

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HAITI

PRODUCTIVE INFRASTRUCTURE PROGRAM IV

(HA-L1101)

GRANT PROPOSAL

This document was prepared by the project team consisting of: Ana María Sáiz (FMM/CHA), Team Leader; Jesús Navarrete, Alternate Team Leader; Patricio Zambrano-Barragán, José Brakarz, Marion Joubert and Dianela Avila (IFD/FMM); Guisselle Velasquez (FMM/CHA); Marc Alain Boucicault, Cedrick Joseph, Ednoux Dormeus, and Anastasia Touati-Morel (CDH/CHA); Alfredo Rihm (INE/WSA); Carlos Mojica (INE/TSP); Carlos Faleiro Pajares (WSA/CHA); Luana Ozemela (SCL/GDI); Serge-Henri Troch, Crystal Fenwick, Melissa Barandiaran, Elizabeth Brito, Graham Watkins, Soraya Senosier, and Andrew Drumm (VPS/ESG); Taos Aliouat (LEG/SGO); José Luis Irigoyen and Laurence Telson (CDH/CDH); and Lila Dhyana Mallory and Takady Konate (FMP/CHA).

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ABBREVIATIONS	
ANAP	National Agency of Protected Areas
AOP	Annual Operating Plan
CIA	Cumulative Impact Assessment
CODEVI	<i>Compagnie de Développement Industriel</i>
EA	Executing Agencies
ERR	Economic Rate of Return
ESCI	Emerging and Sustainable Cities Initiative
ESMR	Environmental and Social Management Report
FY	Fiscal Year
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IRR	Internal Economic Rate of Return
MEF	Ministry of Economy and Finance
MSME	Micro, Small and Medium Enterprises
PEFA	Public Expenditure and Financial Accountability
PIC	<i>Parc Industriel de Caracol</i>
PIM	<i>Parc Industriel Metropolitain</i> [Metropolitan Industrial Park]
PEP	Pluriannual Execution Plan
RN6	<i>Route Nationale 6</i>
SONAPI	<i>Société Nationale des Parcs Industriels</i> [National Society of Industrial Parks]
USAID	United States Agency for International Development
US-DOS	United States Department of State
UTE	Technical Execution Unit
WWTP-P	Wastewater Treatment Plant-Permanent

PROJECT SUMMARY
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(HA-L1101)

Financial Terms and Conditions			
Beneficiary: Republic of Haiti			
Executing Agencies: Ministry of Economy and Finance through its Technical Execution Unit (UTE/MEF) and the National Society of Industrial Parks (SONAPI)		Disbursement Period:	3 Years
		Grace Period:	N/A
		Supervision and Inspection Fee:	N/A
Source	Amount (US\$)	Interest rate:	N/A
IDB (IDB Grant Facility):	41,000,000	Credit Fee:	N/A
Total:	41,000,000	Currency of Approval:	US\$
Project at a Glance			
<p>Project Objective/Description: the project objective is to contribute to the sustainable economic development of Northern Haiti. The specific objective is to create formal employment in the North and Northeast Departments of Haiti by providing the necessary conditions for the establishment of firms in the <i>Parc Industriel de Caracol</i> (PIC) and ensuring its adequate management and long term sustainability.</p>			
<p>Special contractual clauses prior to the first disbursement of the Grant. The beneficiary must, to the satisfaction of the Bank fulfill the following conditions:</p> <p>(a) Signature and effectiveness of a transfer agreement between Ministry of Economy and Finance (MEF) and SONAPI, whereby MEF will authorize transfer of resources to SONAPI for the execution of Component II of the project (¶3.3a).</p> <p>(b) Through each of SONAPI and UTE/MEF: (i) open two separate bank accounts (one in US dollars and one in Haitian gourdes) at the Central Bank of Haiti for the management of grant resources; and (ii) update their respective manual of operations to reflect activities that will be financed with resources from this grant (¶3.3a).</p> <p>(c) Through SONAPI: (i) present the environmental and social management plan approved by SONAPI for each of the tenants currently operating at the PIC or present proof that legal actions have been taken to terminate lease contracts of tenants that are not in compliance; (ii) show evidence that the PIC has a trained emergency response team and has sufficient financial, human, and operational resources to control a level II fire; (iii) present the food provision management plan; (iv) show evidence that they have sufficient financial, human, and operational resources to monitor the environmental and social aspects of the PIC, including the water quality in the <i>Trou-du-Nord</i> River; (v) have signed with the National Agency of Protected Areas (ANAP) an interinstitutional agreement whereby SONAPI commits, inter alia, to: (a) participate in regular meetings with the ANAP, (b) monitor the water quality in the <i>Trou-du-Nord</i> River, and (c) inform regularly ANAP of developments in the PIC, including expansion plans and environmental, social and health and safety aspects; (vi) comply with environmental, social and health and safety requirements in regards to transportation: (1) have secured the area where the rented buses are parked during the day; and (2) have installed access controls in this area to ensure that it is clean and kept free of unauthorized persons; and (vii) comply with environmental, social and health and safety requirements in regards to waste management: (1) have signed the contract with a company to rehabilitate the temporary site for solid waste management; and (2) have signed the contract with a company to ensure proper management of short and long-term waste, including the management of the temporary solid waste management site (¶3.3c).</p> <p>Environmental and social clauses: (i) the beneficiary shall ensure compliance with all other environmental, social and health and safety requirements set forth in Sections V (B), (C), and (D) of the Environmental and Social Management Report (¶3.4).</p>			
<p>Exceptions to Bank Policies: (i) exception to Directive B.11 of OP-703 granted by the IDB Board of Executive Directors, will continue to apply as described in ¶1.10.</p>			
<p>The project qualifies for^(a): SV <input checked="" type="checkbox"/> PE <input checked="" type="checkbox"/> CC <input type="checkbox"/> CI <input type="checkbox"/></p>			

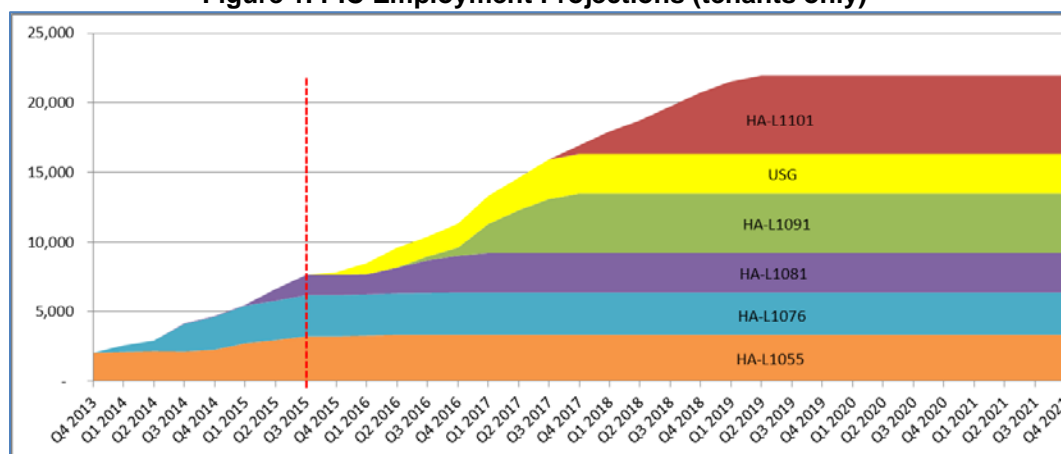
^(a) SV (Small and Vulnerable Countries), PE (Poverty Reduction and Equity Enhancement), CC (Climate Change, Sustainable Energy and Environmental Sustainability), CI (Regional Cooperation and Integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, Problem Addressed, Justification

- 1.1 In just three years, since opening in 2012, the *Parc Industriel de Caracol* (PIC) has become the largest employer in Northern Haiti and continues to grow (Figure 1). The present grant corresponds to the fifth operation in support of the establishment of the PIC, following previous grants approved in 2011, 2012, 2013, and 2014, and thus reasserts the Bank's continuing support to the PIC and to the development of the region. This is the Bank's final operation, bringing its total investment in the PIC to US\$241 million and fulfilling the original commitment of financing the infrastructure needed for the park to create 20,000 jobs. The operation shows a clear continuity with previous operations and should bring the PIC to reach a critical mass of both infrastructure and tenants, allowing it to be self-sustaining.

Figure 1. PIC Employment Projections (tenants only)



Source: National Society of Industrial Parks (SONAPI).

