HAITI

PROJECT PROFILE (PP)

I. BASIC DATA

Project name:	Program to Establish a Partial Credit Guarantee Fund for enterprise development.	
Project number:	HA-L1050	
Project team:	Juan Ketterer (CMF/CCR), Project Team Leader; Joaquin Dominguez (CMF/CDR), Alternate Team Leader; Fernando De Olloqui (ICF/CMF); Felipe Gómez-Acebo (VPC/HRC); Andrea Terán Barrientos (ICF/CMF); Jorge Sales Gomes (ICF/CMF); Hyun Jung Lee (LEG/SGO); Ariel Rodriguez (PDP/CHA); Marise Etienne (PDP/CHA); Sergio Barrero (SCF/PMU); Daniel Fonseca (SCF/FMK); Héctor Campos-Ruiz (VPS/ESG) and Marina Massini (ICF/CMF).	
Beneficiary:	Haitian enterprises and households	
Executing agency:	Fonds de Développement Industriel (FDI)	
Financing plan:	IDB:	US$ 20 million
	Co-financing:	Up to US$ 100 million
	Total:	Up to US$ 120 million
Safeguards:	Policies triggered:	B.13
	Classification:	Not required

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background and Justification

2.1 Haiti has suffered a natural catastrophe in January 12, 2010 with devastating consequences to the population and the economy. The immediate reactions, both from the country and from the international community, have been primarily directed to humanitarian aid. However, it is vital to focus also in the medium and long term, by seeking to enable conditions for an economic re-launching that would allow the private and the public sectors to generate employment, economic growth and development needed for the reconstruction of the country.

2.2 Before the earthquake, Haiti had experienced a period of economic stability, reflected in five years of uninterrupted growth (including a real growth rate of nearly 3% during 2009), a reduction in inflation rates and an important public investment program, particularly in the agricultural sector. This was accompanied by substantial progress in institutional strengthening, social indicators and public-private sector dialogue. Despite this progress, private sector was still underdeveloped. From the financial perspective, the volume of credit in the Haitian economy showed only modest growth. Indeed, the financial system[1]: (i) continued to be small, with total assets of Gourdes 108 billion (about US$ 2.7 billion or 36% of GDP); and (ii) reported loan portfolios of only 31% of total assets (Gourdes 33 billion or US$ 0.83 billion)[2]. This situation was caused mainly by: (i) high reserve requirements, representing 25% of total assets for the system; (ii) high interest rates paid on Central Bank notes (9% of total assets); and (iii) risk perception of lenders, which was aggravated by a deficient legal and judicial environment.

2.3 The Haiti Earthquake Post-Disaster Needs Assessment (PDNA) estimates that the total value of the damage and losses caused by earthquake is around US$ 7.804 billion, equivalent to slightly more than the country's GDP in 2009. Most of the damage and losses have been suffered by the private sector, US$ 5.722 billion or 70% of the total. Among the economic effects is the serious de-capitalization of firms, which have seen their assets and liquidity deteriorate. The needs of resources for recovering and reconstruction of housing and the productive sector only, over three years, sum up to more than US$ 1 billion.[3]

2.4 The recovery and economic development in Haiti will require active rehabilitation and development of the private sector. The proper functioning of the financial system is crucial to attend the private sector needs to fund reconstruction and recuperate growth. But the impacts of the quake have put the financial system in a vulnerable position. In fact: (i) <u>asset quality</u> is deteriorating; non-performing loans were 8.8% for the banking system in September 2009, and estimates of non-performing loans as a result of the earthquake vary between 15% and 40%; and (ii) <u>capital adequacy</u>, which seemed adequate for the whole system as of September 2009[4], but after the quake it became a concern especially because of the rise in non-performing loans.

2.5 These effects, aggravated by a higher perception of risk because of the substantial effects of the quake in the economic situation of borrowers, may lead to credit shortage from the financial sector, further restricting the availability of all types of credit. If appropriate measures are not put in place, the gap between (a reduced) supply and (an increased) demand of credit would widen during the reconstruction efforts, impeding the private sector to act as one of the key drivers in the reconstruction of the country, while labor market conditions would further deteriorate in the short term.

