

## PROJECT PROFILE (REFORMULATION)

### I. BASIC DATA

<b>Project Name:</b>	Reformulation of the “Program to Establish a Partial Credit Guarantee Fund for Enterprise Development” (PCGF) as the “Productive Finance and Guarantee Program for Smallholder Farms and SMEs” (PFGP)		
<b>Project Number:</b>	HA-L1050 (2416/GR-HA) and HA-G1022 (GRT/HR-12410-HA) (reformulation)		
<b>Project Team:</b>	Martin Chrisney (Team Leader, IFD/CMF), Mark Wenner (IFD/CMF), Bruno Jacquet (RND/CHA), Felipe Gomez-Acebo CMF/CHA), Joaquin Dominguez (/CMF/CHA), Marc Brugulat (CMF/CHA), Michelle Friedman (MIF/CHA), Patricio Crausaz (FMP/CHA), Nelly Wheelcock (FMP/CHA), Hyun Jung Lee (LEG/SGO), and Annabella Gaggero (IFD/CMF).		
<b>Beneficiary:</b>	Republic of Haiti		
<b>Executing Agency:</b>	<i>Fonds de Développement Industriel (FDI)</i>		
<b>Financial Plan:</b>	IDB Grant Facility (HA-L1050):	US\$	20 million
	<i>Disbursed funds:</i>	US\$	5.2 million
	<i>Reformulation:</i>	US\$	14.8 million
	Haiti Reconstruction Fund (HRF):	US\$	12.5 million
	<b>Total:</b>	<b>US\$</b>	<b>32.5 million</b>
<b>Policies triggered:</b>	B.01, B.02, B.03, B.07, B.13, B.17		
<b>Safeguards:</b>	Classification:	None required.	

### II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **Background.** Among the support provided to Haiti following the 2010 earthquake, the IDB and the HRF responded with grant resources of US\$32.5 million for the Program to Establish a Partial Credit Guarantee Fund for Enterprise Development (PCGF): HA-L1050 (2416/GR-HA) for US\$20 million of IDB Grant Facility resources, and HA-G1022 (GRT/HR-12410-HA) of US\$12.5 million from HRF resources.<sup>1</sup> The program supported SMEs that suffered personal and property damages by providing guarantees for existing loans to viable firms. This effort addressed the immediate aftermath of the earthquake, and some 26% of the IDB financing has been disbursed. Owing to limited demand for further guarantees of existing bank loans as the emergency situation has stabilized, the GOH has requested a reformulation to use the undisbursed resources to address the lack of new lending to support smallholder

---

<sup>1</sup> These HRF resources (HA-G1022) were channeled through the IDB as a Partner Entity and were approved on August 27, 2010 by the Steering Committee of the HRF and on November 8, 2010 by the IDB Board of Executive Directors; the contract between the IDB and the Beneficiary was signed on September 23, 2011. The IDB grant (HA-L1050) was approved on September 29, 2010, the contract was signed on October 9, 2010, and eligibility for disbursements was received on March 11, 2011. A complementary grant allocation of US\$2.5 million from the World Bank was dedicated to a second pillar of the PCGF to offer guarantees for new credits and were channeled directly by them, in parallel to IDB and HRF resources.

agriculture and SMEs. Limited access to credit for productive activities in agriculture and SMEs acts as a damper on stronger economic growth and exacerbates income inequality in Haiti.