- 1.2 **The Country.** Haiti has an estimated population of 10.9 million inhabitants, of whom 1.8 million live in the north and northeast departments, the fastest-growing region in the country (2015 figures). Given high levels of national unemployment (estimated at 39.5% in 2012), poverty (59% of the population lives under the national poverty line of US\$2.44 per day and 24% on less than US\$1.24 per day), and inequality (the Gini Coefficient for Haiti is 59.2); the Government of Haiti has defined the development of the northern region as one of its top priorities. To promote economic growth, generate local jobs, and increase overall productivity in the region, the Bank's strategy is to provide favorable operational conditions to attract and retain private investment and increase the region's manufacturing base and export capacity.
- 1.3 **Economic situation.** By 2014, Haiti had continued to sustain moderate growth. The Gross Domestic Product (GDP) growth in the Fiscal Year (FY) 2014 reached 2.7%, driven by output growth from construction, commerce, and manufacturing. Growth in 2014/2015 is expected to be between 1% and 2%. GDP for FY 2014 was estimated at US\$8,711 billion; inflation was kept under 4% on

average in FY 2014; for FY 2015, due to a dry season and a 22% nominal depreciation of the gourde, inflation is expected to increase to 10%. Macroeconomic fragility remains: a dual fiscal and current account deficit (respectively 7.4% and 5.7% of the GDP in FY 2014) is expected to bring about a strong correction in FY 2015. The fiscal deficit in FY 2015 should fall to half of that registered in the previous year, to 3.2% of GDP, enabled partly by the fall in oil prices, which has a positive effect on revenues and expenditures of the government, and despite 2015 being an electoral year. The country's current export revenues continue to be insufficient to cover imports: in FY 2014, Haiti exported US\$956 million and imported about US\$3.4 billion. Garments, coffee beans, mangos, cocoa beans, and essential oils constitute Haiti's main exports. Most of these products are exported to United States (72.9%), to Dominican Republic (8.8%) and Canada (3.3%). The active workforce is estimated at 4.1 million people, of which 66% are in the agricultural sector, 9% in the industrial and manufacturing sectors, and 25% in the service sector. An estimated two-thirds of the active workforce operates in the informal sector. Sustained economic growth is extremely important to create jobs and alleviate poverty in the country. This requires high levels of investment particularly from the private sector to increase manufacturing and export capacity.

- 1.4 **Regional imbalances and growth poles.** Haiti suffers from profound regional imbalances, with metropolitan *Port-au-Prince* accounting for more than 66% of Haiti's GDP. The country's capital is responsible for around 80% of the country's industrial, commercial, and financial activities, and for 88% of financial sector output.¹ Intensive rural migration over the last two decades to *Port-au-Prince* metropolitan area has resulted in rapid slum formation, pressures on public services, and an increase in traffic congestion. Therefore, a key priority included in Haiti's National Recovery Action Plan is to create economic centers outside the capital to bring jobs to less developed regions, such as the northern growth pole.
- 1.5 **Problems of the northern region.** The territorial axis of this region is the northeastern corridor, located along *Route Nationale 6* (RN6), extending from *Cap-Haïtien*, Haiti's second largest city, to Ouanaminthe, at the border with the Dominican Republic.² The region has comparatively good logistics assets: the maritime port in *Cap-Haïtien* gives access to the United States by sea (approximately 72 hours to Miami) and the *Cap-Haïtien* airport by air. In addition, vast stretches of land are under state ownership and, if properly managed, it has sufficient capacity to accommodate economic and population growth without compromising its natural resources.
- 1.6 This region, however, presents profound deficits in basic infrastructure such as secondary roads, energy, water, sewage, and in housing, particularly in rapidly growing urban settlements along RN6. These local areas' governments lack capacities to deliver quality services and carry out urban and fiscal management.

¹ Post Disaster Needs Assessment (PDNA), 2010; MEF/Banque de la République d'Haïti 2010; Survey of the Groupe Croissance S.A., 2011.

² The main Northern cities and their estimated population in 2012 are: *Cap-Haïtien* (population 261,864), Ouanaminthe (101,280), *Trou-du-Nord* (46,695), *Fort-Liberté* (32,861), Limonade (52,625), *Terrier Rouge* (28,938), and *Caracol* (7,362).

High levels of poverty and insufficient employment opportunities have led to the degradation of farmland, fisheries, mangroves, forests, underground, and surface water. An updated Cumulative Impact Assessment (CIA), which provides details on the region's key challenges, has been prepared, was validated through consultations with key stakeholders on October 2015 and was finalized mid-November 2015.

- 1.7 **Recent developments.** The growth pole strategy for the northern region focuses on the establishment of industrial parks and key infrastructure projects. Before the PIC, the most significant manufacturing center was the *Compagnie de Développement Industriel* (CODEVI), an industrial park established in 2003 and owned by a textile company from the Dominican Republic, which has approximately 7,500 employees. To date, over 14,000 manufacturing jobs have been created by CODEVI (7,500) and the PIC (7,620). Agricultural projects and tourism-related entrepreneurial activities are on the rise and transportation connections are improving; the *Cap-Haïtien* international airport has been upgraded and receives direct flights from *Port-au-Prince*, Miami, Ft. Lauderdale and other cities, and with help from the United States Agency for International Development (USAID) the Government of Haiti is rehabilitating the port of *Cap-Haïtien*. In 2012 the *Université D'Etat D'Haiti* opened the *Roi Henri Christophe* campus in Limonade, which has a capacity for 10,000 students and was funded by the Government of the Dominican Republic. As donors and the Government channel projects into the region, private investments, large and small, are beginning to take root. There has been an expansion of small and medium-size enterprises in the surrounding area of the PIC.³ In addition, a large organic banana plantation has been built and is already exporting to Europe via the port of *Cap-Haïtien*. All this activity has led to an increase in population (the towns surrounding the PIC are projected to grow by 6% a year),⁴ with an accompanying increase in demand for quality services and infrastructure in their settlements, as well as pressure on the region's natural resources, which calls for the implementation of effective urban development strategies to manage rapid growth and these rising demands.
- 1.8 **Parc Industriel de Caracol.** The PIC is the result of an agreement, signed in September 2008 between the Government of Haiti, the United States Department of State (US-DOS), and the Bank, to establish an industrial park at the core of the northern region. The PIC seeks to address key obstacles for private investment by providing: (i) a modern infrastructure and manufacturing facilities for firms to locate; (ii) reliable utilities (water, sanitation, and electricity); (iii) a logistics support and safe road access for importing and exporting activities;

³ National Society of Industrial Parks (SONAPI) estimates that approximately 1,000 micro and small enterprises have been created since the PIC's inception.

⁴ These include Caracol, Terrier Rouge, Trou-du-Nord, and Limonade. AIA Legacy - American Institute of Architects (2012), *Cap-Haïtien - Ouanaminthe Development Corridor Regional Comprehensive Plan*, Volume I, Washington, DC. At the national level, Haiti's urban population is growing at the fastest rate in Latin America and the Caribbean with an annual rate of 2.4% (United Nations, *World Urbanization Prospects: The 2014 Revision*, ST/ESA/SER.A/352).

and (iv) a secure, professionally managed, operated, and well-maintained industrial park.⁵

- 1.9 The PIC has been implemented at a fast pace and has achieved significant results. It currently has 114,000 square meters of industrial space and hosts six tenants out of the seven expected tenants by 2016 (in apparel, paint, sisal products, fragrance, and soft accessories manufacturing). Even when there is additional demand for buildings at the PIC, the strategy has been reinforcing the anchor tenant, since the success of the anchor tenant is key to attract future tenants in the park. It has a demonstration effect. In 2014, its firms' total annual sales reached US\$53.6 million and their payroll reached US\$9 million.⁶ The PIC's workforce has rapidly expanded since opening in 2012; today it employs 7,620 workers, 67% of which are female (see [Q3 2015 PIC Report](#)). It is served by a transportation fleet that carries almost 5,500 people to work each day, and boasts facilities capable of producing and delivering potable water and electricity, as well as safe wastewater treatment (through the operation of a permanent wastewater treatment plant since July 24th, 2014 – see next paragraph for more information). Energy needs are met by a 10MW power plant built by USAID, which not only provides electricity for the PIC but also for 9,000 customers in surrounding municipalities.⁷
- 1.10 Wastewater management has consistently been a critical concern. With respect to the exception to OP-703 related to Directive B.11 granted by the IDB Board at the time of approval of operation HA-L1081, since July 24th, 2014, 100% of wastewater produced at the PIC has been sent to the Permanent Wastewater Treatment Plant (WWTP) for treatment. As wastewater was not discharged to the environment until September 23rd, 2015, Directive B.11 did not apply. Final treated effluent began to be discharged to the Trou-du-Nord River on September 23rd, 2015. Independent verification of wastewater quality prior to discharge indicated that all parameters meet the required standards, with the exception of total coliforms and color. Therefore, the exception to OP-703 related to Directive B.11 will continue to apply until the effluent discharge standards are met, in accordance with Document PR-4110⁸. To assist the GOH in ensuring future compliance with Directive B.11, the IDB contracted an expert firm to evaluate potential impacts to aquatic life and human health. Based on the outcomes of

⁵ The literature suggests that Export Processing Zones (which have characteristics similar to the PIC) are important ways of attracting foreign investments and creating local jobs. Dorsati, M. (1999). A Review of the Role and Impact of Export Processing Zones. Washington, World Bank, Policy Research Working Paper 2238, and Bost, F. Are Economic Zones Good for Development? In OECD - West African Challenges, No.4, Nov. 2011. The record is mixed with regard to the development impacts and backward linkages of the Export Processing Zones (EPZ), which depend on several country-specific characteristics. Referring to West Africa, Bost asserts that: "While the free zones of West Africa have shown only modest results [in terms of development] the jobs created in those zones would not have come to be without those zones".

⁶ SONAPI, 2015 Q1 PIC Report and 2015 Q2 PIC Report.

⁷ See video <https://www.youtube.com/watch>.

