Unfamiliarity with land leasing legalities -- The agencies responsible for public lands appear to lack familiarity with the legal and financial environment in which commercial land leases or sales contracts are negotiated for the purpose of private development.

Occasional labor related social disruption -- Rivalries among potential stakeholders (unions, artisans, taxi drivers, vendors, foodservice staff, etc.) who lack experience with open and fair competition can lead to conflicts at or near tourist locations as happened in early 1997 at Labadie and on the Côte des Arcadins.

An uncertain business market for hotels -- Once the UN troops and other agencies and NGOs reduce operations and depart the country, it is totally unclear if a legitimate business demand for hotel space in Port-au-Prince and Cap-Haïtien will ever develop to fill this gap. In these cities, hotel feasibility is less speculative if a combination of business and tourist segments can support hotel investment, tourist demand is more sensitive to civil unrest than business demand, which will tolerate some insecurity since it has commercial links inside Haiti to protect.

Further degradation of the land & marine environment -- The extensive deforestation not only has created unusually barren and in some areas, unsightly landscapes for the Caribbean, but also has caused high topsoil effluent into the coastal seas clouding some areas containing particularly beautiful marine life. As a result, the potential for forms of eco-tourism is seriously jeopardized.

Weaknesses - External

An acutely negative image in the USA -- The general market for the Caribbean is a mass market beach-oriented one derived from the US middle and upper class mainly from the East Coast, because of the extensive media coverage of the high incidence of AIDS, of the lengthy

political turmoil in Haiti and waves of boat people, only a costly PR campaign can correct this severe image damage (*image massacre*) Possibly because of the relatively less attention in the European media, the image damage suffered in Europe does not appear to be acute or to be deterring European arrivals to Haiti

Substandard Air Links to Europe -- A major handicap for Haiti is the lack of air service to European points, with the sole exception of Paris, France (a weekly Air France flight) American Airlines, the sole major US airline in the region, does operate a major European network, but is not structured to carry Caribbean-Europe traffic for various reasons, one of which is the typically low yield (revenue) of long-haul tourist traffic This is a serious handicap for Haitian tourism

These weaknesses can all be effectively addressed and overcome through specific action Joint government and community initiatives can address the internal ones excepting the last one The negative image problem can be dealt with by use of a market strategy that targets other segments of tourism

Opportunities

The extension markets from nearby destinations -- There is a way to circumvent the image obstacle, by combining Haiti with marketable, "proven" destinations Haiti can draw in a share of the 3.7 million foreigners (Europeans, Canadians and Americans) visiting its neighboring countries, and spending 39 million tourist-days in the 79,000 rooms (1995 statistics), extension trips from the Dominican Republic, Jamaica, Cuba and Turks & Caicos can be easily marketable with efficient road and air links

The francophone markets -- These have several advantages they are already knowledgeable about Haiti from their education, are already visiting the Dominican Republic, Cuba and the French Antilles in significant numbers, are less demanding of physical comforts than mainstream American travelers, and are more culturally sensitive and demanding than the mainstream American market is in the Caribbean Improved air links are needed to Martinique & Guadeloupe, Montreal & Toronto, and to Paris and Brussels

Cultivation of several specific niche markets -- These include the Diaspora in the US and Canada, Afro-Americans, Germans and Italians, arts & crafts amateurs and dealers from everywhere, the culturally motivated shoestring traveler, and the widely-traveled sophisticate repelled by crowds and drawn to "undiscovered" destinations Well focused and cost efficient PR outreach can effectively draw these groups

Availability of publicly owned property -- If the Haitian government develops a clear process for negotiating ground lease terms for tourist developments of any kind (resorts, auberges, country clubs, crafts workshops & galleries, etc) in small towns, coastal areas or island locations, this will be a major advance worth publicizing to the business community It will lift the constraint of uncertainty regarding land holding and facilitate evaluation of non-urban locations for different types of tourist development

According to this scenario, Haiti would emerge in the short-medium term primarily as a cultural destination offering some beach resorts and drawing a mixture of different market segments

Threats

Continued loss of security and further image damage because of social unrest -- A resumption of civil unrest even if localized and not widespread, would rapidly deter investors and tourists alike, and if prolonged, could erase any expansion in tourism