- 2.2 Haiti is a rural country where agricultural output accounts for 25% of GDP and absorbs 50% of the economically active labor force. It is estimated that 66% of the population depends either directly or indirectly on the agriculture and food processing sectors for their livelihood. The agricultural sector lags in most performance indicators with low yields and few products meeting export standards. Lending to agricultural production is risky owing to weak property rights and limited collateral, which have led to a history of underinvestment. As a consequence, commercial banks have a small portion of their portfolios dedicated to agriculture, mostly for short-terms and to finance trading activities.<sup>2</sup> Only a handful of financial institutions are active in rural areas and, given the credit risks, smallholders have little access to production finance.<sup>3</sup> Similarly, commodity processors and exporters (“anchor firms”) are unwilling to finance smallholder farmers to expand production or upgrade products within existing value chains.
- 2.3 The segment of SMEs -- typically an important and dynamic part of growing economies -- is missing in Haiti. Most firms are microenterprises that carry out commercial activities and operate informally with little growth potential.<sup>4</sup> SMEs also have limited access to credit, particularly in medium or long tenors, and rely instead on retained earnings and/or buyer and supplier credits that limit their ability to increase production.<sup>5</sup> For existing businesses, the amount of formal lending that occurs favors the larger, better-established producers/firms and is short-term and high-cost, reported at 36 percent annually.<sup>6</sup> For start-up firms, the lack of financing options is even more severe.
- 2.4 **Bank Strategy for Private Sector Development for Agriculture and SMEs.** The Bank’s private sector strategy, as outlined in the Private Sector Development Sector Note (August, 2011), is called Productive Haiti. The approach seeks to improve the market for business development services (HA-L1057; 2555/GR-HA), support small-scale firms in the Northern Growth Pole through a business incubator (HA-L1068, pending approval); and support for agricultural productivity through technology transfer to small-scale farmers (HA-L1059; 2562/GR-HA). In addition, the Social Investment Fund (SIF)<sup>7</sup> provides financing to SMEs (HA-2749A-01). The proposed program, as reformulated, will complement these efforts by addressing

---

<sup>2</sup> Some cooperatives report credit portfolios with 9 percent of assets in agriculture, while overall credit as a share of GDP was 11 percent in 2008, well below other countries in the region. Terms for agricultural credit are generally less than four months and rates are between 2.5 and four percent a month.

<sup>3</sup> Sogesol has credit line for consumption in the rural sector that is based on a 4 month loan term, three percent commission and 2.5 percent monthly rate. More recently, Unibank has entered the sector with loan charges of 3.95 percent.

<sup>4</sup> Estimates are that 95 percent of businesses are informal (Haiti Presidential Commission on Competitiveness, 2010).

<sup>5</sup> One commercial bank interviewed by the Project Team indicated it had 5 percent in credit to SMEs.

<sup>6</sup> IIC GN-254.

<sup>7</sup> A financing facility for SMEs managed by the IIC to increase loan availability and lower borrowing costs for credit based on a blended rate and partial loan guarantees.

limited access to agricultural finance, long-term investment funds for SMEs, and start-up financing for SMEs.

- 2.5 The proposed reformulation is also aligned with the Bank's Country Strategy for Haiti 2011-2015 (GN-2646). The strategy's goals include promoting private sector investment to create jobs, achieving sustainable growth and reducing poverty; and in agriculture, improving food security, strengthening value chains, and increasing employment (op cit. para 3.13 and 3.28). At the same time, the reformulated operation is aligned with the strategic areas of the Ninth General Capital Increase (GCI-9) which supports small and vulnerable countries and institutions for growth and social welfare, in particular with a focus on SME development and financial inclusion.
- 2.6 **Proposal for Reformulation.** This is a proposal to reformulate both operations supporting the "Program to Establish a Partial Credit Guarantee Fund for Enterprise Development": 2416/GR-HA and GRT/HR-12410-HA. The reformulated program will be renamed as the "Productive Finance and Guarantee Program for Smallholder Farms and SMEs (PFGP)" and will be comprised of 4 subprograms that target distinct segments of smallholder agriculture and SMEs. As required by the regulations governing the HRF, the IDB must request approval of the Steering Committee of the HRF for the reformulation for the use of their resources for this purpose. The reformulated program will use the undisbursed funds of the IDB Grant Facility, and an amount of the HRF funds to be agreed upon with the Steering Committee of the HRF. Furthermore, the operation will include a three-year extension of the disbursement period until April 9, 2016.

