

HAITI

Project Profile

I. BASIC DATA

Project name:	Business Development Services Program		
Project number:	HA-L1057		
Project team:	Jose Juan Gomes Lorenzo (ICF/CMF), Team Leader; Felipe Gómez-Acebo (CMF/HRG), Alternate Team Leader; Juan Antonio Ketterer (ICF/CMF); Joaquín Domínguez (CMF/CDR); Carlo Pietrobelli (ICF/CMF); Andrea Terán (ICF/CMF); Hyun Jung Lee (LEG/SGO); Fazia Pusterla (SPD/SDV); Alessandro Maffioli (SPD/SDV); Ariel Rodríguez (PDP/CHA), Marise Etienne (PDP/CHA); and Annabella Gaggero (ICF/CMF).		
Beneficiary:	Republic of Haiti		
Executing agency:	Fonds de Développement Industriel (FDI)		
Financing plan:	IDB Grant Facility:	US\$11.0 million	
	Other donors' contributions	US\$24.0 million	
	TC FSO (Net Income):	US\$ 0.1 million	
	Total:	US\$35.1 million	
Safeguards:	Policies triggered: B.01, B.02, B.03, B.07, and B.17.		
	Classification: C		

II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 Years of political instability and a succession of natural disasters have contributed to slow or negative growth and, hence, to high unemployment and extreme poverty in Haiti. Prior to the earthquake, around 70% of the population was unemployed and 80% were living in poverty. These trends were exacerbated by the devastation of the January 12 quake, whose overall material damages and losses were estimated at US\$7.9 billion¹. Indeed, it not only affected directly some 3 million people, but it also ended the prospects of long term employment for many of them. It is estimated that the losses of micro, small and medium-sized enterprises, believed to employ as much as 80% of workers, reached US\$1.5 billion or 27% of total private sector losses. The Government of Haiti (GoH) and the Haitian private sector, with the help of the international community, are committed to rebuilding the country back better.
- 2.2 The reconstruction effort is estimated at US\$11.5 billion spread over 10 years. On the March 31st “International Donor Conference towards a New Future for Haiti”, the international community pledged US\$10.2 billion for the reconstruction and

¹ An amount which is just over 120% of the country's GDP in 2009.

sustainable development of the country, of which US\$5.8 billion were to be committed in Fiscal Year 2010-2011.

- 2.3 The generosity of donors is likely to lift Haiti's economy in the short run, creating a construction boom in some parts of the country. However, it may not be enough to improve Haiti's long term competitiveness and to ensure a more balanced regional development. There are legitimate concerns over the sustainability of economic growth in the longer term if structural deficiencies, including an adequate environment for private sector development, are not addressed early on. In addition, the large aid influx and initial supply side constraints that could emerge as a result of the reconstruction process may exert pressures on inflation and wages, with its adverse consequences for those tradable sectors that should become the backbones of the Haitian economy over the long term. Thus, the reconstruction and development efforts, as reflected in the GoH's plan for sectoral and regional development², should focus not only on rebuilding the lives of the affected population, but also on starting to improve the productivity of the country's most promising sectors, particularly outside Port of Prince and other heavily damaged cities. Indeed, building a productive and skill-based economy in globally competitive sectors such as agriculture, light manufacturing, construction, transport, and tourism is crucial for Haiti's long-term economic prosperity.
- 2.4 SMEs' (small-, and medium-sized enterprises) access to credit is a necessary condition for private sector-driven development. Even though donor support will be critical for the country in coming years, the successful reconstruction and sustainable development of Haiti will demand private-sector-driven development from within. However, for this pattern of development to take place, SMEs need to have access to credit in order to rehabilitate, start or expand their operations.³
- 2.5 This, in the particular case of Haiti, would entail: (i) on the demand side, supporting SMEs to improve their financial information disclosure and developing their business and investment plans to help enhance the profitability and productivity of their operations; and (ii) on the supply side, increasing the availability of investment credit for SME projects in terms and conditions that ensure adequate internal rates of return. The proposed program seeks to provide productive units with Business Development Services (BDSs⁴) to deal with the demand-side issues previously stated. It may also support credit intermediaries

² "Action Plan for Recovery and Development of Haiti: Immediate Key Initiatives for the Future", Government of the Republic of Haiti, March 2010.

³ Since the program will give particular attention to SMEs operating in sectors in which large domestic and foreign companies are interested in developing value chains, it is believed that product and service demand should not be a major source of concern for those SMEs.