B. Programmatic approach for employment creation in the private sector

2.6 In order to address the fundamental problem of the country's reconstruction (and facilitate a comprehensive and coordinated action of the Bank), the Bank shall

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[1] There are 9 commercial banks operating in Haiti, 7 private and 2 public (BNC and BPH). The banking sector is highly concentrated with the three largest banks (Sogebank, Unibank and BNC) holding 80% of total assets.

[2] Figure well below the average 55-60% credit-deposit ratio of most financial systems in the Region.

[3] The total needs for recovery, reconstruction, and setting up the Haitian State again, amounts to US$ 12 billion.

[4] Although some banks exhibited negative ratio due to the computation method used, and the second and third largest banks have not submitted data since December 2008.

operate under a Programmatic Approach[5]: (i) that would enable a coordinated and continuous action of its windows; (ii) in which programs would complement each other - sovereign guaranteed operations (SG) would catalyze and leverage the operation of the non-sovereign guaranteed ones (NSG), and of the private financial sector in general; and (iii) in which the demonstration effect would trigger the necessary investment efforts, from both inside and outside the country.

2.7 The proposed Programmatic Approach: (i) has been structured following the guidelines of the Paris Declaration[6]; (ii) pretends to support the work of the private sector in the reconstruction of the country; and (iii) provides a coordinated approach for the Bank's action, through a pillar for SG operations and a pillar for NSG operations that would complement each other.

2.8 To this end, from the standpoint of the SG operations, the first pillar of the Programmatic Approach aims to support the Government of Haiti with programs[7] in, among other, the following areas: (i) partial credit guarantees for the restructuring of quake affected loans and the provision of new loans for reconstruction; (ii) supporting public policy decision making regarding economic growth in relevant sectors[8]; (iii) the expansion or creation of industrial parks (iv) business development services to support enterprises and projects making new investments; (v) the reconstruction of schools and universities, completing financial sector loans; (vi) integrated services at a regional level aimed at improving the productive capacity of agribusiness; (vii) housing reconstruction, complementing financial sector loans; and (viii) productive housing for microenterprises and lower income employees housing.

2.9 All these programs could be complemented by a Grant Facility with funds raised from donors in the private sector.

2.10 The second pillar of the Programmatic Approach refers to the operation of the NSG windows. This pillar would consist in a program(s) to finance investment or guarantee funds that, managed by professional managers, would complete the existing financing capacity of the national financial system. Given that the investment projects would have considerable externalities of public interest, it is amply justified that non-reimbursable resources described in 2.8 would: (i) have a multiplier effect by catalyzing reimbursable resources (maximizing their impact); and (ii) enable the implementation of projects with public externalities that, without the existence of non-reimbursable resources, would be unfeasible.

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[5] A Programmatic Approach consists of utilizing all IDB instruments available to help countries implement programs and achieve commonly set objectives in sectors or areas. The combination of instruments to be used in the country or sector is decided through the country dialogue and programming exercise (See GN 2200-13).

[6] The Paris Declaration (PD), a milestone for worldwide efforts to improve efficacy in the use of resources for development, which was signed in April 2005 by 60 countries and several multilateral institutions, among them the Bank. The PD highlights the importance of coordinated strategies and programmatic approaches.

[7] Funding to these programs could be complemented with resources from Trust Funds managed by the Bank.

[8] The Government and the Private Sector Forum had identified action priority areas of action for the development of the country, such as: i) industry promotion to foster employment; ii) promote social inclusion through economic activity; iii) tourism promotion; iv) agriculture and agribusiness promotion; and v) housing.

2.11 These programs could be complemented by reimbursable resources of bilateral development agencies willing to support these initiatives.

2.12 The proposed Programmatic Framework: (i) does not predetermine either the programs that it would include or the amount of such programs; (ii) simply presents an operating scheme that maximizes the additionality of the Bank's actions in the country; and (iii) would be described more extensively in the POD.