### III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **Objectives and Expected Results.** The reformulated program seeks to improve access to financing for small-scale farms and SMEs. This goal is consistent with the original aim of the PCGF. The more general objective is to reduce a barrier to improved productivity among beneficiary farmers and entrepreneurs. The subprograms of the PFGP will address "missing markets" for financing by: (i) lowering lending risks for restructuring credits to viable SMEs affected by the earthquake; (ii) working with existing agricultural value chains by engaging the "anchor firm", suppliers, and clients supported by lending from first tier financial intermediaries (credit unions, cooperatives, microfinance institutions, commercial banks); (iii) supporting intermediated financing with subordinated debt instruments to SMEs; and (iv) expanding financial resources to new businesses linked to value chains.
- 3.2 **Subprogram 1. PCGF.** This subprogram has been executed under the original formulation of 2416/GR-HA, and has disbursed US\$5.2 million in guarantees for existing bank loans to SMEs that were adversely affected by the January 2010 earthquake.
- 3.3 **Subprogram 2: Agricultural Finance.** This subprogram will target lending for smallholder farmers in value chains with production finance via funding/guarantees to first tier institutions. Additional resources for project

preparation and implementation will also be provided to be paid partially based on success fees and against pre-agreed milestones.

- 3.4 **Subprogram 3: SME Subordinated Debt.** This subprogram will support SMEs with long-term subordinated financing that complements existing financing from the SIF and other sources. Banks will propose client firms, and repayments will be linked to sales (e.g., participatory loans).
- 3.5 **Subprogram 4: SME Business Accelerator Support.** This subprogram will provide additional funding for start-up MSMEs within value chains linked to a business incubator in the Northern region supported by HA-L1068, which will support the provision of services to firms through an incubator and *Espacios Productivos Conjuntos*.
- 3.6 The reformulated program is expected to increase lending to both smallholder farmers and SMEs as measured by the provision of new funding, lower costs for capital, and sound repayment performance of the underlying credits.<sup>8</sup> The impact of the subprograms will be measured in their respective target markets by: (i) SMEs affected by the earthquake: continued operation and access to credit; (ii) Smallholder farmers: increased sales per hectare of cultivated land among beneficiary smallholders compared to the sector average; (iii) SMEs with new financing: increased sales per worker for beneficiary SMEs compared to the sector average; and (iv) SMEs in the Northern Region: (a) an increased number of firms operating in value chains, and (b) greater employment in agribusiness, tourism, and industry.
- 3.7 **Implementation Approach.** The Executing Agency (EA) will hire staff and specialized firms to implement the PFGP. The EA will be responsible for managing the resources of each subprogram based on the respective operating rules; organizing outreach and dissemination of the various facilities to potential clients, banks, and interested third parties; gathering information on the use of funds, and providing updated reporting to the GOH and the Bank on performance measures. In addition, the EA will be responsible for the analysis of the creditworthiness of the first tier institutions and will provide a risk assessment of the portfolio of loans and guarantees under the PFGP, as well as ensuring appropriate environmental and social assessment at the project level.
- 3.8 **Implementation Issues and Risk factors.** One concern is the scale of credit demand among potential beneficiaries and “anchor firms” in agricultural value chains. Additionally, both farmers and owners of SMEs have limited technical and managerial capacities that may inhibit credit demand. Finally, investment in agriculture is constrained by the lack of clear property rights, high costs of transferring property, and legal restrictions on the use of land as collateral. On the supply side, the availability of co-financing from financial intermediaries is also a risk factor. The commitment of financial intermediaries to finance smallholder farms and SMEs needs to be gauged given their lack of technical expertise,

---

<sup>8</sup> The program will follow the Common Reporting Standard for SME lending (OP-580) where beneficiaries are classified by loan size. Loans between US\$ 10,000 and \$500,000 are classified as small and medium beneficiaries.

market knowledge, and risk management capacity. These aspects will be studied during program preparation.