⁸ "The exception as granted by the Board of Executive Directors is in effect until the Permanent Wastewater Treatment Plant (WWTP) is completed and achieves the effluent discharge standards, in accordance with Directive B.11." The WWTP has been completed and is currently in the calibration phase. During calibration effluent discharge quality commonly fluctuates. Wastewater quality is being closely monitored and effluent discharge standards are expected to be fully met by August 1, 2016 at which time a progress report will be submitted to the Board. .

their evaluation, the IDB and the GOH has prepared an action plan with specific mitigation measures which the GOH will be required to implement (sections ¶1.8 and ¶4.14 to ¶4.16 of the [ESMR](#) for more details).

- 1.11 The present operation marks the completion of the PIC's implementation phase: once finalized, it will have put in place the basic set of infrastructure and buildings—which have been designed and built to be earthquake and flood-resistant, given Northern Haiti's vulnerability to these natural hazards—necessary to ensure the PIC's financial sustainability. In particular, the operation will help satisfy current demand for facilities generated by the anchor tenant's expansion plan (four 11,776 m² factory buildings will be built, where each one can accommodate 1,350 employees) (see [Plan Directeur Parc Industriel de Caracol](#), buildings in red), address remaining environmental and social issues, strengthen park management, and implement a financial model that will ensure its sustainability and future expansion. By 2019, following the end of disbursements from this Bank's operation, the PIC is expected to be the largest industrial park in Haiti and to be self-sustaining and employing approximately 20,000 full-time workers.
- 1.12 **Previous Bank operations in support of the PIC: [Infrastructure Program \(2552/GR-HA\)](#).** This operation consisted of a grant of US\$55 million, approved on July 25th, 2011. It finances: (i) initial park infrastructure, including a perimeter wall, a water treatment plant, a temporary domestic wastewater treatment plant, a temporary solid waste facility, an access road, 1.5 kilometers of internal roads, and other utility networks; (ii) four industrial buildings; (iii) an administration building, a 45-room dormitory, and a large canteen; (iv) social and environmental mitigation measures and studies, including the CIA; and (v) a compensation plan for displaced farmers. This project is 100% disbursed and its objectives have been fully achieved.
- 1.13 **[Productive Infrastructure Program \(2779/GR-HA\)](#).** Approved by the Bank on September 12th, 2012, this second grant of US\$50 million finances: (i) four industrial buildings; (ii) four smaller utility buildings (to accommodate boilers, an industrial laundry, and two canteens); (iii) a permanent waste water treatment plant and a solid waste management facility; (iv) an operation and maintenance management firm and an environmental, health, and safety manager for the park; (v) support for the worker's transportation system; (vi) social and environmental studies and mitigation measures, including the support for the establishment of a national park to protect the *Caracol* Bay; and (vii) small scale urban investments in the cities adjacent to the PIC. Currently, the grant is more than 80% disbursed, and most of the physical works will be completed during 2015.
- 1.14 **[Productive Infrastructure Program II \(3132/GR-HA\)](#).** This US\$40.5 million grant, approved by the Bank on December 16th, 2013, finances: (i) the construction of additional industrial buildings, worker canteens and other service facilities, internal roads and utility networks within the PIC; (ii) small civil works' projects outside the PIC (mainly access roads to nearby cities); and (iii) studies and continuing management support for the PIC. Currently, the grant is almost 85% disbursed, and most of the physical works will be completed during 2015.

1.15 [Productive Infrastructure Program III \(3384/GR-HA/ HA-X1036\)](#). This is the fourth operation, consisting of a US\$70 million grant and approved by the Bank on December 11th, 2014. It finances: (i) an additional factory and utility buildings and service facilities (e.g., canteens, and dormitories); (ii) an expansion of the PIC's site infrastructure and equipment; (iii) a small scale urban projects in the communities surrounding the PIC; and (iv) support for *Société Nationale des Parcs Industriels* [National Society of Industrial Parks] (SONAPI) to help fund the PIC's operation and maintenance. Currently the grant is 25% disbursed, and the remaining 75% of the works are already contracted and expected to be completed by the end of 2016.

1.16 **PIC management.** Since May 1st, 2014, the PIC has been managed by the SONAPI, Haiti's official regulator and manager of all industrial parks in the country and established as a national public agency with administrative and financial autonomy. SONAPI manages the *Parc Industriel Metropolitain* [Metropolitan Industrial Park] (PIM) in *Port-au-Prince*, which houses 23 companies that sustain 12,856 of the 37,159 textile sector jobs in Haiti.⁹ Since assuming responsibility on May 1st, 2014, SONAPI has been working to build capacity and enhance customer service, and has created good relationships with the anchor tenant. By having an environmental, social and health and safety team in place, SONAPI also recognizes the importance of strengthening its technical capacity on key management areas such as environment, health, and safety, which are necessary to ensure the PIC's long-term sustainability. The financial modeling used for the Analysis of Project Cost and Economic Viability shows net income gains of US\$1.6 after 2020 (the anchor tenant's rent holiday expires on 2020; the PIC currently has an operating deficit until 2017). These projections reflect rental revenues only from the anchor tenant for the operation's period and do not include additional rental income expected from new tenants and are thus conservative. With the same rationale of Component III of the previous grant (3384/GR-HA) of covering operating costs of the PIC until the end of the rent holiday period, the Bank is contributing to close this short-term deficit by providing funds for operation and management in addition to construction.

Table 1. PIC Operational Budget Projection (US\$)

Net R&D	2015	2016	2017	2018	2019	2020	2021
Revenues	2,102,860	3,742,319	4,830,820	5,648,665	6,381,634	8,135,774	8,160,088
Expenses	4,058,868	4,784,660	4,999,853	5,510,208	6,200,784	6,436,157	6,534,402
Annual surplus / (deficit)	(1,956,008)	(1,042,341)	(169,033)	138,458	180,850	1,699,616	1,625,686

Source: SONAPI

1.17 With the addition of PIC management to its responsibilities, SONAPI requires institutional strengthening. The Bank is already providing technical assistance to the agency through a full needs assessment and the implementation of strengthening activities, which focus on: (i) business development and client management capacities; (ii) upgrade of the human resources unit; (iii) preparation of organizational manuals, rules and regulations, and creation of

⁹ Source: [SONAPI. PowerPoint Presentation.](#)

a documentation and filing system; and (iv) strengthening of environmental, safety and health management capacities. Special emphasis in gender issues is needed (¶2.11). The current operation will continue to provide institutional strengthening to SONAPI, focusing on its management capacity in order to manage the PIC independently, implement its business development strategy and improve customer relations (particularly concerning the firms that plan to locate in the PIC). Financial resources allocated for institutional strengthening and operational support to SONAPI will sum up US\$4.1 million (¶1.25, [2779/GR-HA](#), and [3384/GR-HA](#)). Specific support is needed to improve SONAPI's internal management systems and operations control, since its decentralized operations at the PIC have only recently begun. The three critical internal functions that are still in need of support are: financial and operational control systems, procurement, and human resources management. Also, given the size of the transportation fleet currently serving the PIC, a special study is being carried out to define an alternative management method for the service, partially privatizing its operations. Finally, support is needed to fully implement the environmental, social and health and safety system.

- 1.18 **Other IDB projects in the northern region.** In addition to the PIC, the Bank supports the sustainable development of the northern region, as envisioned in the Country Strategy, through projects in other priority sectors that contribute to the development of Micro, Small & Medium Enterprises (MSME) and access to credit, including tourism, irrigation infrastructure, technology transfers to small farmers, land tenure regularization, construction of schools and vocational training centers, housing, rehabilitation of secondary roads, and mitigation of environmental and social impacts.¹⁰ These investments are complemented by the actions of other donors, such as the construction of the PIC's power station and housing by USAID, investments in tourism by the World Bank, and in solid waste management by AFD.
- 1.19 In partnership with the *Comité Interministériel d'Aménagement du Territoire* (CIAT), the Emerging and Sustainable Cities Initiative (ESCI) of the Bank is developing a sustainability urban plans for the four municipalities around the PIC (Limonade, *Trou-du-Nord*, *Terrier Rouge*, and *Caracol*), totaling approximately 135,000 inhabitants. ESCI's work ([ATN/OC-13813-HA](#) and [ATN/SS-13812-HA](#))

¹⁰ (i) a pilot program for the Generation and Development of Productive Fabric in Areas Prioritized for Economic Development, in support of Small and Medium Enterprises (SME) (2827/GR HA, US\$3.5 million); (ii) Natural Disaster Mitigation Program in Priority Watersheds (2187/GR-HA, US\$30 million); (iii) Water Availability and Integrated Water Resources Management in Northern Haiti ATN/OC-13756-HA, US\$1 million); (iv) Technology Transfer to Small Farmers (2562/GR-HA, US\$40 million); (v) Land Tenure Regularization (2720/GR-HA, US\$8 million); (vi) Tourism Development near Cap Haïtien (ATN/ME-12283-HA, US\$1.7 million); (vii) Construction of School Infrastructure in Northern Haiti according to new construction codes that adhere to earthquake, flood and hurricane requirements (2464/GR-HA); (viii) Construction of 1,000 houses along the Northern corridor (2318/GR-HA, US\$14 million); (ix) Urban Growth Management in the Vicinity of the Caracol Industrial Park (ATN/SF-11979-HA; US\$250,000); (x) Institutional Strengthening to Increase the Technical Capacity of the Government of Haiti (ATN/FI-13845-HA, US\$530,000); (xi) Mitigating the Social Impacts of the Caracol Industrial Park (ATN/KP-13789 HA, US\$305,000); (xii) Construction of the road from the PIC to Caracol (3085/GR-HA); (xiii) Mitigating the Environmental Impacts of the PIC in the Caracol Bay (ATN/OC-14580-HA; US\$180,000); and (xiv) Strengthening of the PIC's Environmental, Health and Safety Capacity (ATN/OC-14998-HA; US\$400,000).

includes: (i) a survey involving 3,000 households and 800 PIC workers, assessing the park's impact on their living-conditions and quality of life, (ii) a mobility and logistics plan and related projects; (iii) an urban growth study, growth projections and related spatial distribution and impact; and (iv) an assessment of the region's vulnerability to risks and natural hazards (flooding, seismicity, hurricanes, and drought). The technical studies will yield critical inputs for the design of a new IDB operation in these four municipalities (HA-L1106 – Integrated and Productive Urbanization in Northern Haiti), which aims at improving the quality of life of populations in these four municipalities through interventions that increase access to urban services, boost productive activities, improve environmental conditions and strengthen local municipal capacity.