C. The Program

2.13 The proposed Program, the first under the Programmatic framework, would support the creation of a Partial Credit Guarantee Fund (PCGF) by funding a portion of its capital. The PCGF would seek to mitigate part of the credit risks assumed by the financial intermediaries, supporting them to: (i) comply with the prudential requirements regarding the loans whose real guarantees have been lost with the catastrophe; and (ii) grant new loans for the reconstruction of SMEs facilities and equipment.

D. Objectives

2.14 The objective of the Program is to support the restructuring of viable impaired loans as a result of the quake, and the provision of new financing, where needed, contributing to the rehabilitation of Haitian private sector and households.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

3.1 The Bank is ideally positioned to support Haiti in boosting the private sector role in the reconstruction and recovery of the country. The Bank has accumulated ample knowledge of the financing needs and development challenges confronting the Haitian private sector, earned through lending and technical cooperation operations, ranging from financial sector reform to enhancement of business competitiveness. Indeed, the importance of the Bank's support to the public sector, its outreach capacity among the international donor community, and its relations with the international private sector interested in social entrepreneurship and NGOs, place it in a unique position to face this challenge.

3.2 The Bank has worked closely with the World Bank, the IFC, the US Treasury and the IMF in the design of the proposed Program. These efforts shall result in a joint proposal for the terms and conditions of the PCGF and in a co-financing structure.

3.3 The Program would: (i) be executed through the *Fonde de Développement Industriel* (FDI), a public entity dedicated to promote the development of the private sector by offering loans and credit guarantees; (ii) operate under a second-tier mechanism where guarantees would be granted upon demand (of the IFIs and the enterprises); and (iii) count with the support of an independent Trustee to manage PCGF's resources.

3.4 The PCGF would have three main components: (i) issuing guarantees to restructure portfolios of SMEs and microfinance loans that became non-performing in the aftermath of the recent earthquake; (ii) issuing guarantees to restructure loans to larger enterprises that are impaired since the quake; and (iii) issuing guarantees to extend new loans for SMEs in order to support new investments. These components would be implemented gradually and each of them would have distinct Operative Regulations.

IV. SAFEGUARDS AND FIDUCIARY SCREENING

4.1 According to the B.13 directive of the Environment and Safeguards Compliance Policy (GN 2208-20 and OP 703), the Program does not require classification. The Project Team does not anticipate direct negative social and environmental impacts due to the nature of the proposed operation.

4.2 As with all projects executed in the aftermath of a natural disaster, fiduciary risks are present as the capacity to manage projects is affected under post-disaster social and economic circumstances. Such fiduciary risks would be mitigated by an execution mechanism, to be described with more detail in the POD, with a two-axis approach: (i) the FDI, assisted by experts in managing guarantees, plays the role of administrator of the guarantees and is in charge of the granting process, fee payment collection and asset recovery handling when a guarantee is called; and (ii) an appointed Fiduciary Trustee with significant international experience to manage the Fund's resources, invest them according to an agreed investment policy, disburse payments when a guarantee is called, and oversee the management of the Fund. In addition to that, the PCGF would count with a Board of Directors in charge of the supervision of the Fund's activity, ensuring its functioning in accordance to government guidelines. The Board would be composed with members from the BRH Board, an Intermediary Financial Institutions (IFIs) representative, a representative from the Haitian Ministry of Finance, and a Trustee representative.

4.3 On the other hand, it is estimated that the Fund would require a capital of US$120 million, thus the co-financing of US$100 million would be critical for an appropriate dimension of the fund to attend the financing needs of Haitian enterprises. Since co-financing from donors (World Bank, US Treasury, and MDTF) is not yet secured, there is a risk that the Fund could end up with an insufficient size to deal the increasing financing needs of the private sector.

V. RESOURCES AND TIMETABLE

5.1 For the preparation of the operation, three missions (identification, analysis and negotiation) and the time of three consultants will be needed. The estimated cost of these activities would be US$50,024. The team expects that the Proposal for Operation Development (POD) would be sent to the Quality and Risk Review (QRR) in June 2010, and its approval by the Board of Directors of the Bank would be in July 2010.