⁴ BDSs include a broad range of non-financial services that boost competitiveness through higher productivity, better product design, improved service delivery and/or enhanced market access. The main categories of BDS are technical assistance, management training, vocational skills training, marketing assistance (for inputs and output), technology access, productivity and product design, accounting and legal services and access to various sorts of information (about standards, regulations, and ideas in the enterprise field).

with loan appraisal and credit history screening, as will be justified below. Complementary interventions of the Bank will be geared to deal with the main supply side issue, namely the availability of investment credit for SME projects in adequate terms and conditions..

- 2.6 **Justification for support to SMEs financing through BDS.** The limitations confronted by SMEs to access investment credit can be explained by both demand and supply side considerations. On the demand side, the first one is business informality, which is associated to a large extent with a lengthy and costly business registration process. These problems are compounded by the fact that SME owners typically do not know how to prepare relevant legal requirements for registration, and, thus, are unable to register their businesses successfully.
- 2.7 Another reason that prevents SMEs, including formal ones, from obtaining access to credit is that their owners lack the ability to prepare financial statements and business plans, which is a major source of the information asymmetry that causes financial intermediaries to turn down productive units' loan applications or set inappropriate collateral requirements.
- 2.8 Finally, the difficulties of many SMEs, even well-organized ones, to improve their production, technical, marketing, business and/or organizational capacities is likely to lead to little or no new demand for investment loans, or to the reduction of future average loan sizes.
- 2.9 These considerations justify the provision of BDSs or performance-based rewards to the following categories of SMEs operating in high priority sectors or production chains:
 - a. BDSs to strengthen the basic organizational and financial capacities of SMEs that lack access to credit so that eventually they will be able to present themselves appropriately to potential lenders;
 - b. Performance-based rewards to encourage first-time SME credit clients to achieve certain pre-agreed business development objectives in the context of their project so that they are able to improve their creditworthiness and, hence, be eligible for additional investment credit later on;
 - c. BDSs to enhance the profitability and productivity of established SME credit clients so that they can get access to larger size loans in the future.
- 2.10 Supply-side factors that limit SME's possibilities to access credit include the issues of loan terms and conditions mentioned earlier on, and the complexity and costs associated with the credit rating for this type of clients. Indeed, institutional due diligence means careful loan appraisal and credit history screening; processes which become even more complex, and hence more costly, when SMEs are involved. This justifies supporting credit intermediaries with those appraisals.

- 2.11 **The Program goal** is to enhance the profitability and productivity of SMEs. To achieve this objective, the Program will provide BDS grants and performance-based rewards to SMEs, particularly those operating in high priority sectors or production chains, so that they are able to present themselves more effectively to potential credit entities in order to obtain access to investment credit or to increase their access thereto as they transit through different stages of entrepreneurial development.
- 2.12 **Program components.** The program is expected to have three components: (i) funding for the provision of BDSs and performance-based rewards to SMEs interested in getting access to credit; (ii) support to financial intermediaries to cover part of their credit appraisal costs (i.e. through a credit appraisal fee) given that those costs are more onerous in the case of SMEs; and (iii) technical assistance to strengthen the Executing Agency and to run the program.
- 2.13 **Program Cost** will amount to US\$35 million, of which US\$11 million will come from the IDB Grant Facility and US\$24 million from other donors' contributions. If these last contributions do not materialize, it would not compromise the Program's components and objectives. It would only restrict its scope in terms of the number of SMEs that would benefit from it. A US\$100.000 TC from the Net Income of the FSO will also support the Program's design and implementation.
- 2.14 **Program results.** Program results will be measured in terms of its products, intermediate outcomes, and outcomes. In principle, its product would be the number of SMEs which will receive BDS grants and performance-based rewards. Intermediate outcomes will be the number of SMEs participating in the program that: (i) obtain access to investment credit for the first time; (ii) having obtained their first investment loan, are able to obtain a second one; and (iii) having had a long credit history, are able to obtain larger average size investment credits. Lastly, the final outcome will be an increase in the productivity level of SME credit beneficiaries by the end of the Program.
- 2.15 **Consistency with the Country Strategy.** The proposed project is consistent with the Bank's country strategy with Haiti (GN-2465-2) and its institutional priorities following the quake, as reflected in Management's presentations to the Board. Indeed, the former states as one of its objectives the need to "Strengthen the underlying foundation for economic growth", while the latter has as one of its priorities the rehabilitation and development of the private sector.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 The proposed project is part of a package of interventions geared to improve the access of SMEs to investment credit. Complementary interventions include: (i) a public guarantee facility to support the restructuring of firms' loans that were impaired by the quake, but could still be viable (HA-L1050); (ii) a private investment fund to invest in projects and/or companies in diversified sectors (HA-

L1052); and (iii) a social investment fund to co-finance with local financial intermediaries new investment loans to SMEs. Another operation that contributes to private sector development is a program that supports the construction of the first integrated industrial park in the north of Haiti (HA-L1053).