- 1.20 **Lessons learned.** Based on the Bank's experiences in the previous four operations in support of the PIC, the following lessons can be drawn: (i) engineering designs must be secured prior to contracting the civil works to reduce eventual cost variations between the project budget and the final costs; (ii) the project should emphasize the establishment of a monitoring system and the training of a specialized team responsible for environmental, health and safety issues in the park (§1.16); and (iii) adequate in-site technical support and supervision by the Bank is essential to the success of a complex projects such as the PIC. The present operation reflects learning from these lessons by implementing standard designs for the buildings that will be financed in this new phase, providing funds for supporting SONAPI in its general park management activities and in particular enforcing environmental, social, health and safety regulations, and establishing an intensive supervision program for this operation.
- 1.21 **Strategic Alignment.** The program is consistent with the Action Plan for National Recovery and Development of the Government of Haiti, in particular with its priorities of employment generation and environmental protection. The proposed program is also consistent with the IDB's Country Strategy in Haiti (2011-2015) (GN-2646), through the emphasis in promoting private sector investment and contributing to the development of Haiti's Northern region. The program will contribute to the lending program priorities of the Ninth General Increase in the Resources of the Inter-American Development Bank (AB-2764) (GCI-9): (i) small and vulnerable countries; and (ii) poverty reduction and equity enhancement, since the program benefits residents of a poverty area (§1.2 and §1.6). It will also contribute to increase productivity and reduce inequality in a sustainable way, and to the regional development goals of: "social policy for equity and productivity," by increasing formal employment and thus helping to reduce extreme poverty; "infrastructure for competitiveness and social welfare," by providing electricity to residents of communities surrounding the PIC; and lending to support regional cooperation and integration by supporting foreign trade and openness (most of the PIC's inputs come from abroad and its production is exported); and to the following products (as established in GN-2733): "individuals receiving targeted anti-poverty programs," "increase in the number of jobs in the formal sector," and "regional and sub-regional integration agreements and cooperation initiatives supported," as defined in the Results Framework.
- 1.22 **Program Strategy.** The overall strategy of all PIC related operations is to create favorable conditions to attract private investment to Haiti's Northern region, thus

generating employment opportunities for the local population. The main strategy of this last grant is to establish the infrastructural and operational basis needed for the PIC to become a successful industrial park in the Caribbean, by attracting investments and reaching self-sustaining status (§1.11 and §1.16).

B. Objective, Components and Cost

- 1.23 **Project objective.** The project objective is to contribute to the sustainable economic development of Northern Haiti. The specific objective is to create formal employment in the North and Northeast Departments of Haiti by providing the necessary conditions for the establishment of firms in the PIC and ensuring its adequate management and long-term financial sustainability. The program's direct beneficiaries will be the workers employed at the PIC and the firms established there, with benefits spilling-over to the surrounding communities of the North and Northeast departments. This operation is the final phase of a program, consisting in five operations in total. The program is already delivering the results mentioned previously. This operation has two main components:
- 1.24 **Component I. Provision of infrastructure in the PIC (US\$38.4 million).** This finances further expansion of the PIC (buildings and related infrastructure) essentially to respond to the expansion plan of the anchor tenant, including: (i) four large factory buildings (11,776 m² each) to accommodate industrial activities, one canteen, and two boiler rooms; (ii) expansion of the park's infrastructure and equipment (expansion of internal roads and the water and drainage networks); (iii) works for the protection of the Trou-du-Nord River bank at its crossing of the PIC; and (iv) civil works' supervision. The PIC Master Plan (Figure 2 below) shows: (i) in red, the four large factory buildings to be completed as part of the present operation (47,104 m²); (ii) in purple completed works (113,449 m²); and (iii) in pink, those that will be built with funds from the grant 3384/GR-HA) (75,750 m²).

Figure 2. PIC Master Plan



- 1.25 **Component II. Operational Support to SONAPI (US\$1.3 million).** This component will provide funds to SONAPI to cover part of the PIC's current operational expenses (¶1.16 and Table 1). Funds will be used for PIC's operation and maintenance, and will finance among others: (i) personnel and equipment necessary for the implementation of the environmental, social and health and safety system and mitigation measures; and (ii) a business plan.
- 1.26 **Administrative Costs (US\$1.3 million).** The program will fund administration, monitoring, and auditing activities to be implemented by the Ministry of Economy and Finance (MEF), through its Technical Execution Unit (UTE).

C. Key Results Indicators

- 1.27 The present operation's results include: (i) to add 5,400 new workers to the PIC by 2019; (ii) to fill 3,150 of these 5,400 direct jobs by women; (iii) to generate US\$5,674 million annually in salaries paid to workers by 2019; and (iv) to increase social security contributions, rents and utility services paid by employers/tenants of the PIC. Other results and specific product indicators can be found in the program's Results Matrix (Annex II).
- 1.28 **Economic viability.** The economic viability of this operation was estimated through an [analysis of project cost and economic viability](#). The economic costs include the investment of this program plus the incremental operation and maintenance costs that will accrue during the life of the project. The economic benefits include: (i) the differential between the wages paid to local labor and the shadow wage; (ii) the difference between payments by foreign firms for public utilities and locally purchased inputs and the opportunity cost of these public utilities and locally purchased inputs; (iii) all tax payments by firms; and (iv) net profit income that goes to local equity shareholders in the PIC firms.
- 1.29 To determine the economic viability of this operation, the Economic Rate of Return (ERR) of the base case was calculated at 13.8% (using a discount rate of 12%). To verify the resilience of this base scenario, a sensitivity analysis was run for three alternatives illustrated in Table 2. These results updated from previous operations reaffirm the economic benefits of expanding the PIC by creating additional formal employment, increasing the household income of workers as well as social security and medical coverage payments, and increasing revenue to the local economy through rental payments by foreign firms. PIC expansion is also likely to generate positive externalities such as: (i) increased spending in the local economy; (ii) creation of new businesses and other economic activity in the area of influence; and (iii) contribution to the overall economic growth of Haiti's Northern region. The results of the cost-benefit analysis and the sensitivity scenarios studied are presented in the Table 2.

Table 2. Summary of Economic Viability Results (three scenarios)

Case	Internal Economic Rate of Return (IRR)-%
Base Case	13.8
Salary deflation	12.4
Case 1: Job forecast reduction (-30%)	9.6
Case 2: -30% on rental income by foreign firms	13.5
Case 3: One-year strike in 2017	13.3

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

- 2.1 The total program amount is estimated at US\$41,000,000. The disbursement period will be three years. The financing instrument is a specific works, non-reimbursable investment grant chargeable to the IDB Grant Facility, distributed according to the following cost table:

Table 3. Cost of the Program (in US\$ million)

Components	Total	%
1. Provision of infrastructure in the PIC	38.400	93.6
2. Operational support to SONAPI	1.300	3.2
Administrative Costs	1.300	3.2
Total	41.000	100

- 2.2 **Execution period and disbursement schedule.** The projected execution and disbursement period will be three years from the effective date of the no reimbursable financing agreement between the Bank and the Republic of Haiti. Disbursements will follow the schedule included in Table 4.