- 3.9 A critical element in the operation will be the use of *incentive compatible* arrangements that align the interests of various actors. Ideally, credit resources will be combined with technical assistance to help upgrade the quality and quantity of production by farmers and entrepreneurs. The Project Team will assess sources of technical assistance and their compatibility with the proposed program, and methods to ensure timely provision of these resources. The Project Team will study further the appropriate financial instruments, estimate effective demand by financial intermediaries and beneficiary farmers and entrepreneurs, and examine mechanisms that will attract co-financing and complementary technical cooperation support.
- 3.10 Execution of the PFGP will require an independent financial manager with experience and the capacity to carry out the necessary fiduciary responsibilities. The FDI, a specialized institution of *Banque de la République d’Haïti* (BRH), has been identified as the executing agency of the entire reformulated program, given its experience in the PCGF and its expected role of EA in HA-L1068.

#### **IV. SAFEGUARDS AND FIDUCIARY SCREENING**

- 4.1 The program supports financial intermediation to farmers and entrepreneurs based on their demand for services. According to the B.13 directive of the Environment and Safeguards Compliance Policy (GN-2208-20 and OP-703), an *ex-ante* impact classification is not feasible for these types of operations. Based on previous experience, the majority of projects that would be eligible and their corresponding sectors of activity have minimal to moderate environmental risks and impacts. The program’s activities will not include involuntary resettlements and unmitigated negative impacts on natural habitats and/or indigenous people. The program will include an action plan that is in compliance with the relevant environmental, social, health and safety and labor regulatory requirements applicable in Haiti, as well as IDB’s social and environmental policies. The plan will require implementation of the FDI’s existing Environmental and Social Management System, developed in 2010 with IDB assistance, which includes measures to screen projects financed through the Program against the list of excluded activities for non-sovereign guaranteed operations, as well as to identify, manage and monitor environmental and social risks associated accordingly. Moreover, where feasible, projects will be evaluated for improvements that could potentially have positive environmental and social impacts.

#### **V. RESOURCES AND TIMETABLE**

- 5.1 Annex V details the costs and timeline for program preparation in order to present the POD for a QRR by August 31, 2012 and to the Board in the last week of November. The costs for program preparation total US\$58,286 and will require specialized consultancies during the program design phase.

This document contains confidential information relating to one or more of the ten exceptions of the Access to Information Policy and, therefore, shall not be disclosed to external Bank audiences.

## SAFEGUARD POLICY FILTER REPORT

<b>PROJECT DETAILS</b>	<b>IDB Sector</b>	FINANCIAL MARKETS-BANKING MARKET DEVELOPMENT
	<b>Type of Operation</b>	Investment Loan
	<b>Additional Operation Details</b>	
	<b>Investment Checklist</b>	Generic Checklist
	<b>Team Leader</b>	Chrisney, Martin (MARTINC@iadb.org)
	<b>Project Title</b>	Program to Support Smallholder Agriculture and SMEs in Haiti
	<b>Project Number</b>	HA-L1050 (2416/GR-HA) & HA-G1022 (GRT/HR-12410-HA) (reformulation)
	<b>Safeguard Screening Assessor(s)</b>	Gaggero, Annabella (ANNABELLAG@iadb.org)
	<b>Assessment Date</b>	2012-04-27
	<b>Additional Comments</b>	

<b>SAFEGUARD POLICY FILTER RESULTS</b>	<b>Type of Operation</b>	Loan Operation	
	<b>Safeguard Policy Items Identified</b>	The Bank will make available to the public the relevant Project documents.	(B.01) <a href="#">Access to Information Policy– OP-102</a>
		The operation is in compliance with environmental, specific women's rights, gender, and indigenous 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) is 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)
		Operation for which ex-ante impact classification may not be feasible. These loans are: Policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, or conditional credit lines for investment projects.	(B.13)