ANNEX II

SAFEGUARD POLICY FILTER REPORT

PROJECT DETAILS	**IDB Sector**	CAPITAL MARKETS-FINANCIAL MARKET DEVELOPMENT
	Type of Operation	Other Lending or Financing Instrument (enter details in final report)
	Additional Operation Details	Investment Grant
	Investment Checklist	Generic Checklist
	Team Leader	Juan Antonio Ketterer (juank@iadb.org)
	Project Title	Support Program for the Establishment of a Partial Credit Guarantee Fund
	Project Number	HA-L1050
	Safeguard Specialist(s)	
	Assessment Date	2010-04-27
	Additional Comments	

SAFEGUARD POLICY FILTER RESULTS	**Type of Operation**	Loan Operation	
	Safeguard Policy Items Identified (Yes)	The Bank will make available to the public the relevant Project documents.	OP-102
		Operation for which ex-ante impact classification may not be feasible. These loans are: Policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, or conditional credit lines for investment projects.	(B.13)
	Potential Safeguard Policy Items(?)	No potential issues identified	
	Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s), including B13, for guidance. No project classification required. Submit Report and PCD (or equivalent) to ESR.	
	Additional Comments:		

ASSESSOR DETAILS	**Name of person who completed screening:**	Teran Barrientos, Andrea (andreat@iadb.org)
	Title:	Team Member
	Date:	2010-04-27

HAITI

PROGRAM TO SUPPORT THE ESTABLISHMENT OF A PARTIAL CREDIT GUARANTEE FUND FOR ENTERPRISE DEVELOPMENT

(HA-L1050)