Table 4. Disbursement Schedule (in US\$ million)

Components	Year 1 (2016)	Year 2 (2017)	Year 3 (2018)	Total
1. Provision of infrastructure in the PIC	13.000	14.000	11.300	38.400
2. Operational support to SONAPI	400	400	500	1.300
Administrative Costs	400	400	500	1.300
Total	13.700	14.700	12.600	41.000

B. Environmental and Social Safeguard Risks

- 2.3 In accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703) and this operation is classified as Category A. Since the first PIC operation, the Bank has developed specific environmental, social, and health and safety plans and procedures addressing potential program's risks. Prevention and mitigation measures for construction and operations have been prepared, addressing among others risks related to: (i) direct and indirect environmental impacts leading to ecological degradation of the mangrove and the coral reef ecosystems in *Caracol* Bay; (ii) degradation of surface and groundwater; (iii) negative impacts on local population and on urban development (i.e. quantity and quality of housing¹¹) resulting from poorly managed population influx; and (iv) noncompliance with national labor standards. A noteworthy challenge will be to ensure that, as the operation of the industrial park continues and expands the mitigation measures in place and those to be still put in place to adequately

¹¹ Mitigation measures are being currently implemented with resources from the grant operation 2318/GR-HA (New housing units to be built in the region) and TC ATN/SF-11979-HA (Technical and financial support to local governments to accommodate new population). In addition, special efforts are being undertaken to recruit local population for the PIC.

manage the environmental and social impacts and risks actually function and are effective, as described in the [Environmental and Social Management Report \(ESMR\)](#). The underlying causes for the limited advancement in implementing environmental, social and health and safety mitigation measures are: (i) the insufficient capacity of the Government of Haiti's agencies; (ii) competing priorities; and (iii) financial and operational resource constraints. Measures that will be taken include the adequate use of the Strengthening of the PIC's Environmental, Health and Safety Capacity (ATN/OC-14998-HA) resources (through for instance the support for the implementation of the recommendations from the Update CIA), the requirement to have an independent panel of experts to do a yearly audit of environmental and social performance of the PIC after last disbursement (including the disclose of the results to the government and the public) for four years and specific contractual conditions concerning food provisioning, emergency response and the signing of an interinstitutional agreement with National Agency of Protected Areas (ANAP) described in the [ESMR](#).

- 2.4 The key priority for this operation is to ensure that: (i) all conditions set forth in this and previous operations have been met and there are no direct and indirect impacts and risks that cannot be adequately managed; and (ii) the PIC has a sound management structure and system in place through SONAPI, including adequate budget and operational means at its disposition.
- 2.5 A full description of the risks and mitigation measures proposed and implemented so far, as well as grant conditions, is presented in the [ESMR](#).

C. Fiduciary Risk

- 2.6 Based on an updated assessment of financial management and internal and external control systems, the proposed operation is expected to have a low fiduciary risk for components executed by the UTE/MEF given the strength of its financial management and control systems, and experience in executing Bank projects. In regards to the procurement system, the risk was identified as low.
- 2.7 Based on the results of the April 2014 evaluation and SONAPI limited experience in executing IDB financed operations, the fiduciary financial management risks are assessed as medium impact. Therefore SONAPI fiduciary team will continue to receive training and technical assistance by the Bank to ensure a smooth execution of Bank financed operations. Based on the current assistance provided to the procurement unit of SONAPI, the Bank has determined that for the project procurement execution of this operation, a medium-high risk prevails. The following mitigating measures are currently being implemented by SONAPI: (i) strengthening the capacity of the procurement function; (ii) the revision and update of the manual of operations to ensure that the procurement function is properly included with best practices according to Bank's recommendations; and (iii) finalize the organization of the procurement filing system. The Bank will be supporting all these initiatives through technical assistance. The fiduciary arrangements about the supervision of this project for both executing agencies have been defined in the fiduciary arrangements of this document (Annex III).

D. Other Key Issues and Risks

- 2.8 **Institutional viability.** The program will be jointly implemented by the UTE/MEF, which is responsible for all construction activities;¹² and by SONAPI, which is responsible for the PIC's management and day-to-day operations. SONAPI is the owner of the PIC and of other public sector industrial parks in Haiti, and as stated previously, it manages only one additional park in *Port-au-Prince*. Currently, SONAPI's core managerial functions are being strengthened through a technical assistance project financed through two previous grants ([2779/GR-HA](#) and [3384/GR-HA](#)) (¶1.13 and ¶1.15). Progress in the strengthening of SONAPI's organization and improvement in its personnel capacity can already be observed, as well as a strong leadership's commitment to institutional reform. On the financial sustainability side, even if the financial projections show that the PIC will reach positive financial result in 2018 (¶1.16); the risk of the PIC not reaching this financial sustainability by the end of the project is still considered as medium-low. Therefore, the present grant continues to support SONAPI's management of the PIC, in addition to the strengthening activities financed by previous grants. Component II will be supporting the development of PIC business plan (¶1.25).
- 2.9 **Main risks.** Despite the PIC readiness to host corporate tenants, macroeconomic and political instability in the country could affect their willingness to establish their business in the park. Nonetheless given the fact that the anchor tenant benefiting from the expansion is already secured, this risk is considered low (see ¶1.11).
- 2.10 The rapid growth and success of the PIC is not devoid of social and environmental risks. Some of the early concerns, such as slum formation and food shortages, have not materialized. However, as the PIC expands, some of the challenges previously identified still deserve attention, particularly concerning the full implementation of the environmental and social mitigation measures, enhanced capacity at the local level to deliver quality services to a rising urban population, and the country's capacity to operate the PIC, among others. Failure on implementing environmental, social and health and safety mitigation measures may pose reputational risks to the Bank. Specific measures such as the update of the CIA, as well as the urban plans to be prepared under the Haiti's Northern Development Corridor - Implementation of ICES (ATN/SS-13812-HA) are examples of how the Bank is planning on addressing these risks.
- 2.11 **Gender Issues.** Currently a majority of PIC workers (67%) are women. A review of labor conditions at the PIC shows specific issues related to gender, such as: (i) occupational safety and health (bathroom and sanitary facilities, clinic and dispensary); (ii) inadequate maternity breaks; (iii) lack of childcare and lactating facilities; and (iv) unequal representation of women and men in all levels of employment in SONAPI and within manufacturers at the park. Some of these issues have been supported by a technical cooperation intended to mitigate the social impacts of the PIC ([ATN/KP-13789-HA](#)). Other issues will be addressed through the implementation of a gender action plan (to be prepared under the

¹² The UTE is responsible for all construction activities as well as the operation of the wastewater treatment plant for the next 2-3 years.

previous operation ([3384/GR-HA](#)) that will be included in SONAPI's Environmental, Social and Health and Safety Management System. Support for the preparation and design of the plan will be provided by the IDB. More details on the social mitigation measures can be found in the [ESMR](#).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation Arrangements

- 3.1 **Beneficiary and executing agency.** The beneficiary is the Republic of Haiti. The program's executing agencies will be the MEF through its UTE and SONAPI: (i) UTE/MEF is responsible for construction and supervision; and (ii) SONAPI is in charge of PIC operation and management and implementing Component II. As in the previous operations, the MEF, which is UTE's ministerial authority, will sign all contracts the UTE requests in the scope of the present grant. SONAPI has the authority to procure and sign its own contracts. Coordination among the two Executing Agencies (EA) is assured by their respective field staff especially through the monthly meetings that include IDB staff.
- 3.2 Coordination mechanisms. To ensure the adequate execution of the program, and the implementation of the measures presented in the ESMR, the MEF and SONAPI have signed an amendment to a previous inter-institutional agreement to further detail the roles and responsibilities of each executing agency in the implementation of the Bank financed PIC projects (See [Avenant No. 2 au Protocole d'Accord du 23 février 2011 entre le MEF et la SONAPI](#)).
- 3.3 **Special contractual clauses prior to first disbursement of the Grant.** The beneficiary must, to the satisfaction of the Bank fulfill the following conditions:
 - a. **Signature and effectiveness of a transfer agreement between MEF and SONAPI, whereby MEF will authorize transfer of resources to SONAPI for the execution of Component III of the project.**
 - b. Through each of SONAPI and UTE/MEF: (i) **open two separate bank accounts (one in US dollars and one in Haitian gourdes) at the Central Bank of Haiti for the management of grant resources; and (ii) update their respective manual of operations to reflect activities that will be financed with resources from this grant.**
 - c. Through SONAPI: (i) **present the environmental and social management plan approved by SONAPI for each of the tenants currently operating at the PIC or present proof that legal actions have been taken to terminate lease contracts of tenants that are not in compliance; (ii) show evidence that the PIC has a trained emergency response team and has sufficient financial, human, and operational resources to control a level II fire; (iii) present the food provision management plan; (iv) show evidence that they have sufficient financial, human, and operational resources to monitor the environmental and social aspects of the PIC, including the water quality in the *Trou-du-Nord* River; (v) have signed with the ANAP an interinstitutional agreement whereby SONAPI**

commits, inter alia, to: (a) participate in regular meetings with the ANAP, (b) monitor the water quality in the *Trou-du-Nord* River, and (c) inform regularly ANAP of developments in the PIC, including expansion plans and environmental, social and health and safety aspects; (vi) comply with environmental, social and health and safety requirements in regards to transportation: (1) have secured the area where the rented buses are parked during the day; and (2) have installed access controls in this area to ensure that it is clean and kept free of unauthorized persons; and (vii) comply with environmental, social and health and safety requirements in regards to waste management: (1) have signed the contract with a company to rehabilitate the temporary site for solid waste management; and (2) have signed the contract with a company to ensure proper management of short and long-term waste, including the management of the temporary solid waste management site.