Continued government inaction on land -- If the government does not clarify land holding legalities, it will be difficult for new tourist business to develop on the public lands. Investment may be limited to privately owned land, which doesn't include Haiti's islands and much of its coastline

Government failure to adopt an investment code -- Failure to officially adopt a clear code will prolong the uncertainty now surrounding procedures and incentives relating to tourism investments. In the absence of technical assistance addressing the investment environment, capital investment in tourism can expand at best only slowly

Inability to raise sufficient risk capital -- Since the construction of the 350 room Club Med in 1980, no other such major project has been built in the country. Neither Haitian nor foreign investors or lenders have any experience in evaluating the risks involved in hotel development, especially where resort projects are concerned, which have no business market to rely on

Loss of Club Med without a replacement hotel company -- Should this French firm choose to close its operation and if no other capable firm takes over its facility, the country would lose its sole resort with an international affiliation, which at 350 rooms is by far its largest hotel (However, should Club Med depart and another international operator arrive, Club Med's departure may pose no problem at all)

In all but the last case, government can to some extent address the problems and remove the serious constraints hindering investment in tourism

Identification of Major Opportunities and Constraints

Cruise Tourism

From the SWOT analysis, one clear opportunity is the availability of an undetermined number of coastal or island locations scattered across Haiti, that may be suitable for more enclave port operations such as RCCL's Labadie operation. It is important not to misunderstand the term *enclave port*, which refers not in the economic sense to a self-contained activity having no strong linkages with the local economy, but rather refers to the intended physical separation of the area from local towns or villages, for full the purpose of control over the environment (for both

security and aesthetic/ ambiance reasons) Haiti has the opportunity to entice one or more new operators to establish enclave ports into which they will plan to sink capital investment on an extended basis

A second opportunity is the reopening of the city ports at Cap Haitien and Port-au-Prince to cruise tourism, and the introduction of cruises to additional points such as Jacmel and Jeremie. Because of the potential for excursions at each of these locations, with proper preparatory work and promotional efforts, Haiti should be able within the short run to lure one or more operators into one or two of these points, thereby deriving valuable linkages for local businesses

A further opportunity is derived from broad government ownership of islands and coastline. By virtue of this fact, the government is in an ideal position to promote to the cruise industry a varied selection of sites, in a well conceived effort to build up cruise operations, at a time when in some Caribbean islands, cruise operations are undergoing restrictions by local governments. A promotional effort in 1997-8 should produce results by the 1999 sailing season and perhaps even in 1998

A final opportunity is Haiti's use of the cruise industry as a stimulus for a revival in traditional stayover tourism which requires hotel capacity and uses a full range of services. The successful expansion of international cruise activity to Haiti will signify persuasively to the investment community the government's high priority for tourism, it will also illustrate the market appeal of Haiti for tourism, and in so doing, to some extent reduce the high uncertainty associated with hotel and resort development

The constraints that are hindering the expansion of the cruise industry are not specific to that industry, but are rooted in systemic problems of government inaction. The past success Haiti had in the 1970s and 1980s as a cruise destination is proof of Haiti's competitiveness. The revival of the industry hinges on overcoming the nationwide constraints of problematic land tenancy, unclear investment procedures, and local and central government inertia, conditions which during the Duvalier era, did not exist. If effective reforms relating to land tenancy and foreign investment are enacted, without any specific reference to cruise projects, that will be sufficient to lift these constraints blocking investment

Stayover Tourism

The travel trade can achieve some synergy by creating marketable packages combining the unique culture of Haiti with one or more other destinations in the Caribbean, for the benefit of all the points included. These are combination "island hopper" packages that will rise in popularity as road links to the Dominican Republic improve, and as the short haul air links to the neighboring islands also improve. Collaboration between the Haitian travel businesses and those in neighboring countries is indispensable to achieve this mutual benefit. This is the opportunity for Haitian tourism to stop being bypassed, to improve their competitiveness, and directly share in the expanding tourism all around it

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The fact of broad public ownership of coastal properties and islands can also be used to advantage for resort development, as well as for port development (see preceding subsection) The government has an opportunity to clarify its ownership of areas suitable for hotel and resort development, and the conditions through which it can transfer lands to private parties for commercial development purposes The government has an opportunity to internationally publicize its clear and fair conditions making lands available for tourism developments