ANNEX III

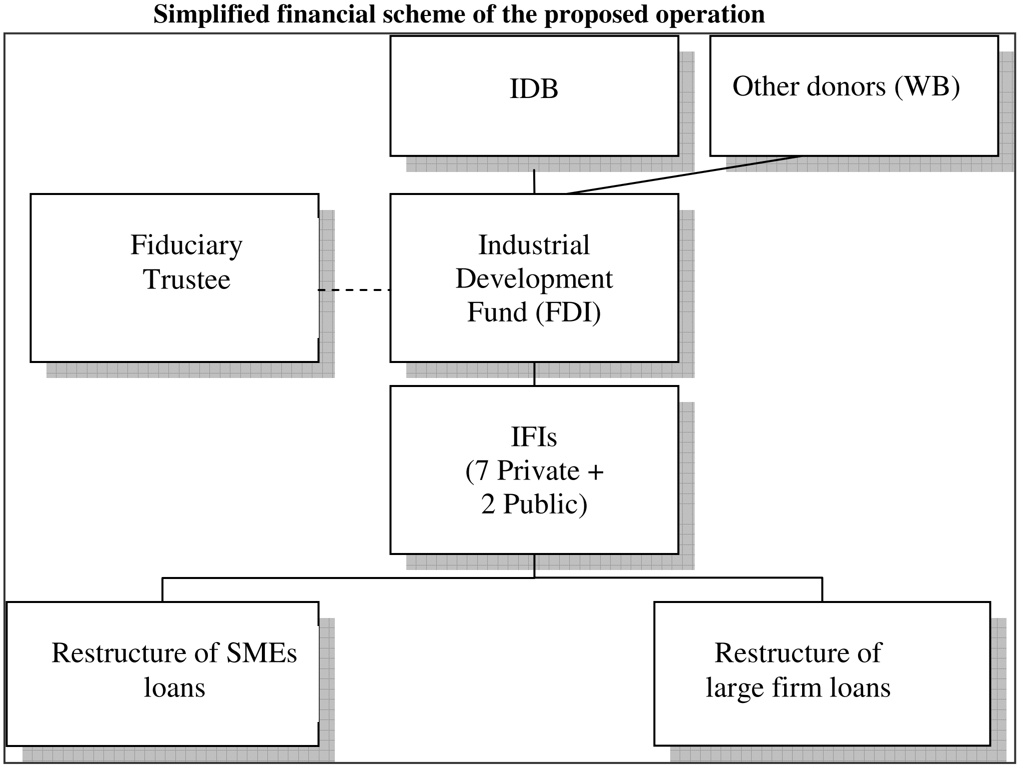
ENVIRONMENTAL AND SOCIAL STRATEGY

I. Overview

1.1 The purpose of the Program is to support the establishment of a Partial Credit Guarantee Fund in Haiti that would facilitate the restructuring of loan operations that were financed before the earthquake and that were performing until January 12, 2009.

1.2 The goal of the fund is to mobilize donors' resources in an efficient manner through investment projects in such a way as to stimulate economic reactivation and create employment opportunities. The Program would consist of a total amount of up to US$120 millions, of which the Bank will participate with a grant of US$20 millions.

Simplified financial scheme of the proposed operation



1.3 In the Haitian banking system, there are 9 Commercial banks: *Banque Nationale de Crédit (BNC), Unibank, Société Générale Haïtienne de Banque S.A. (Sogebank), Banque Populaire Haïtienne (BPH), Banque Populaire Haïtienne (BPH), Banque Industrielle et Commerciale d'Haïti (BICH), Citibank N.A. (branche locale), The Bank of Nova Scotia (branche locale), Banque de l'Union Haïtienne (BUH), Capital Bank, Société Générale Haïtienne de Banque d'Épargne et de Logement S.A. (Sogebel).*

1.4 According to the financial data of all nine banks, three banks (underlined) had 83.7% of all deposits and the same banks plus "Capital bank" had 88.6% of the portfolio deposits (around US$ 1.429 millions).

II. Status and Compliance

2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the Fund is classified as a Flexible Lending Instrument (for a financial intermediary institution) and as such this operation is not categorized according to its potential environmental and social impacts and risks.

2.2 The Program would provide guarantees for restructuring loans upon demand (demand of IFIs and of borrowers), so it is not possible to determine ex-ante which sectors could benefit with the guarantees of the Program, therefore, the Program is given a B.13 category.

III. Environmental, Social, Health and Safety and Labor Impacts and Risks

3.1 The banking system provides credit to all kind of construction, manufacturing and industry projects, which represent 40.33% of the total credit risk exposure of the system, and 0.02% of primary sector activities. The remaining 59.65% credit risk exposure of the system corresponds to commercial and service sectors.

3.2 Therefore, according to the distribution of activities financed by the banking system, most of them have an environmental risk category C, as it is shown below.

HAITI

PROGRAM TO SUPPORT THE ESTABLISHMENT OF A PARTIAL CREDIT GUARANTEE FUND FOR ENTERPRISE DEVELOPMENT

(HA-L1050)

ANNEX IV

INDEX FOR COMPLETED AND PROPOSED SECTOR WORK

Issues	Description	Expected Dates	References & hyper links to Technical files
Technical options and design	- Engaging the Private Sector in Reconstruction and Development - Implementation structure for the Partial Credit Guarantee Fund (PCGF)	March 2010 May 2010	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35152989 In preparation
Analysis of project cost and economic viability	- Estimation of Demand for the PCGF	May 2010	In preparation
Data collection and analysis for reporting on results	- Monitoring and Evaluation Arrangements	May 2010	In preparation
Institutional analysis/personnel, procedures other aspects of implementation capacity	- Fond de Développement Industriel	May 2010	In preparation

Country/sector issues	- Action Plan for National Recovery and Development of Haiti	March 2010	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35152110
	- Haiti Earthquake PDNA: Assessment of damage, losses, general and sector needs.	March 2010	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35150184
	- Estimating the Direct Economic Damage of the Earthquake in Haiti	February 2010	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35153122
	- Financial System Stability Assessment, IMF	February 2008	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35152867
	- Haiti: From Natural Catastrophe to Economic Security. UN, P. Collier.	January 2009	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35152864