- 3.4 **Environmental and Social Clauses:** (i) The beneficiary shall ensure compliance with all other environmental, social and health and safety requirements set forth in sections V (B), (C), and (D) of the [ESMR](#).
- 3.5 **Procurement execution.** The EA will be responsible for their respective procurement activities, which will be carried out in accordance with the Policies for the Procurement of Works and Goods financed by the Bank (GN-2349-9), the Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank (GN-2350-9), and the procurement plan. Prior to any procurement process commencing, the executing agencies must submit to the Bank a general procurement notice within 30 days of the agreement being approved.
- 3.6 **External audits.** UTE/MEF will be responsible for the recruitment of external auditors of this project, acceptable to the Bank. The external audit will be applied to all their projects as a program and will include an annual financial audit to be submitted within 120 days after the closure of each fiscal year in line with Government of Haiti fiscal year; and a final financial audit of the program to be submitted within 120 days after the date of the last disbursement. Other types of audit reports may be requested during the implementation of the project.

B. Summary of Arrangements for Monitoring Results

- 3.7 **Monitoring and evaluation plan.** The UTE/MEF, responsible for all construction activities, has continuously demonstrated capacity to execute and monitor throughout all PIC operations. In this role, the UTE will be responsible for the collection and validation of all information related to output and results indicators included in the Results Matrix for this program. UTE and SONAPI (which, as mentioned, is responsible for the PIC's management and day-to-day operations), will jointly monitor progress against agreed-upon objectives. These entities will develop Annual Operating Plans (AOP), based on the Pluriannual Execution Plan (PEP) for the project, and will include details on operational planning for each annual period during disbursement (including if this period is extended). Each executing agency will submit the AOP by August 31 of each year at the latest, and should include details on all the activities that must be completed within a

specific execution period, organized by product and including a physical and financial work plan. With regard to evaluation activities, a consulting firm will be hired to collect and analyze data specifically on enterprises operating at the PIC—their characteristics, payments, and all other relevant information. Specific details are included in the [Monitoring and Evaluation Arrangements](#).

- 3.8 **Evaluation.** The Beneficiary will present no later than 90 days following the last disbursement under this project, the following (for all PIC projects):¹³ (i) a final monitoring and evaluation report (§2.16 of [Monitoring and Evaluation Arrangements](#)); and (ii) a final reflexive evaluation of results. This evaluation is using a reflexive methodology, comparing the situation before and after the PIC implementation. This evaluation will be complemented by an ex post cost benefit analysis that will use the model and variables developed previously for the ex ante economic viability. A full description of the methodology, indicators, timetables and other details of this evaluation plan can be found in the [Monitoring and Evaluation Arrangements](#). Funding of the evaluation has been allocated as part of the third and fourth operation ([3132/GR-HA and 3384/GR-HA](#)), for a total of US\$180,000. The present grant assigns an additional US\$100,000 to complement this evaluation.

¹³ PIC projects refer to the projects receiving Bank financing for the PIC to this date, which are, in addition to the present operation, grants Nos. 2552/GR-HA; 2779/GR-HA; 3132/GR-HA; and 3384/GR-HA/HA-X1036, as modified).

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program	-Lending to small and vulnerable countries -Lending for poverty reduction and equity enhancement			
Regional Development Goals	-Extreme poverty rate -Share of formal employment in total employment -Percent of households with electricity -Trade openness (trade as percent of GDP)			
Bank Output Contribution (as defined in Results Framework of IDB-9)	-Individuals receiving targeted anti-poverty programs -Number of jobs added to formal sector -Regional and sub-regional integration agreements and cooperation initiatives supported			
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix	GN-2646	Promote private sector investment in order to create jobs, achieve sustainable growth and reduce poverty.		
Country Program Results Matrix	GN-2805	The intervention is included in the 2015 Operational Program.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Evaluable	Weight	Maximum Score
		8.2		10
3. Evidence-based Assessment & Solution		7.6	33.33%	10
3.1 Program Diagnosis		1.8		
3.2 Proposed Interventions or Solutions		2.8		
3.3 Results Matrix Quality		3.0		
4. Ex ante Economic Analysis		10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		1.5		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		7.0	33.33%	10
5.1 Monitoring Mechanisms		2.0		
5.2 Evaluation Plan		5.0		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		A		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/FMP Criteria)				
Non-Fiduciary				
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality	Yes	The project has incorporated measures to prevent, avoid and mitigate adverse gender impact. The risk matrix includes issues related to gender, such as: (i) occupational safety and health (bathroom and sanitary facilities, clinic and dispensary); (ii) adequate maternity breaks; and (iii) provision of childcare and lactating facilities. These issues will be addressed by the Gender Action Plan currently under preparation, assisted by the technical cooperation to mitigate the social impacts of the Caracol Industrial Park (ATN/KP 13789 HA).		
Labor	Yes	Worker rights as per ILO standards are included in the negotiations with SONAPI and investing firms.		
Environment	Yes	This project sets high standards for all industrial and regional development plans in Haiti and in the Caribbean region across social, environmental and urban development themes. The environmental additionality in solid waste management, health and safety in the Park exemplifies high standards and significant progress in several years of IDB assistance to the Caracol Industrial Park.		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes	A technical cooperation was provided in order to mitigate the social impacts of the PIC (ATN/KP-13789-HA).	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan				

The general objective of the project is to contribute to the sustainable socioeconomic development of Northern Haiti. The specific objective is to create formal employment in the region by providing the necessary conditions for the establishment of firms in the "Parc Industriel de Caracol" PIC and ensuring its adequate management and long term sustainability.

The document presents the problems to be addressed by the project as well as the factors causing them. The project's beneficiaries are clearly spelled out. The document, however, does not provide empirical evidence demonstrating that "demand for space in the PIC exceeds the supply of current space". Since the magnitude of the actual demand by firms for additional hiring is not known, it is not possible to determine if the dimension of the project is related to this demand.

The project's vertical logic is clear and well specified. The Result Matrix is adequately constructed and contains all of the required elements for monitoring the project. The program includes a satisfactory monitoring and evaluation plan, and has identified and adequately addressed the M&E and data availability required for monitoring the project.

The program includes a cost-benefit analysis (CBA) where the economic benefits have been clearly quantified and the costs reflect real resource costs to the economy. The assumptions used are clearly presented and a sensitivity analysis has been performed undertaking variations in key assumptions.

The program's overall risk is rated Medium. Mitigation measures were identified with appropriate monitoring indicators.

RESULTS MATRIX

Project Objective:	the project objective is to contribute to the sustainable economic development of Northern Haiti. The specific objective is to create formal employment in the North and Northeast Departments of Haiti by providing the necessary conditions for the establishment of firms in the <i>Parc Industriel de Caracol</i> (PIC) and ensuring its adequate management and long term sustainability.
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EXPECTED IMPACT

Indicators	Unit	Baseline		Goals		Means of verification	Observations
		Value	Year	Value	Year		
Expected Impact							
Gross Domestic Product (GDP) growth in North and Northeast Departments of Haiti	Annual growth rate	TBD	2015	4%	2019	Institut Haïtien de Statistique et d'Informatique (IHSI). Direction des Statistiques Economiques (DSE).	GDP growth for Haiti in fiscal year 2015 is expected to be between 2% and 1%. The figures for the Northern region will be calculated through the baseline study.

EXPECTED RESULTS

Indicators	Unit	Baseline		Intermediate		Goals		Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
Expected Result									
Haitians employed by firms operating in the <i>Parc Industriel de Caracol</i> (PIC)	Jobs	7,620	2015	3,820	2018	21,937	2020	Report published every three months by <i>Société Nationale des Parcs Industriels</i> (SONAPI), based on tenants'	The number of incremental jobs generated by this project is projected to be 5,400, but due to the lag between completion of facilities and the actual hiring of workers the entire workforce will be in place in 2020. The final 2020 figures

Indicators	Unit	Baseline		Intermediate		Goals		Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
Expected Result									
								hiring records.	included here show the overall expected increase, including that made possible through previous operations. Note that current and projected employment figures establish a target female-to-male worker ratio of 65% (4,953 in 2015 and a projected 14,260 by 2020); this ratio will be monitored by the Bank with all tenants.
Net Salaries paid to Haitian workers in PIC	US\$ million/year	9	2014	4	2018	31.15	2020	SONAPI semiannual reports.	Average salary of US\$5 per day per worker, and 284 working days per year, as calculated in the economic analysis. The final 2020 figures included here show the overall expected increase, including that made possible through previous operations. Note that social security payments to Haitian workers correspond to 9% of the workers' salary.