The constraints of government inertia, the lack of an investment code, and of the insecure legal environment regarding land holding in Haiti, have already been explained in preceding sections with respect to cruise port development, and are equally relevant to hotel and resort development as well Hotels and resorts are forms of commercial real estate development requiring a long term, immobile capital investment, unlike the cruise industry where ship itineraries can be changed from season to season, hotel development has no such flexibility, raising the relative risk Therefore, these constraints in the general business environment hinder hotel development even more than cruise development

The infrastructure inadequacies are also substantial constraints, just as they are for other economic sectors The deficiencies of the nation's roads, airports and seaports are all blocking easy access to various parts of the country, and furthermore blocking access between other countries and Haiti To regain competitiveness, easy access from tourism generating nations to Haiti's regions of tourist interest, is essential

The Opportunity of Integrated Resort Development

There is currently discussion of development of a fully integrated resort destination of several thousand hotel rooms, possibly combined with marina and airport projects, such as has been done in numerous locations in Mexico, at Puerto Plata in the Dominican Republic, and at a number of Mediterranean points The latest such development in the Americas include Huatulco and Guanacaste, both pacific coast locations respectively in Mexico and Costa Rica The tourism master plan for Haiti identifies a large tract at Fort Liberte as the country's ideal location (for 10,000 rooms) Because of the extensive planning required for such ventures, which rely heavily on foreign investment and sometimes on large support from development agencies, the present time is not too early to evaluate this type of development

However, at this juncture, in the short run it is indispensable to lift the constraints of insecurity, poor business environment, and poor infrastructure for the critical purpose of creating an enabling environment for investment of any scale, in tourist businesses anywhere in the country Only once this is accomplished can large scale resort development based on heavy private investment, be seriously considered The timing for such a development in Haiti may be good, since with the exception of Cuba, there does not appear to be any major integrated expansion of this kind getting under way, although capacity next door in the Dominican Republic will continue to expand As conditions in Haiti improve, the government can let private sector interests take the responsibility to evaluate such projects at locations that they judge to be the most suitable, and at an appropriate scale and time frame There are candidate sites on both the north and south coasts, and even on a few of Haiti's islands As the road system improves over

the next 2-3 years, opening up additional areas in the south and north, developers will be able to choose from a wider choice of sites the most suitable locations for their projects The SET must promote investment across the country, and not focus its efforts at Fort Liberte

APPENDIX J

Appendix J Decentralization Issues and Approaches

This report has addressed already the basis for considering an approach to private sector development that is in significant part based upon decentralized economic clusters. This type of approach would be based upon two thrusts

- Economy-wide actions that will encourage decentralized investment and business activity, and
- Initiatives focused on specific decentralized economic clusters

What conditions are needed for decentralized economic clusters? These become criteria for selection of clusters on which to focus

Primary Criteria for Program Focus on Particular Decentralized City Economies

Factor	Description
Viability, competitive business potential	The cluster economy (or its actors) should have effective linkages with foreign markets and/or domestic markets. There should be few obvious crucial factor disadvantages that cannot be overcome.
Potential for sustainable employment impact	Potential sectoral economic base should have the potential for sustaining considerable employment.
Presence of effective and capable entrepreneurs	The cluster should have an existing pool of proven entrepreneurs.
Basis for effective public-private collaboration at the decentralized level	The municipality (or communes) and the private sector should have or be able to develop a shared vision of the economy's future. Public and private sector should be able to collaborate in municipal/regional planning and implementation. A local revenue tax base should be developing.

Potential for strong commercial linkages within the region (between the city and its hinterlands)	The cluster should have (or should soon have) effective transport and possibly communications linkages to its hinterlands Institutional linkages within the region should be supportive of economic linkages
Special local resources/advantages	Availability of unique productive resources would be an advantage
Low (or correctable) internal and external infrastructure constraints	The city and region should have a minimum of transport, communications or power constraints, or should be the priority focus of infrastructure upgrades. A developing local revenue tax base should be emerging to guarantee small infrastructure investments and maintenance. Communications and transport infrastructure should facilitate trade linkages within Haiti and/or with foreign markets.
Environment conducive to private investment	Public opinion and security should be supportive of private business and investment

What other criteria are important to USAID?