		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)
	<b>Potential Safeguard Policy Items</b>	No potential issues identified	
	<b>Recommended Action:</b>	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s), including B13, for guidance. <b>No project classification required.</b> Submit Report and PP (or equivalent) to ESR.	
	<b>Additional Comments:</b>		

<b>ASSESSOR DETAILS</b>	<b>Name of person who completed screening:</b>	Gaggero, Annabella (ANNABELLAG@iadb.org)
	<b>Title:</b>	Project Assistant
	<b>Date:</b>	2012-04-27



## ENVIRONMENTAL AND SOCIAL SAFEGUARD STRATEGY

1. In the near term, the program seeks to improve the access to financing for small-scale farmers. Over time, greater access to financing will help overcome a barrier to improvements in productivity, employment generation, and increased exports. As a result of the program there will be increased lending to smallholder farmers - as measured by the provision of new funding -- lower costs for capital, and sustainable repayment and credit performance of the underlying credits. The program focuses on financing current productive activities and improving their productivity and sustainability. Based on previous experience, the majority of projects that would be eligible and their corresponding sectors of activity have minimal to moderate environmental risks and impacts.
2. These activities will not include involuntary resettlements and unmitigated negative impacts on natural habitats or on indigenous people. However it is important to understand that the potential negative risks and impacts in particular those associated with agricultural production in rural areas. These may be summarized as (i) mismanagement of pesticides and other chemical inputs by farmers; (ii) introduction of new varieties of existing species or new species without the required control measures; (iii) mismanagement of processing waste; (iv) promotion of annual crops in areas vulnerable to erosion (with pronounced slopes), taking into consideration also climate change and risks to natural disaster aspects; and (v) occupational health and safety risks. There may be additional risks and impacts associated with investments in SMEs operating in industry services and tourism sectors.
3. During Program preparation an analysis will be made of the scale and nature of projects to be financed and their potential environmental and social risks and impacts. Moreover, a review will be made of FDI's current environmental and social systems and capacity for environmental and social management. As a result, the Program will include an action plan that is in compliance with the relevant environmental, social, health and safety and labor regulatory requirements applicable in Haiti, as well as IDB's social and environmental policies. The plan will include the implementation of the FDI's existing Environmental and Social Management System, developed in 2010 with IDB assistance, which includes measures to screen projects financed through the Program against the list of excluded activities for non-sovereign guaranteed operations, as well as to identify, manage and monitor environmental and social risks associated accordingly. Moreover, where feasible, projects will be evaluated for improvements that could potentially have positive environmental and social impacts.
4. The program supports financial intermediation to farmers and entrepreneurs based on their demand for services. According to the B.13 directive of the Environment and Safeguards Compliance Policy (GN 2208-20 and OP 703), an *ex-ante* impact classification is not feasible for these types of operations.

### INDEX OF COMPLETED AND PROPOSED SECTOR WORK

Issues	Description	Expected Dates	References & hyperlinks to technical files
Technical options and design	- Analysis of Credit Demand and Supply for Smallholder Agriculture and SMEs	July 2012	In preparation
Analysis of project cost and economic viability	- Cost benefit Calculation	July 2012	In preparation
Data collection and analysis for reporting on results	- Data collection, monitoring and evaluation reporting rules for the Executing Agency	August 2012	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.	Completed	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36786797">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36786797</a>
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.	September 2012	In preparation
Country/sector issues	- Haiti: Technical Assistance in Support of the Haiti DCA Program: Haiti SME Market Sector Assessment Summary Report, USAID,  Diagnóstico sobre las MIPYMES haitianas y sus desafíos para acceder al crédito  Haiti Private Sector Development Note	March 2007  December 2010  August 2011	  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36044716">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36044716</a>  <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36786694">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36786694</a>

This document contains confidential information relating to one or more of the ten exceptions of the Access to Information Policy and, therefore, shall not be disclosed to external Bank audiences.