Indicators	Unit	Baseline		Intermediate		Goals		Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
Expected Result									
Rental payments by international PIC tenant firms	US\$ million/ year	0.2	2014	1.52	2018	3.35	2020	SONAPI semiannual reports.	<p>The anchor tenant will begin paying rent on the buildings in 2016 and on this project's buildings in 2020. (Source: SONAPI's budget estimations).</p> <p>The final 2020 figures included here show the overall expected increase, including that made possible through previous operations.</p>
Services payments (transportation, water, sanitation) made by international PIC tenants firms	US\$ million/ year	0.23	2014	1.3	2018	3.01	2019	SONAPI semiannual reports.	<p>(Source: SONAPI's budget estimations).</p> <p>The final 2019 figures included here show the overall expected increase, including that made possible through previous operations.</p>
Annual Surplus (or (Deficit) of PIC operation and maintenance. (Annual income - O & M costs of the PIC)	\$US million / year	1.9M	2015	0.14	2018	0.18	2019	SONAPI semiannual reports.	<p>By 2020, the surplus is estimated to be US\$1.6 million.</p>

PRODUCTS

Products	Estimated Cost (US\$)	Unit	Baseline	Year 1	Year 2	Final Goal	Means of verification
Component I. Provision of infrastructure in the PIC							
1.1. Industrial Warehouses (11,700 and 5,000 sq. m.) built	33 million ¹	Building	2016	1	3	4	UTE Semiannual Report.
1.2. Annex buildings (200 sq. m.) built	0.8 million (boiler room)	Building	2016	1	1	2	
1.3. General use buildings (1,600 sq. m.) built	1.2 million (canteen)	Building	2016	1	0	1	
1.4. Internal roads constructed	1.3 million	Linear meters	2016	600	600	1,200	
1.5. Water and sanitation network expanded with 50mm-diameter pipes	1.5 million	Linear meters	2016	400	600	1,000	
1.6. Drainage network expanded, with 300mm-diameter pipes	0.3 million	Linear meters	2016	400	600	1,000	
1.7. Prevention works of the <i>Trou-du-Nord</i> River bank at its crossing of the PIC completed	0.3 million	Linear meters	2016	200	300	500	
Component II. Operational Support to SONAPI ²							
2.1. Business plan developed	250,000	Business Plan	2016	0	1	1	SONAPI Annual reports. The adequate implementation of the system will be verified by the Bank's ESG team.
2.2. Environmental, health and safety (EHS) system implemented	400,000	System implemented	2015	1	0	0	

¹ Unit costs: US\$7.25 million for 11,700 sq. m. building; US\$4 million for 5,000 sq. m. building

² The remaining US\$1.05 million from Component II are resources to cover the operations and maintenance expenses of the PIC.

FIDUCIARY ARRANGEMENTS

Country: Republic of Haiti
Project No.: HA-L1101
Name: Productive Infrastructure Program IV
Executing Agency: Ministry of Economy and Finance through its Technical Execution Unit (UTE/MEF) and the National Society of Industrial Parks (SONAPI)
Date: November 2015
Prepared by: Lila D. Mallory; and Takady Konate (FMP/CHA)

I. EXECUTIVE SUMMARY

- 1.1 The present grant corresponds to the fifth operation in the ongoing support to the establishment of the *Park Industriel de Caracol* (PIC) in the northern region of Haiti. The PIC aims to address key obstacles faced by manufacturers in doing business in Haiti by providing: (i) modern infrastructure and buildings to house industrial activities; (ii) reliable utilities (water, sanitation, electricity); (iii) logistics support and secure road access to the park; and (iv) a professionally managed, operated and maintained industrial park. The program has two Executing Agencies: the Ministry of Finance through its Technical Executing Unit (UTE/MEF), responsible for managing construction activities (Component I and III) and the National Society of Industrial Parks (*Societe Nationale des Parcs Industries* - SONAPI), responsible to manage the PIC daily operational activities (Component II).
- 1.2 The most recent Public Expenditure and Financial Accountability (PEFA) assessment of public financial management systems in the Republic of Haiti was conducted in 2011 and published in February 2012, while in 2013, the National Procurement System was assessed¹ by the *Commission Nationale de Marchés Publics* (CNMP)² and a strategic plan was prepared for its modernization. Country financial management systems and external control mechanisms, as evidenced by these diagnostics would require further improvements to conform to levels consistent with fiduciary management of Bank funded projects. To mitigate these weaknesses, IDB procedures will apply in procurement and financial management. The Bank will continue to (i) rely on special project execution units for the execution of all projects; (ii) implement special fiduciary arrangements for the implementation of its projects; and (iii) conduct close operation supervision of project execution units. External control will be performed for all Bank operations by independent audit firms acceptable to the Bank in accordance with the Bank's financial reporting and audit guide.

¹ The government applied the Methodology for the Assessment of Procurement Systems (MAPS) developed by the OECD/DAC, the World Bank, the IADB and other donors.

² It is the Procurement National Regulatory body of Haiti.

- 1.3 The use of country systems is not contemplated under this program. The Bank will continue to assist the Government of Haiti to modernize and strengthen its procurement and financial systems.

II. EXECUTING AGENCY FIDUCIARY CONTEXT

A. UTE/MEF

- 2.1 The UTE/MEF will be responsible Component I and Component III. UTE/MEF was established by ministerial circular within the MEF in January 2005 and is headed by a director general who reports directly to the Ministry of Finance. He is seconded by: (i) a deputy director; and (ii) an administrator, who supervises finance and accounting professionals. As per its operational structure, UTE/MEF recently consolidated its operational manuals into one with annexes to document specificities of individual projects. Furthermore, the executing agency is moving forward with a unified audit report of IDB financed project, included an external audit of its internal control systems.
- 2.2 UTE/MEF uses modified cash basis for accounting purposes in its Accounting System (ACCPAC)³ to generate financial reports by project and funding source. Financial information is exported to Excel for the preparation of financial statements required by the Bank. The UTE/MEF has extensive experience in bank financed operations and is currently executing several bank operations such as the Caracol Industrial Park (2552/GR-HA, 2779/GR-HA, 3132/GR-HA and 3384/GR-HA), and components related to school constructions for Education projects (2643/GR-HA and 2863/GR-HA). Recently, UTE/MEF can, with very little additional effort, assume the execution of Components I and III for project HA-L1101.
- 2.3 The increased volume of activity experienced at the UTE/MEF with IDB and other donor's financed projects continues to show the need to supplement and reinforce existing staff, especially within the procurement function.

B. SONAPI

- 2.4 The *Société Nationale des Parcs Industriels* (SONAPI), an autonomous public agency, is the leading institution in Haiti regulating and managing the national policy of export-oriented industrial and manufacturing sector. SONAPI manages the Parc Industriel Métropolitain (PIM) in Port au Prince. As of May 1st, 2014, SONAPI assumed responsibility for the PIC's operation and management.
- 2.5 **Organizational structure and administrative policies.** SONAPI is headed by a general manager who reports directly to the director general of SONAPI. The general manager is supported by: (i) a deputy manager who manages PIC operations; (ii) accountants, including one in Caracol; (iii) a technical team; and (iv) administrative and support staff. Based on the organizational assessment in April 2014 and recent technical support provided by the bank, SONAPI meets many of IDB fiduciary requirements: (i) an organigram defining roles and

³ Name of the software used.

responsibilities in PIC management; (ii) a policies and procedures manual; (iii) an operational manual; (iv) an adequate and skilled team, including a coordinator with IDB experience; and (v) a dedicated unit for fiduciary matters.

- 2.6 With funds available in ongoing operations (2779/GR-HA and 3384/GR-HA), the Bank will continue to assist the implementation of strengthening activities focusing on: (i) business development and client management capacities; (ii) strengthening financial, procurement and administrative units to ensure efficiency, control and transparency; (iii) revamping the human resources unit; (iv) finalizing organizational manuals, rules and regulations; and (v) creating an archiving system. Since its 2014 assessment and the ongoing technical assistance provided by the Bank, SONAPI shows improvements. The procurement function is now decentralized into a central unit that will manage all investment contracts. This new unit has achieved results considered acceptable to implement Bank financed projects; however, there is still some improvement needed with regards to: (i) an adequate and skilled team; and (ii) a procurement filing system in place and fully operational.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

A. UTE/MEF

- 3.1 Fiduciary risk for financial management is assessed as low impact. The evaluation of UTE/MEF institutional capacity conducted by an independent consulting firm in December 2011 and updated in September 2014, confirmed the existence of a satisfactory level of capacity for the financial management of projects. The current finance and accounting staff has the training and experience to properly perform its financial management responsibilities arising from the implementation of the proposed project. Policies and procedures for financial management of the entity are defined in its operating manual. The manual was recently updated to include all operations. Team of Specialists at the Bank reviewed and provided their non objection to the manual.
- 3.2 The accounting of the projects managed by the UTE/MEF is done in accordance with the modified cash method and by means of the general ledger module of the ACCPAC system. The system generates financial reports of income and expenses by project and funding source; however they are reprocessed using Excel for further generation of financial reports such as cash flow and financial planning required by the MEF and the Bank. Given that UTE is an entity subordinated to the MEF, it does not produce institutional accounts. The most recent audit of Bank funded project 2779/GR-HA and 2552/GR-HA for FY 2014 did not reveal any significant internal control deficiencies, and auditors gave an unqualified opinion as to annual financial statements.
- 3.3 Based on the current supervision of the procurement project execution of UTE/MEF, the Bank has determined a low risk for the project procurement execution of this operation.

B. SONAPI

- 3.4 Based on the results of the April 2014 evaluation and SONAPI limited experience in executing IDB financed operations, the fiduciary financial management risks are assessed as **medium impact**.
- 3.5 SONAPI has its own set of procedure and operating manuals, which were updated in May 2015 to incorporate IDB policies and procedures. The entity has hired (i) specialists in procurement and finance; and (ii) an accountant in Caracol to strengthen its internal controls. SONAPI fiduciary team will continue to receive training and technical assistance by the Bank to ensure a smooth execution of Bank financed operations.
- 3.6 Based on the current assistance provided to the Procurement Unit of SONAPI, the Bank has determined that for the project procurement execution of this operation, a medium high risk prevails. The following mitigating measures are currently being implemented by SONAPI: (i) strengthening the capacity of the procurement function; (ii) the revision and update of the manual of operations to ensure that the procurement function is properly included with best practices according to Bank's recommendations; and (iii) finalize the organization of the procurement filing system. The Bank will be supporting all these initiatives through technical assistance.