USAID will wish to consider other criteria in defining a strategy based on encouraging growth of decentralized economic clusters. In an initial or pilot stage, specific clusters may be selected for priority focus. Criteria which would be relevant in the selection of the pilot clusters include

- The selected focus will not reinforce or encourage subsidization or skewing of resources, and
- The selected pilots provide geographic dispersion

How do the potential economic clusters in Haiti compare according to these criteria?

The Study team visited 5 main locations outside of Port-au-Prince. The interviews and on-site observations, supplemented by some data and reports, permit a tentative comparison of the clusters visited according to the above criteria. This comparison is presented below.

A more detailed comparison should be undertaken before making final judgements. Also, other locations should also be considered. These include the other major population centers: Verettes, Jeremie, Port-de-Paix, Hinche and Limbe.

City Business Cluster

Constraints to Realization of Effective City Business Cluster Operation - 5 Examples

Key Competitive Factors	Constraints (Relative Importance)	City Business Cluster				
		Cap Haitien	Gonaive	St Marc	Les Cayes	Jacmel
Linkages with hinterlands	Road infrastructure (1)	H	H	H	H	H
	Institutional weakness(2)	L	M	L	L	L
Shared Public-private Vision, planning and implementation	Poor understanding/view of business by the public(2)	M	H	M	L	L
	Lack of public-private sector dialogue(1)	M	H	M	L	L
Linkages with foreign markets	Business community knowledge of foreign markets(1)	M	H	H	M	M
	Current/recent foreign presence(3)	M	H	H	H	M
	Easy Access to Information(2)	M	H	M	H	H
	Port access(1)	L	H	H	H	H
	Airport access(1)	L	H	H	M	H
	Communications(1)	M	M/H	M/H	H	M/H
Linkages with domestic markets	Business community knowledge of domestic markets(1)	L	L	L	L	L
	Easy Access to Information(1)	M	M	M	M	M
	Port access(3)	L	H	M	H	H
	Road access(1)	M	M	L	H	M

	Airport access(3)	L	H	H	M	H
	Communication(1)	M	M/H	M/H	H	M/H
Availability of needed professional and technical skills	Business management skills(1)	M	H	M	M	M
	Technical/Professional Skills(2)	M	H	M/H	M	M
	Skilled labor(2)	M	M	M	M	M
	Skilled Municipal/Communal Leadership(2)	M	H	H	M	M
Entrepreneurial Leaders	Pool of proven entrepreneurs(1)	L	H	M	L	L
Local revenue/tax base	Current breadth of tax base(3)	H	H	H	H	H
	System in place to collect taxes(1)	M/H	H	M/H	M	M
	Sufficiency of Local Revenues(1)	H	H	H	H	H

L = Low Constraint
M = Medium Constraint
H = High Constraint

1 = Very Important Factor
2 = Medium Important Factor
3 = Less Important Factor

Options for USAID Action

Actions directed towards private sector development in general and towards decentralization of economic activity will, of course, benefit the decentralized economic clusters. These are discussed elsewhere in this report, and include actions directed towards

- Improved national infrastructure and infrastructure management,
- Private sector provision and management of infrastructure and related services,
- Legislation to improvement of municipal revenue generation capability, and to transfer funds to decentralized entities,
- Decentralization of government services,
- Declaration of tourism development areas,
- Improved public-private dialogue and joint planning,
- Improved public awareness and civic education, and
- Improved security and judicial system

Actions can also be bundled to provide development focus on specific decentralized economic clusters. USAID could thus select, on the basis of the criteria presented above, pilot clusters on which to focus. Specific actions directed towards specific clusters can include

- Packages of these same types of programs to encourage business growth, but directed towards individual economic clusters
- Actions to facilitate the processes of strengthening specific clusters, such as joint public-private planning mechanisms, strengthening of urban management and services, development of training facilities and programs, strengthening of municipal finance, etc
- Focus infrastructure and service investments on particular clusters particularly ports and airports, power, communications, rural roads, business service centers. Geographic co-location of donor programs. Facilitate intermodal linkages and service linkages on a cluster-specific basis