- 3.2 The main issues to be addressed as part of project preparation include: (i) analysis of the potential demand for BDSs and investment credit; (ii) analysis of potential suppliers of BDSs; (iii) institutional analysis of the Executing Agency⁵, including its financial, fiduciary, social and environmental control systems; (iv) analysis of project costs and economic viability; (v) design of the project's monitoring and evaluation system; (vi) design of the different types of BDSs and performance-based rewards to be offered through the program, including their specific operational guidelines; and (vii) design of the program's operational regulations.

IV. SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 As with all projects executed in the aftermath of a natural disaster, fiduciary risks are present as the capacity to manage them is affected under post-disaster social and economic circumstances. On the basis of the fiduciary risks identified during Project preparation, the Project team will propose measures to mitigate those risks, including the possibility of hiring an individual advisor or an advisory firm to ensure that program components are properly executed. The fiduciary group at CCB/CHA will be asked to assess and rate the fiduciary risks of the Project.
- 4.2 Since the purpose of the program is to provide technical assistance, no adverse social or environmental impacts are expected as a result of program execution. This operation has been classified as C by the Bank's Safeguard Screening Toolkit.

V. RESOURCES AND TIMETABLE

- 5.1 In order to address the technical and institutional issues identified in Section III and continue with the preparation of the project, US\$70.000 in administrative funds will be needed for missions and some preliminary consultancy work. In addition, a US\$100.000 TC operation will be prepared and approved in 2010 to handle the last two activities contemplated in Section II, Paragraph 3.2, thus ensuring its technical and execution readiness for the first quarter of next year. The Draft Loan Proposal and the Loan Proposal are expected to be presented and approved by the Operations Policy Committee (OPC) and the Board of Executive Directors, respectively, in the first quarter, or early in the second quarter, of 2011.

⁵ The FDI is a specialized institution of the Central Bank of Haiti, endowed with operational and financial autonomy, which is dedicated to promote the development of the private sector by offering loans, credit guarantees and technical assistance to sustainable SMEs with employment and value added potential.

SAFEGUARD POLICY FILTER REPORT

This Report provides guidance for project teams on safeguard policy triggers and should be attached as an annex to the PP or PCD (or equivalent) together with the Safeguard Screening Form, and sent to ESR.

1. Save as a Word document. 2. Enter additional information in the spaces provided, where applicable. 3. Save new changes.

PROJECT DETAILS	IDB Sector	PRIVATE SECTOR DEVELOPMENT- ENTERPRISE DEVELOPMENT
	Type of Operation	Investment Loan
	Additional Operation Details	
	Investment Checklist	Generic Checklist
	Team Leader	Gomes Lorenzo, Jose J. (JOSEG@iadb.org)
	Project Title	Business Development Services Program
	Project Number	HA-L1057
	Safeguard Screening Assessor(s)	Gaggero, Annabella (ANNABELLAG@iadb.org)
	Assessment Date	2010-09-27
	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.	Disclosure of Information Policy (B.01)
		The operation is in compliance with environmental laws and regulations of the country where the operation is being implemented (including national obligations established under ratified Multilateral Environmental Agreements).	(B.02)
		The operation (including associated facilities) will be screened and classified according to their potential environmental impacts.	(B.03)
		The Bank will monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.	(B.07)

		Suitable safeguard provisions for procurement of goods and services in Bank financed projects may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.	(B.17)
	Potential Safeguard Policy Items(?)	No potential issues identified	
	Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PCD (or equivalent) and Safeguard Screening Form to ESR.	
	Additional Comments:		

ASSESSOR DETAILS	Name of person who completed screening:	Gaggero, Annabella (ANNABELLAG@iadb.org)
	Title:	Project Assistant
	Date:	2010-09-27

SAFEGUARD SCREENING FORM

This Report provides a summary of the project classification process and is consistent with Safeguard Screening Form requirements. The printed Report should be attached as an annex to the PP or PCD (or equivalent) and sent to ESR.

1. Save as a Word document. 2. Enter additional information in the spaces provided, where applicable. 3. Save new changes.