IV. ASPECTS TO BE CONSIDERED IN THE SPECIAL CONDITIONS OF CONTRACT

A. Special Conditions

- 4.1 In order to move forward the contract negotiations by the project team, herein are those fiduciary arrangements that must be considered in the special contractual clauses prior to the first disbursement under Components I and II:
- a. Special Accounts. UTE/MEF and SONAPI will each open two separate bank accounts (one in US dollars and one in Haitian gourdes) at the Central Bank of Haiti for the management of grant resources.
 - b. UTE/MEF and SONAPI will update their respective manual of operations to reflect activities that will be financed with resources from this grant.

B. Audit Special Requirements

- 4.2 UTE/MEF will be responsible for the recruitment of external auditors of this project, acceptable to the Bank. The external audit will be applied to all their projects as a program and will include an annual financial audit to be submitted within 120 days after the closure of each fiscal year in line with the Government of Haiti fiscal year and a final financial audit of the program to be submitted within 120 days after the date of the last disbursement. Other types of audit reports may be requested during the implementation of the project.

V. FIDUCIARY ARRANGEMENTS FOR PROCUREMENT EXECUTION

- 5.1 **Procurement execution.** The procurement fiduciary arrangements establish the conditions applicable to all procurement execution activities. The executing agencies will be responsible for all procurement activities. Procurements for the project will be carried out in accordance with the Policies for the Procurement of Works and Goods financed by the Bank (GN-2349-9), the Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank (GN-2350-9), and with the provisions established in the Agreement and the procurement plan. Prior to any procurement process commencing, the executing agencies must submit to the Bank a general procurement notice within 30 days of the agreement being approved.
- 5.2 **Procurement of goods, works and non-consulting services.** The procurement plan covering the first 18 months of project execution (Appendix 1) indicates the procedures to be used for the procurement of goods, works and the contracting of non-consulting services. The review of technical specifications in all cases, during the process of selection, is the responsibility of the IDB sector specialist works requiring International Competitive Bidding (ICB) will be contracted using the Standard Bidding Documents (SBD) issued by the Bank. Procurement subject to National Competitive Bidding (NCB) will be undertaken using national bidding documents agreed upon with the Bank. For contracts of goods, works and non-consulting services undertaken through price comparison the executing agencies will use models of documents agreed with the Bank.
- 5.3 **Procurement of Information Technology (IT) Systems.** Procurement of IT systems will be done in keeping with the policies referenced above. The Bank's IT Specialist will provide technical review and advice as necessary.
- 5.4 **Procurement of non-consulting services.** The executing agencies will use the standard document agreed by the Bank for this type of services.
- 5.5 **Selection and contracting of consultants.** The procurement plan covering the first 18 months of project execution (Appendix 1) indicates the procedures to be used for the procurement of consultancy services and the selection method. The executing agencies are responsible for preparing the Terms of Reference (TOR), short lists, selecting the consultants and awarding and administering the contract. Review and subsequent no objection of the TOR for the selection of consulting services is the responsibility of the program sector specialist.
- 5.6 **Selection of individual consultants.** Individual consultants are employed on assignments for which: (i) teams of personnel are not required; (ii) no additional outside (home office) professional support is required; and (iii) the experience and qualifications of the individual are the paramount requirement. Advertisement is not required⁴ and consultants do not need to submit proposals. Consultants shall be selected through comparison of qualifications of at least three candidates among those who have expressed interest in the assignment or have been approached directly by the executing agencies. Individual consultants may be selected on a Sole Source Selection basis with due justification in exceptional

⁴ However, in some cases the government may consider the advantage of advertising at their option.

cases. This is to be carried out in accordance with Section V (Selection of Individual Consultants) of GN-2350-9.

- 5.7 **Recurrent expenses.** The project will finance recurrent expenses including: (i) all expenses required and agreed with the Bank for the execution of the project; (ii) all executing unit individual consultants required for the execution of the project; and (iii) per diem (if any) and wire transfers if agreed with the Bank. Operational costs do not include the salaries of public workers.
- 5.8 **Domestic preferences.** Appendix 2 of GN-2349-9 is used in determining whether it is appropriate and necessary to use domestic preference in the evaluation of bids.
- 5.9 **Procurement plan.** This plan indicates the procedures to be used for the procurement of goods, the contracting of works or services and the method of selecting consultants for each contract. It also indicates cases requiring prequalification, the estimated cost of each contract and the requirement for prior or post review by the Bank. The procurement plan will be updated annually or whenever necessary, or as required by the Bank. The detailed procurement plan is available at www.iadb.org/procurement.
- 5.10 **Project procurement thresholds table:** The threshold amounts agreed by the Bank for Haiti have been modified through procurement provisions for Haiti, which apply during the term of the Bank Country strategy for Haiti 2010-2015. Any modification of these provisions will apply immediately to the procurement execution of this operation and if it ceases to have effect, the procurement of this operation would then run under the regular thresholds.

Table 1. Regular threshold amounts for Haiti

HAITI – LIMIT AMOUNTS (IN THOUSANDS OF US\$)					
Works		Goods		Consulting	
ICB ⁵	NCB ⁶ /PC ⁷	ICB	NCB/PC	International	100% National
≥1.000	<1.000	≥100	<100	>200	<100

- 5.11 **Procurement supervision.** The review methods for all procurement activities are listed in the procurement plan. Activities listed under ex ante will require the Bank's no objection at all key stages of the procurement process. Activities under ex post will be reviewed during the ex post procurement supervision visits which take place at least once every 12 months, in accordance with the supervision plan of the project.
- 5.12 **Records and files.** All records and files will be maintained by the executing agencies, according to accepted best practices and will include all documents starting with the procurement plan, including all documents from the procurement process and from contract management through the end of execution, including copies of amendments, copies of warranties and copies of payments. The files

⁵ ICB: International Competitive Bidding

⁶ NCB: National Competitive Bidding.

⁷ PC: Shopping.

must be kept for a minimum of three years beyond the end of the operation's execution period, or as stipulated in the agreement.

VI. ARRANGEMENTS FOR PROJECT FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** At the start of the project the UTE/MEF, in charge of Component I and administrative costs, will prepare a comprehensive financial plan covering the total expected execution time as part of the Pluriannual Execution Plan (PEP). The financial plan will be evaluated every six months and reported in the semiannual Project Monitoring Report (PMR). SONAPI, responsible for Component II, will provide an Annual Operational Plan (AOP), procurement plan; and a twelve-month detailed financial plan. The execution of SONAPI financial plan will be evaluated quarterly. The financial plan will coincide with the Haitian fiscal year and will respect categories of investment as defined in the grant budget.
- 6.2 **Accounting, financial reporting and financial management system.** UTE/MEF uses ACCPAC accounting module to record financial transactions and produce reports and financial statements. SONAPI uses QuickBooks as its electronic system to generate financial reports of income and expenses by funding source.
- 6.3 **Disbursements and cash flow project financial management will be guided by OP-273-6.** UTE/MEF and SONAPI will prepare annual planning of the project cash flow based on activities to be updated semi-annually by the UTE/MEF and quarterly by SONAPI. The projected cash flow of the project will be based on activities planned, the procurement plan and payment terms agreed with suppliers and project beneficiaries. The projected annual cash flow will be the basis for determining the advances of funds to be disbursed by the Bank to the executing agencies. For each new advance of funds, executing agencies will justify at least 80% of the cumulated advances already received. Disbursement supervision will be ex post for both executing agencies. The exchange rate applicable will be the rate published by the Bank of the Republic of Haiti on the date of payment of the expense in local currency (Grant Agreement, 3.10(b) (ii)).
- 6.4 **Financial control and reporting.** Audits will be performed in accordance with Bank's Guidelines for Financial Reports and External Audits as described in Section IV. Financial audit cost will be financed by IDB grant and estimated at US\$120,000. The program financial statements will correspond to the fiscal year.
- 6.5 **Financial supervision plan.** Fiduciary staff of the Bank will perform periodic inspection visits to UTE/MEF and SONAPI, which are aimed at reviewing the capacity of the project and the execution of financial plan.
- 6.6 **Execution mechanism.** Each executing agency will maintain proper financial management systems and will prepare an AOP and procurement plan and a 12 month financial plan indicating cash flow needs for the execution of project's activities stemming from AOP and procurement plans. The 12 month financial plan will be the basis for advance of funds disbursements, which will cover the funding needs of six months of project execution for UTE/MEF and three months for SONAPI.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/15

Haiti. Nonreimbursable Financing ____/GR-HA to the Republic of Haiti
Productive Infrastructure Program IV

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as Administrator of the IDB Grant Facility (hereinafter referred to as the "Account"), to enter into such agreement or agreements as may be necessary with the Republic of Haiti, as Beneficiary, for the purpose of granting it a nonreimbursable financing to cooperate in the execution of the Productive Infrastructure Program IV. Such nonreimbursable financing will be for an amount of up to US\$41,000,000, which form part of the Account, and will be subject to the Terms and Financial Conditions and the Special Contractual Conditions in the Project Summary of the Grant Proposal.

(Adopted on ____ 2015)