PROJECT DETAILS	IDB Sector	PRIVATE SECTOR DEVELOPMENT- ENTERPRISE DEVELOPMENT
	Type of Operation	Investment Loan
	Additional Operation Details	
	Country	HAITI
	Project Status	
	Investment Checklist	Generic Checklist
	Team Leader	Gomes Lorenzo, Jose J. (JOSEG@iadb.org)
	Project Title	Business Development Services Program
	Project Number	HA-L1057
	Safeguard Screening Assessor(s)	Gaggero, Annabella (ANNABELLAG@iadb.org)
	Assessment Date	2010-09-27
	Additional Comments	

	Project Category: C	Override Rating:	Override Justification:
			Comments:
PROJECT CLASSIFICATION SUMMARY	Conditions/ Recommendations	<ul style="list-style-type: none"> No environmental assessment studies or consultations are required for Category "C" operations. Some Category "C" operations may require specific safeguard or monitoring requirements (Policy Directive B.3).Where relevant, these operations will establish safeguard, or monitoring requirements to address environmental and other risks (social, disaster, cultural, health and safety etc.). The Project Team must send the PP or PCD (or equivalent) containing the Environmental and Social Strategy (the requirements for an ESS are described in the Environment Policy Guideline: Directive B.3) as well as the Safeguard Policy Filter and Safeguard Screening Form Reports. 	

SUMMARY OF IMPACTS/RISKS AND POTENTIAL SOLUTIONS	Identified Impacts/Risks: None	Potential Solutions
---	---------------------------------------	----------------------------

ASSESSOR DETAILS	Name of person who completed screening:	Gaggero, Annabella (ANNABELLAG@iadb.org)
	Title:	Project Assistant
	Date:	2010-09-27

ENVIRONMENTAL AND SOCIAL SAFEGUARD STRATEGY

The proposed program seeks to contribute to the enhancement of the profitability and productivity of Haitian businesses through expanded access to credit. To this end, the program will provide small- and medium-sized enterprises (SMEs) with non-financial Business Development Services (BDSs) to help them improve their financial information disclosure and develop their business and investment plans.

BDSs will be provided to the following categories of firm recipients operating in high priority sectors or production chains.

- a. SMEs that lack access to credit so that eventually they will be able to present themselves appropriately to potential lenders;
- b. First-time SME credit clients to achieve certain pre-agreed business development objectives and be eligible for additional investment credit later on; and
- c. Established SME credit clients so that they can get access to larger size loans in the future.

Since the program focuses mainly on technical assistance, no negative environmental or social impacts are expected from its execution. Moreover, the program has potential positive environmental and social effects, as it will contribute to the reconstruction of Haiti by helping to build a productive and skill-based economy.

However, sectors with high social and environmental sensitivity will be incorporated into an exclusion list. SMEs operating in sectors included therein will not qualify as recipients of BDSs funded by this program.

This operation has been classified as C by the Bank's Safeguard Screening Toolkit.

INDEX OF COMPLETED AND PROPOSED SECTOR WORK

Issues	Description	Expected Dates	References & hyperlinks to technical files
Technical options and design	<ul style="list-style-type: none"> - Engaging the Private Sector in Reconstruction and Development - Implementation structure for the Business Development Services Program - Specific design and implementation guidelines of the BDS and performance-based rewards to be offered under the program to the identified three market segments. - Operational guidelines of the overall program. 	<p>March 2010</p> <p>November 2010</p> <p>December 2010</p> <p>December 2010</p>	<p>http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35152989</p> <p>In preparation</p> <p>In preparation</p> <p>In preparation</p>
Analysis of project cost and economic viability	- Estimation of the Demand for and Supply of Business Development Services.	November 2010	In preparation
Data collection and analysis for reporting on results	- Design of the project's monitoring and evaluation system, including baseline, data sources, data collection and analysis for reporting on results.	November 2010	In preparation
Institutional analysis/personnel, procedures and other aspects of implementation capacity	- Institutional analysis of the executing agency (Fond de Développement Industriel), including its organizational structure, human resource endowment, and its financial and fiduciary control systems.	November 2010	In preparation

Issues	Description	Expected Dates	References & hyperlinks to technical files
Social and environmental safeguards	- Environmental and social safeguards of the program taking into account the program's objectives, national capacities and the capacity of the executing agency (Fond de Développement Industriel) to manage environmental and social risks.	November 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
	- Haiti: From Natural Catastrophe to Economic Security. UN, P. Collier.	January 2009	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=35152864
	- Haiti: Technical Assistance in Support of the Haiti DCA Program: Haiti SME Market Sector Assessment Summary Report, USAID,	March 2007	

